Audit Report

Maryland Department of Health
Office of the Secretary and Other Units

August 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

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August 30, 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 other units of the Maryland Department of Health (MDH) for the period beginning February 27, 2013 and ending January 10, 2016. MDH is responsible for promoting the health of the public and strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland.

Our audit disclosed that MDH did not provide adequate oversight of and guidance to its administrations to ensure interagency agreements with State universities, which are not competitively procured, are appropriate and represent the best value to MDH. During an approximate three-year period, there were 304 such agreements in effect valued at $329.5 million. In many cases, the agreements allowed MDH administrations to augment their staff beyond their authorized positions. It appears that 102 of the 304 agreements totaling $122.7 million were used for this purpose. Furthermore, state universities typically charged administration fees ranging up to 31 percent of the agreement value, and MDH did not have a process to evaluate those fees for reasonableness. Administration fees for the 304 agreements totaled $25.6 million.

MDH did not always comply with State procurement regulations when awarding sole source and emergency procurements. For example, MDH had not negotiated pricing for any of the six sole source contracts tested totaling $17.1 million, and the sole source justifications for three of these contracts did not meet state procurement requirements. In addition, MDH did not routinely publish contract awards on the State's *eMaryland Marketplace*, and did not always record and safeguard vendor bids and retain critical procurement documentation, as required.

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Supervisory reviews of federal fund reimbursement requests were not always effective. Our review of 20 of these requests totaling $3 billion disclosed that 5 requests contained errors totaling $27.2 million of which only one of these errors totaling $1.3 million was identified through the review for correction. In addition, MDH's Office of the Inspector General had not completed timely and/or comprehensive audits of private providers, which received $196 million from MDH during fiscal year 2016. The Office also lacked a formal process for oversight and monitoring of corrective actions taken related to audits of both local health departments and private providers.

We also noted a number of deficiencies with MDH's security and control over its information systems and network. For example, MDH inappropriately stored certain sensitive personally identifiable information for approximately 215,000 individuals without adequate safeguards. Also, access to MDH's network was not sufficiently restricted and up-to-date malware protection was not installed on many workstations.

Finally, our audit disclosed a number of other findings involving the accounting and controls over collections, accounts receivable, payroll, corporate purchasing cards, and equipment.

We determined that MDH's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. The primary factors contributing to the unsatisfactory rating were the significance of our audit findings and the number of repeat findings. In this regard, MDH sufficiently addressed only 9 of 15 findings contained in previous reports for which MDH was responsible for addressing.

MDH'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 MDH.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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

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Background Information

Name Change and Agency Responsibilities

Chapter 214, Laws of Maryland 2017, effective July 1, 2017 renamed the Department of Health and Mental Hygiene to be the Maryland Department of Health (MDH).

MDH is responsible for promoting the health of the public and for strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland regarding health care. This audit report includes the operations of the following six units:

- Office of the Secretary
- Deputy Secretary for Operations
- Deputy Secretary for Public Health Services (excluding Vital Statistics Administration)
- Deputy Secretary for Developmental Disabilities
- Deputy Secretary for Behavioral Health
- Deputy Secretary for Health Care Financing

These units provide an administrative infrastructure and oversight to MDH and other health providers throughout the State. Additionally, the units are responsible for policy formulation and program implementation and for providing executive oversight to certain MDH administrations, including for the Medical Care Programs Administration (which operates the Medicaid program). As part of the administrative support provided by the units, certain support services (for example, payroll processing, maintenance of accounting records, and purchasing) are provided by MDH's Office of the Secretary and Deputy Secretary for Operations to the other units of MDH. According to the State's records, during fiscal year 2016, expenditures for these six units totaled approximately $55.4 million.

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of the 15 findings contained in our preceding audit report dated February 19, 2015. We determined that MDH satisfactorily addressed 9 of these 15 findings. The remaining 6 findings are repeated in this report.

Findings and Recommendations

Interagency Agreements

Background

Interagency agreements are used by State agencies, including the Maryland Department of Health (MDH), to obtain services from State institutions of higher education (State universities), such as information technology assistance and training. Interagency agreements are exempt from State procurement laws, including the requirements for competitive procurement, publication of solicitations and awards, and Board of Public Works' approval.

State budget law requires agencies to report all interagency agreements with institutions of higher education that are valued at more than $100,000 to the Department of Budget and Management (DBM). In turn, DBM is responsible for compiling an annual listing and reporting the agreements to the General Assembly's budget committees.

For fiscal years 2016 and 2017, State budget law established an additional requirement for DBM to review each agreement in excess of $500,000 to determine why the services could not be provided directly by the State agency, and to provide pre-approval for all new agreements.

According to the report of interagency agreements issued annually by DBM, MDH had 304 interagency agreements with State universities that were in effect between February 27, 2013 and January 10, 2016, valued at approximately $329.5 million. Of these agreements, 254 valued at $296.0 million were executed prior to fiscal year 2016 and, therefore, did not require DBM pre-approval.

Finding 1
MDH did not provide adequate guidance and oversight regarding 304 interagency agreements valued at $329.5 million that MDH administrations entered into with units of State universities. As a result, assurance was lacking that the services provided under these agreements were appropriate and represented the best value. In addition, certain administrative fees included in the agreements appeared excessive.

Analysis

MDH did not provide adequate guidance and oversight to its administrations which entered into the aforementioned interagency agreements with units of State universities. As a result, assurance was lacking that the services were appropriate and were obtained at the best value to the State. Specifically, MDH did not

provide the administrations with guidance or a methodology for determining whether obtaining these services through these agreements was appropriate and cost beneficial. Such a methodology should require the administrations to consider obtaining the services through additional State positions or through a competitive procurement process. In addition, we found that a significant number of these interagency agreements were for general staffing services to carry out operational functions, allowing the applicable MDH administrations to augment their staff beyond its budgeted positions. These services provided by the State universities were not always consistent with their respective missions. Finally, certain administrative fees paid to the State universities appeared excessive considering the universities' limited involvement with the services provided.

Interagency Agreements May Not Have Been the Most Cost Effective

MDH had not determined that obtaining services through interagency agreements was more cost-effective than seeking additional budgeted positions or procuring the services through a competitive procurement process. Our review disclosed that MDH lacked a formal or documented methodology for determining that these agreements provided the most advantageous method to obtain these services. We were advised by MDH management that these agreements were primarily used out of convenience as they required less administrative effort by MDH.

Interagency Agreements Were Used to Augment Budgeted Staff

MDH's use of interagency agreements with State universities to provide general staffing services allowed the applicable MDH administrations to augment their staff outside of the budgetary process. According to the descriptions reported to DBM of the aforementioned 304 interagency agreements, 102 agreements totaling $122.7 million were for general staffing purposes and increased MDH's staffing beyond its budgeted positions.

For example, according to its records, between February 27, 2013 and January 10, 2016 certain MDH units had 17 active agreements with the Maryland Institute for Policy Analysis and Research (MIPAR), a unit of the University of Maryland Baltimore County; these agreements were valued at approximately $37.3 million. We performed a detailed review of one interagency agreement between MIPAR and the Prevention and Health Promotion Administration's (PHPA) Infectious Disease Bureau (IDB) that was used to employ and provide staff to support PHPA – IDB's mission. This agreement was valued at approximately $11 million for the period from July 2014 through June 2017. This one interagency agreement with MIPAR provided PHPA – IDB with an additional 56 positions beyond the 239 positions authorized in its budget. As of August 2016, 37 of the individuals providing services through this agreement were hired contractually by the State University, specifically for MDH, and only 7 positions were filled by either

existing university employees or graduate students. The remaining positions were not filled as of August 2016. According to MDH records, fiscal year 2016 expenditures under this agreement totaled $1.9 million.

Interagency Agreements Were Not Within the Mission of the University

The services provided through these interagency agreements were frequently used to carry out operational functions and did not always appear to be within the mission of the university unit under which they were hired. For example, according to its website, MIPAR "is the principle center for social science and public policy research at UMBC. MIPAR links the analytical resources of the University with policymakers in the State and region, conducting opinion research, policy analyses, and program evaluations." However, the individuals provided under the aforementioned agreement between MIPAR and PHPA – IDB were essentially serving in PHPA – IDB positions, such as accounting and data entry, and the services provided did not relate to MIPAR's mission. As mentioned above, many individuals were hired by the University specifically to work for PHPA – IDB.

Administrative Rates Appear Questionable

MDH did not establish a process to determine the appropriateness of the administrative fees charged by the State universities under these agreements. Rather, we were advised that, in general, the fees proposed by the universities were accepted without question. Administrative fees associated with the 304 interagency agreements totaled $25.6 million and ranged between 0 and 31 percent of the agreement value.

Certain administrative fees included in the interagency agreements appeared excessive since the involvement of the State universities was so limited. Under the aforementioned agreement between MIPAR and PHPA – IDB, MDH paid MIPAR administrative fees of 14 percent of the direct costs associated with the salaries and fringe benefits, which totaled $525,000 as of August 1, 2016. This rate appeared excessive because MIPAR's involvement was generally limited to adding the positions to its payroll, paying the salaries, and invoicing IDB for those costs and its administrative fees. In contrast, PHPA – IDB was responsible for recruiting employees, reviewing employment applications, selecting candidates to interview, conducting interviews, and selecting individuals to be hired under the agreement. In addition, PHPA – IDB was solely responsible for the daily supervision and monitoring of the individuals who performed services under the agreement, including ensuring responsibilities were performed. We were advised that similar arrangements regarding the fees charged and work performed by each party existed for all 17 MIPAR agreements.

Accordingly, assurance was lacking that services provided through interagency agreements were obtained at the most advantageous cost to the State. In this regard, in fiscal year 2017, MDH converted 58 positions provided through nine interagency agreements with MIPAR, including 27 individuals from the agreement discussed above, into permanent PHPA – IDB positions. MDH estimated that this conversion would result in general fund savings of $784,000 from federal indirect cost recoveries in fiscal year 2017 that are not available recoveries to MDH if services are rendered through an interagency agreement.

As previously mentioned, DBM is required to review and approve each new agreement beginning for fiscal year 2016. MDH is responsible for satisfying DBM approval requirements, which may include demonstrating need and value for each of those agreements.

Recommendation 1
We recommend that MDH

a. provide oversight of and guidance to its administrations regarding agreements with State institutions of higher education,
b. evaluate existing interagency agreements with State institutions of higher education to determine whether each arrangement is appropriate and the most cost beneficial option for MDH,
c. refrain from executing agreements to augment its staff,
d. establish procedures to perform a documented analysis to determine the most cost beneficial option for MDH to obtain services prior to entering into future interagency agreements, and
e. ensure that the administrative fees are reasonable when it is determined appropriate to use an interagency agreement.

Finding 2
MDH did not establish procedures to help ensure the agencies responsible for administering interagency agreements verified that the appropriate services were provided by the universities at the agreed-upon costs.

Analysis
MDH did not establish procedures to help ensure the agencies responsible for administering interagency agreements verified that the appropriate services were provided by the universities at the agreed-upon costs. Consequently, we noted that PHPA – IDB did not adequately monitor individuals providing staffing services under an interagency agreement with MIPAR (which was commented upon in finding 1) and did not verify the billing rates and the hours worked. As of August 1, 2016, MDH paid salaries for this agreement totaling $3.7 million.

Our review disclosed that PHPA – IDB employees did not sufficiently monitor the individuals providing services through the agreement, as required, to ensure work assignments detailing each person's tasks and responsibilities were clearly defined and the performance of each was appropriately evaluated. The agreement provided only a general description of the duties of each of the 25 different positions such as epidemiologists, data entry operators, and program specialists.

We were advised by PHPA – IDB management that it had not started formulating work assignments for this July 2014 agreement until November 2015 and, as of April 2017, the work assignments remained incomplete and PHPA – IDB management could not provide us with a clear status. Individual evaluations were also not performed in a timely manner and lacked sufficient detail. Our review of 10 individual evaluations disclosed that each was given between 14 and 24 months after the individual began work under this agreement. Three of these evaluations lacked sufficient details, such as the evaluation period and comments to support the ratings. While the interagency agreement did not specify the frequency of evaluations, the Department of Budget and Management *Performance Planning and Evaluation Program Guidelines* provide that employees be evaluated twice annually. As mentioned in finding 1, these individuals were essentially functioning as PHPA – IDB employees.

In addition, PHPA – IDB did not verify that the rates billed agreed with the individual contracted rates established for each position type. Instead, it relied on MIPAR to enter the rates for each individual into the University's payroll system, which were then billed to PHPA – IDB, without PHPA – IDB confirming that the rates billed were consistent with the agreement. Consequently, PHPA – IDB lacked assurance that all rates being billed were appropriate. Our testing of billings for 10 individuals for pay periods between March and June 2016 did not disclose any improper rates.

Finally, PHPA – IDB's review of invoices did not ensure that hours billed were supported by an approved timesheet reflecting the appropriate number of hours, as required in the agreement. Our review of charges for hours worked between March 20, 2016 and April 2, 2016, totaling $67,084, disclosed that the invoice approver did not have approved timesheets on file for 6 of the 39 individuals. The related charges for these 6 individuals totaled $12,067.

Recommendation 2
We recommend that MDH

a. establish procedures to help ensure the agencies responsible for administering interagency agreements verify that the appropriate services were provided by the universities at the agreed-upon costs;

b. ensure that PHPA – IDB immediately develops work assignments for each individual provided under the aforementioned agreement;
c. ensure that PHPA – IDB performs evaluations of individuals twice annually, and ensure that these evaluations are sufficiently detailed; and
d. as part of the invoice approval process, ensure that PHPA – IDB verifies rates billed to the individual contracts, and obtains and reviews approved timesheets for each individual invoiced.

Procurements

Background

MDH's Office of Procurement and Support Services (OPASS) is responsible for establishing Department-wide procurement and contract administration policies; performing or delegating procurement functions; and ensuring compliance with State procurement laws, regulations, and policies. According to MDH procurement records, OPASS processed approximately $220 million in contract awards during fiscal year 2016.

Finding 3
MDH did not always comply with State procurement requirements regarding the award of sole source and emergency contracts.

Analysis

MDH did not always comply with State procurement regulations regarding the award of sole source and emergency contracts. According to MDH records, sole source and emergency contracts awarded totaled approximately $30.7 million and $14.7 million, respectively, during the audit period. Our tests of six sole source procurement awards totaling approximately $17.1 million and three emergency procurements totaling approximately $3.6 million disclosed instances in which the appropriateness of the procurement methods used and the labor rates paid could not be adequately substantiated. MDH did not conduct price negotiations for any of these six sole source awards as provided for by State procurement regulations.

- For three procurements totaling $8.7 million, MDH did not adequately justify the procurements as sole source awards. For example, for a psychiatric services contract awarded in May 2013 ($4.4 million) and for a physician services contract ($1.7 million) awarded in November 2013, the sole source justifications stated that the services were not competitively procured so as not to interrupt the patients' continuity of care. However, neither justification was supported by an assessment from a licensed or certified practitioner that a

change in the provider would have a detrimental impact to the patients, as required by procurement regulations.

Furthermore, we noted that other vendors could have provided the same services. Specifically, we identified six other MDH procurements for similar services (three each for psychiatric services and physician services) made during the period between June 2013 and December 2015 that were competitively awarded to eight different vendors. One of these procurements for physician services indicated that 91 prospective vendors were solicited.

- MDH did not have a procedure to conduct negotiations for sole source procurement pricing, as allowed by State regulations, and no pricing negotiations occurred for any of the six awards tested. Rather, we were advised that the sole source vendor prices were accepted without any attempts to seek more favorable pricing. Our review disclosed that the MDH contracted labor rates for psychiatric services under one sole source award were between 18 and 47 percent more per hour than those of three competitive procurements for other MDH facilities. Specifically, MDH paid $220 per hour for psychiatric services under the sole source procurement; rates for the competitively procured vendors ranged from $150 to $186 per hour.

- One emergency procurement for management and staffing services at a State facility totaling approximately $2.1 million was awarded outside the normal procurement process and included higher labor rates than comparable State positions. An adequate justification for soliciting interest from only one vendor was not prepared and inaccurate information about the award was provided to the Board of Public Works (BPW).

  We were advised by current MDH management that one executive-level person unilaterally selected the vendor to provide these services and no other vendors were sought. Typically, such decisions include the involvement of other parties, such as the procurement office. MDH management also concurred that the decision to limit the solicitation to one vendor was not adequately justified as required by procurement regulations. The sole source justification stated that "[the vendor] will bring established administrative and clinical expertise..." Furthermore, MDH management's representation that no other vendors were solicited for this award differs with the information provided to the BPW which indicated that a quote was sought from another vendor, but that the vendor did not offer an adequate solution.

  The hourly rates for three management positions in the contract were substantially higher than the rates paid to State employees in the same

positions at other MDH facilities. For example, the hourly rate for the chief executive contract position of $210 was substantially higher than the average hourly rate of $71 (salary and fringe benefits) for eight State chief executive officers at other MDH facilities. Similar contractor hourly rates were included in the subsequent June 2015 contract, which was awarded via a three-year, $2.6 million sole source procurement to the incumbent.

State procurement regulations provide that a sole source procurement is not permissible unless the goods or services are available from only a single vendor, and require that written justifications be prepared and approved prior to contract awards and that the procurement officer conduct price negotiations, as appropriate. For emergency procurements, State procurement regulations require that procurement records include a justification if the solicitation was limited to one vendor, and the basis for the selection of a particular vendor.

Recommendation 3
We recommend that MDH

a. ensure sufficient justifications exist for sole source and emergency procurements, and that those justifications are documented;
b. ensure sole source and emergency contract awards provide the most favorable prices, and conduct documented price negotiations as appropriate;
c. ensure that the vendor selection process is handled appropriately; and
d. provide accurate information to the BPW and notify the BPW of the aforementioned erroneous statement.

Finding 4
MDH did not have a formal monitoring procedure to ensure that it consistently complied with publication requirements for service and information technology contract awards.

Analysis
MDH did not have a formal monitoring procedure to ensure contract awards were consistently published, as required. Our test of 17 service and information technology contracts awarded during fiscal years 2013 through 2016, totaling $164.3 million, disclosed that 8 contract awards totaling $90 million were not published on *eMaryland Marketplace* (*eMM*) within 30 days of the contract awards, as required by State law and regulations. Seven of these contracts awarded between May 2013 and January 2016, totaling $43 million, had not been published on *eMM* as of April 2017; the eighth contract award for $47 million was published more than four months after the contract award date. These

contracts were procured primarily for psychiatric and physician staffing services at MDH facilities, information technology services (hardware and software support, project management), and other administrative function support.

State procurement law and regulations require awards for contracts greater than $25,000 to be published on *eMM* not more than 30 days after the execution and approval of the contract.

Recommendation 4
We recommend that MDH establish a formal monitoring procedure to ensure that all applicable contract awards are published on *eMM* not more than 30 days after the execution and approval of the contract as required.

Finding 5
MDH did not always comply with State procurement regulations with respect to bidding requirements and retention of critical procurement documentation. Additionally, MDH also awarded a contract for an amount substantially higher than could be supported by the related bid.

Analysis
MDH did not always comply with State procurement regulations for securing and recording receipt of vendors' financial and technical bids, and certain bid opening controls were lacking. Furthermore, MDH did not always retain certain critical procurement documentation and awarded a contract for an amount substantially higher than could be supported by the related bid without justification. Consequently, there was a lack of assurance regarding the integrity of the bidding process and the propriety of certain awards and contract values.

We judgmentally selected eight contracts for testing totaling approximately $143.5 million procured under the competitive sealed bid or proposal methods during the period between September 2013 and January 2016. Our review disclosed the following conditions:

- MDH lacked a procedure to record when bids were received and to secure bids upon receipt. Specifically, MDH did not record, for each bid, the submitting vendor name and date/time received to establish a record of receipt by the submission deadline. In addition, bids were stored unlocked and were accessible to many employees while in the MDH mailroom as well as in OPASS custody. Furthermore, although OPASS established a procedure and template for recording bid openings in the presence of two employees, our test

disclosed that recordation of the bid opening did not exist for six procurements totaling $129.2 million.

- MDH could not provide any procurement documentation for a $10.1 million contract awarded for Women, Infants, and Children (WIC) program services. Specifically, MDH could not locate the procurement file nor provide any associated documentation including the executed contract, the vendor's financial and technical submissions, the justification for awarding based on a single bid, and MDH's evaluation of the vendor's submission. We were able to independently verify that the solicitation and award was published on *eMM* and that BPW approval was obtained.

- For two contracts totaling $34.4 million, MDH could not provide all the financial or technical proposals received. Specifically, none of the technical proposals could be located from the five vendors who submitted proposals for a procurement for behavioral support services totaling $31 million. Similarly, none of the bids were retained for an award for nutritional services totaling $3.4 million, for which submissions were received from three vendors; rather, only the bid tabulation was retained for the procurement file.

- One contract award for pharmaceutical services at a facility was made for approximately $5.1 million, an amount that was substantially higher than the single vendor bid received of $1.9 million from the incumbent vendor. We were advised by MDH management personnel that the award increase was based on its increase in the estimated pharmaceutical quantities since the initial solicitation for the procurement. However, documentation was lacking to support this assertion. Additionally, MDH did not amend the publicized solicitation as allowed by State regulations for significant changes to the initial solicitation. Information about the expected quantities could impact vendors' bidding decisions and ultimately the outcome of the award, impeding MDH's ability to ensure it received the most favorable costs for these pharmaceuticals.

State procurement regulations require that a record be maintained of the date contract bids were received, that bids be secured, and that bids be opened in the presence of at least two employees. State procurement regulations also require that a procurement file exist and that this file include all bids or offers received, all internal and external correspondence regarding the procurement, justifications for single-bid awards, and the final contract. Finally, State procurement regulations allow for the cancellation and subsequent amendment of a solicitation when warranted by a significant change in the magnitude and substance of the solicitation.

Recommendation 5
We recommend that MDH

a. **establish procedures to record vendor bids upon receipt and to secure vendor bids prior to opening;**
b. **ensure that at least two employees witness the bid openings, and maintain documentation of the employees present;**
c. **maintain complete procurement documentation, including all bidder financial and technical proposals;**
d. **ensure contract award amounts are consistent with bid documents or that adequate justification is maintained to support contract award amounts that differ from the supporting bids; and**
e. **in the future, when significant changes are made to the scope of services or goods being procured, either amend the published solicitation or provide a written justification for why an amendment is not needed.**

Federal Funds

Finding 6
Supervisory oversight of federal fund reimbursement requests was not always effective.

Analysis
Supervisory oversight of federal fund reimbursement requests was not always effective. Although supervisory reviews of reimbursement requests were performed and documented, the reimbursement requests were not thoroughly verified to the supporting documentation, and our tests disclosed certain errors that were not detected.

We tested 20 reimbursement requests submitted during calendar year 2015, totaling approximately $3 billion, and noted that 5 reimbursement requests submitted between April and November contained errors totaling $27.2 million. Four requests included errors that omitted or miscalculated reimbursable expenses, resulting in federal funds being underdrawn by approximately $3.7 million. The fifth request contained a miscalculation that resulted in federal funds being overdrawn by $23.5 million. MDH provided documentation that one of the five requests with inaccuracies that resulted in federal funds being underdrawn by $1.3 million was subsequently identified and corrected.

We were advised by MDH management that these types of errors are routinely corrected during a quarterly reconciliation that is performed between the federal funds drawn down and the federal expenditures reported. However, we question

this assertion because MDH lacked any evidence that the specific errors were corrected for the remaining four requests we tested and found to have errors. Additionally, MDH has previously had problems with this reconciliation process. In this regard, the federal Department of Health and Human Services issued an audit report in December 2013 which found that reimbursement requests processed during fiscal years 2009 through 2011 included errors and omissions that resulted in federal funds totaling $115.3 million being received in excess of expenditures. The audit report primarily attributed this situation to human errors made during the preparation of these quarterly reconciliations. These funds were repaid to the federal government during calendar year 2013 as an offset to draws made at that time.

Similar conditions were noted in our preceding audit report. During fiscal year 2016, MDH processed federal fund reimbursement requests totaling approximately $6.4 billion.

Recommendation 6
We recommend that MDH

a. ensure that federal fund reimbursement requests are thoroughly reviewed, along with supporting documentation (repeat); and
b. research the aforementioned four reimbursement requests tested and take appropriate corrective actions, as needed.

Office of the Inspector General

Background

The MDH Office of Inspector General's (OIG) Division of Audits (DOA) performs audits of state grant funds paid to Local Health Departments (LHDs) and private non-profit providers (private providers) who are reimbursed for the cost of care for eligible individuals. State law requires MDH to examine the grant accounts of LHDs and these providers, determine the amount of allowable costs, and collect any excess reimbursements or pay any unreimbursed costs. MDH has established regulations and policy manuals to govern the use and oversight of these grant funds. Furthermore, in practice, the audits performed by DOA include an evaluation of the entities' internal control structures.

We were advised by MDH management that there were 24 LHDs and 80 private providers that received grant awards subject to audit totaling approximately $315.7 million and $196.9 million, respectively, during fiscal year 2016. The grant audits performed by the DOA are the primary mechanism for ensuring the propriety of the use of these funds and recovering unallowable expenditures.

According to OIG records, as of June 1, 2016, OIG has identified amounts due to MDH totaling $8.7 million from the 82 audits performed since June 2014.

Finding 7
OIG had not audited certain private providers for more than five years and did not always conduct private provider audits in a comprehensive manner.

Analysis
OIG did not conduct private provider audits in a timely manner and only performed limited scope reviews for most of the audits conducted. As of June 1, 2016, 22 private providers had not been audited for more than five years. For 50 of the remaining 58 providers audited between March 2015 and May 2016, the audits consisted only of desk reviews. The untimely audits of these grants results in the risk that the audits may have reduced effectiveness, especially since State regulations do not require grantees to retain grant records beyond five years following the close of the fiscal year. In this regard, as of June 2016, grants received through fiscal year 2010 should have been audited. OIG policy requires these audits to be performed on a four-year cycle.

In our preceding audit report, we commented that 9 LHDs and 36 private non-profit providers had not been audited for at least five years. To address this deficiency, OIG significantly increased the pace of conducting audits beginning February 2015. Although OIG was up-to-date with its audits of LHDs, as of June 2016, 22 private providers had not been audited for more than five years. The unaudited grant expenditures associated with these 22 providers totaled $199 million during the period from 2007 through 2010.

However, to achieve this improvement after the issuance of our preceding audit report, OIG significantly reduced the scope of its work for 50 private providers with reported grant expenditures totaling $329.4 million. Specifically, for these 50 providers, OIG merely performed "desk audits," significantly reducing their effectiveness. Desk audits are reviews generally limited to obtaining basic information, such as a management representation letter and a listing of board of directors, reviewing independent financial statements, and reconciling the provider's expenditures reported to MDH with the provider's records. While these desk audits resulted in identifying instances in which the reported expenditures did not agree with the providers' records, these audits would not be effective in determining whether costs are allowable as provided in State law and in identifying control weaknesses.

Recommendation 7
We recommend that MDH ensure that
a. OIG completes its grant audits on a timely basis (repeat), and
b. future audits are performed in a comprehensive manner.

Finding 8
OIG did not have a formal process for oversight and monitoring to ensure corrective actions were taken by both LHDs and private providers.

Analysis
OIG had not established a formal written policy to provide oversight and monitoring of corrective actions to be taken by the LHDs and private providers, but relied only on following up on the findings in the subsequent audit. Although OIG developed a schedule to conduct and track follow-up reviews on audit reports findings, effective July 2016, a formal written policy did not exist detailing key processes such as timing, thresholds, and specific additional follow-up efforts when OIG findings are not corrected. OIG scheduled 18 follow-up reviews to be performed in fiscal year 2017; two of these reviews had been completed as of September 2016.

Having a formal process for the oversight and monitoring of the LHD's corrective actions is important because the OIG audits identify a significant number of findings and subsequent audits have noted that findings are not always corrected. In this regard, our review of 10 LHD audit reports that were issued between June 2014 and May 2016, with grant awards totaling $1.2 billion, disclosed that the OIG reported 69 findings. These findings primarily related to control weaknesses and improper transactions within cash receipts, equipment, disbursements and procurement, personnel and payroll, and grant reconciliations. Additionally, as part of these audits, OIG's follow-up on prior audit findings in 8 reports found that 17 of the 41 prior findings (41 percent) were repeated. The scope of the remaining 2 audits (which contained 28 findings) did not include the status of the prior findings and the OIG could not explain why.

Oversight and monitoring could help ensure that audit findings are addressed and repeat audit findings are minimized. OIG internal audit policy states that audits will be performed in accordance with the auditing standards issued by the Institute of Internal Auditors. These standards require an audit follow-up process to monitor and ensure that management actions have been effectively implemented.

Recommendation 8
We recommend that MDH ensure that the OIG establishes a formal process to actively monitor corrective actions taken to address its audit findings.

Information Systems Security and Control

Background

MDH's Office of Information Technology (OIT) is responsible for the overall management and direction of certain MDH information systems. These systems include, but are not limited to, the Hospital Management Information System (HMIS – which is used to record information for patients of State hospitals such as admissions, billings, and collections), the National Electronic Disease Surveillance System (NEDSS – which is used to track and transmit sensitive information related to certain infectious diseases), and the mainframe-based Medicaid Management Information System II (MMIS II). These systems, and many more, are supported by MDH's network infrastructure. MDH operates a wide area network with approximately 9,000 user connections across the State. This wide area network has connections to local health departments, State hospitals, health clinics, the MDH headquarters facility, the Statewide Government Intranet, and the Internet. Critical applications and programs accessible via the wide area network include the State's Financial Management Information System, MMIS II, NEDSS, Vital Records and the Provider Care Information System (PCIS2).

MDH operates two redundant perimeter firewalls at both its headquarters' data center location, and its Springfield Hospital Center location, where a Disaster Recovery network segment is located.

Finding 9
Sensitive personally identifiable information within the NEDSS database and a HMIS data file was stored without adequate safeguards.

Analysis

Sensitive personally identifiable information (PII) within the NEDSS database and a HMIS data file was stored in clear text. Specifically, we noted that the NEDSS and HMIS applications contained social security numbers stored in clear text along with names, addresses and dates of birth as of the dates of our test work (early fiscal year 2017). During our review, we determined that one NEDSS database table contained 91,252 unique social security numbers and one HMIS data file contained 123,832 unique social security numbers. In addition, we were

advised that this sensitive PII was not protected by other substantial mitigating controls.

This sensitive PII is commonly associated with identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and not improperly disclosed.

The State of Maryland *Information Security Policy* requires that agencies protect confidential data using encryption technologies and/or other substantial mitigating controls.

Recommendation 9
We recommend that MDH properly protect sensitive PII information by encryption or other substantial mitigating controls.

Finding 10
Network access to critical MDH internal network devices was not properly restricted, intrusion detection prevention system coverage was not complete or adequate, and certain wireless connections were not configured securely.

Analysis
Network access to critical MDH internal network devices was not properly restricted, intrusion detection prevention system (IDPS) coverage was not complete or adequate, and certain wireless connections were not configured securely. Specifically, we noted the following conditions:

- Numerous rules on the two aforementioned MDH headquarters perimeter firewalls allowed unnecessary network level access to critical devices on the internal network. For example, the entire Internet had unnecessary network level access to 11 internal servers over various ports. A similar condition was commented upon in our two preceding audit reports.

- We identified 217 firewall rules that allowed network-level access to MDH network devices (from various sources) which were not used by network traffic for an extended period of time (466 days at the time of our test work). Unused and unnecessary firewall rules allowing access to the MDH internal network represent a security risk to the MDH network which could be exploited to attack critical devices and systems.

- The MDH IDPS was configured to detect, log, and report potentially malicious intrusion attempts instead of blocking these attempts. Furthermore,

the IDPS device was set to only log and report on network traffic generated from 9 AM to 5 PM each business day. Accordingly, effective IDPS protection did not exist for the MDH network.

- IDPS coverage for encrypted traffic entering the MDH network did not exist. Specifically, host-based intrusion prevention system (HIPS) coverage was not in use on MDH servers that processed encrypted traffic, nor was encrypted traffic subject to inspection by the MDH network-based IDPS. The absence of IDPS coverage for such encrypted traffic creates network security risk as such traffic could contain malicious data which are not detected or dropped.

- Four wireless connections allowed certain MDH employees to access the MDH internal wired network using an insecure encryption protocol. In this regard, sensitive information transferred over these wireless connections and encrypted using the insecure protocol was susceptible to compromise.

The State of Maryland *Information Security Policy* requires that agency systems shall be configured to monitor and control communications at external boundaries.

Recommendation 10
We recommend that MDH

a. configure its firewalls to properly protect all critical network devices, (repeat)
b. perform and document periodic reviews of its firewalls' rule bases to ensure that only necessary rules remain active and unnecessary rules are deleted/disabled based on these reviews,
c. configure its network-based IDPS devices to prevent high-risk malicious traffic from entering the network and to continuously log lower-risk malicious traffic for review and possible investigation, and
d. perform a documented review and assessment of its network security risks and identify how IDPS and/or HIPS coverage should be best applied to its network and implement this coverage for traffic (including encrypted traffic) from all untrusted parties, and
e. use the strongest possible encryption method available to protect data in transit over MDH wireless connections.

Finding 11
Malware protection for MDH computers was not sufficient to provide OIT with adequate assurance that these computers were properly protected.

Analysis
Malware protection for MDH computers was not sufficient to provide OIT with adequate assurance that these computers were properly protected. OIT has overall responsibility for MDH's information security and provides direct control over certain computers but not others.

MDH computers with OIT malware protection support

- OIT did not verify that malware protection software was operational on the 2,300 computers it supported. Although OIT used an automated malware protection console to manage the malware protection software installed on these computers, we determined that as of November 15, 2016 the console only reported 1,831 active computers.

- As of January 2017, we noted that 1,828 of the aforementioned 1,831 computers supported by OIT for malware protection were running an outdated version of the installed malware protection software. Release dates for this outdated software ranged from November 2012 to March 2016. The malware protection software vendor updated its software on a regular basis to fix operating problems identified with the software and to introduce new features. A similar condition was commented upon in our preceding audit report.

- OIT personnel advised us that regular reviews of the malware protection console's reports were performed to ensure that the supported computers had the latest malware protection signatures installed; however, these reviews were not documented. Accordingly, assurance was lacking that these reviews were performed.

MDH computers not supported by OIT

- OIT lacked assurance that the MDH servers and workstations, without OIT malware protection support (approximately 8,200 computers), had up-to-date, operational malware protection software. In addition, OIT also lacked assurance that whatever malware protection software was installed on these computers had up-to-date signatures to protect against recently issued malware. Specifically, OIT had not requested or received, from MDH units (without OIT malware protection support), any malware console reports (for example, showing software versions and operational status) or reconciliations

of counts of active computers from vendor malware consoles to listings of all computers supported by each unit.

The MDH *Information Technology Technical Security Policy Standards and Requirements*, Version 4.0, dated June 28, 2014, states that information security is an agency responsibility under the direction and leadership of OIT and shared by MDH business units. The *Policy* further states that the OIT, in conjunction with the MDH Office of the Inspector General, is responsible for assuring the confidentiality, integrity, availability, and accountability of all agency information while it is being processed, stored and/or transmitted electronically. Therefore, OIT was not in compliance with this *Policy* and was not providing the oversight necessary to help ensure that all MDH servers and workstations are properly secured.

- OIT lacked assurance that the MDH servers and workstations were frequently updated for commonly vulnerable applications and were properly configured with respect to administrative rights.

  In this regard, we identified 80 workstations whose users had administrative rights over these workstations. None of these users were network or system administrators and OIT did not have any documentation authorizing these users to have such rights. If these workstations 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. A similar condition was commented upon in our preceding audit report. In addition, we identified 24 additional workstations with the local administrators group defined to include a large number of individuals who did not require this privilege. Specifically, OIT had not requested nor received any reports (from the MDH business units responsible for supporting their own computers) regarding updates for commonly vulnerable applications or administrative rights policies and assignments.

Recommendation 11
We recommend that OIT ensure

a. that all MDH computers are running current versions of the malware protection software and that malware signatures provided by the malware protection software vendor are installed on these computers immediately upon issuance, document these efforts, and retain the documentation for future reference; and

b. that commonly vulnerable applications on MDH workstations and servers were frequently updated; and

c. that administrative rights on all MDH workstations and servers are restricted to only system/network administrators or non–IT personnel authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference (repeat).

Finding 12
Information technology contractors had unnecessary network-level access to the MDH network.

Analysis
Information technology (IT) contractors had unnecessary network-level access to the MDH network. MDH routinely uses IT contractors for both system development and support purposes. These contractors worked both on-site at MDH locations and remotely with access provided by a virtual private network connection. These contractors only required access to the specific development servers involved with their projects and certain support servers, such as email servers. However, we noted the following conditions

- Although virtually all IT contractors connecting remotely had properly defined network level access; IT contractors working on site at MDH locations had unnecessary network-level access to numerous critical MDH network devices because their network traffic was not filtered at all.

- We were advised by OIT personnel that a centralized schedule of all IT contractors working onsite within MDH did not exist. Therefore, OIT was not aware of the extent of unnecessary network-level access by these contractors to critical MDH network devices.

MDH network-level access by IT contractors should be limited to only the network devices and ports required for them to perform their contractual duties. The DoIT *Information Security Policy* requires an authorization process which specifically grants access to information ensuring that access is strictly controlled, audited, and that it supports the concepts of least possible privileges and need to know.

Recommendation 12
We recommend that MDH
a. limit IT contractors' network-level access to only those network devices and ports required for them to perform their duties; and
b. create and maintain, on a current basis, a centralized schedule of all IT contractor personnel working onsite within MDH and use this schedule to

ensure that network-level access for these contractors is appropriately limited as noted in the aforementioned recommendation.

Cash Receipts

Finding 13
Controls were not established to ensure collections were properly accounted for, deposited, and secured.

Analysis
Proper controls were not established over cash receipts to ensure collections were properly accounted for, deposited, and secured. MDH's Division of General Accounting (DGA) provides certain cash receipt support services to other MDH units, including depositing cash receipts these units initially received and recorded before forwarding to DGA for processing. According to MDH records in fiscal year 2015, collections processed by DGA via mail or walk-in from other MDH units receiving support services totaled approximately $171.3 million.

- The procedure used to verify that all collections received were deposited was not adequate. Specifically, this verification was not independent since the employee who performed the verification also had cash handling and recordation duties in a back-up capacity. In addition, this employee did not use the initial record of collections received directly from the preparer for verification purposes but, instead, used other system-generated summary documentation received from the employee who was responsible for preparing the deposit.

- MDH did not adequately separate the cash receipts and accounts receivable functions. Specifically, two employees responsible for handling and scanning checks into the remote deposit system were also responsible for applying payments to the related accounts receivable records. According to MDH records, approximately $90.3 million in collections processed by DGA were posted to accounts receivable records in fiscal year 2015. The accounts receivable related to numerous MDH units.

- Access to mail, which contained checks and other sensitive information, was not adequately restricted within MDH's mailroom. Rather, after the mail was separated by unit, it was placed on the mailroom counter for unit employee pick-up without sufficient safeguards, such as restricted access or security cameras. Additionally, procedures did not exist to ensure that only authorized

employees picked up the mail. The mailroom counter is accessible to all MDH employees and authorized guests.

- MDH did not comply with certain requirements pertaining to the destruction and safeguarding of remotely deposited checks. For example, checks scanned into the remote deposit system by MDH were not always destroyed in a timely manner after deposit. Specifically, as of May 9, 2016, DGA had not destroyed approximately 1,300 checks totaling approximately $33.1 million that had been deposited through the remote deposit system during the period from February 16, 2016 to April 8, 2016. Consequently, sensitive banking information recorded on these checks was unnecessarily retained, increasing the risk of unauthorized disclosure. In addition, checks destroyed were not independently reconciled with the initial check logs to ensure that all checks received and deposited were, in fact, destroyed.

As a result of these conditions, cash receipts could be misappropriated without detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including an independent verification of collections to deposit using proper documentation and an adequate separation of cash receipt processing duties. In addition, the Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that scanned and transmitted checks be stored no longer than 30 days before they are destroyed, and that checks destroyed be independently reconciled with the incoming check receipt log.

Recommendation 13
We recommend that MDH comply with the *Accounting Procedures Manual* and the *Policy on the Use of Remote Deposit Services*. Specifically, we recommend that MDH ensure that

a. the deposit verification is performed by an employee who does not handle or record collections,
b. collections are verified to deposit using the related initial record,
c. proper segregation of duties are established over cash receipts and accounts receivable functions,
d. access to mail is adequately restricted to authorized personnel only, and
e. remotely deposited checks are destroyed in a timely manner and independently reconciled to the initial check logs.

Accounts Receivable

Finding 14
MDH did not adequately pursue collection of certain Division of Cost Accounting and Reimbursements delinquent accounts receivable.

Analysis
Delinquent accounts receivable were not always adequately pursued for collection by the Division of Cost Accounting and Reimbursements (DCARs) and/or transferred to the Department of Budget and Management's Central Collection Unit (CCU), as required. DCAR conducts financial investigations of all patients admitted to the State's mental health, intellectual disability, and chronic disease facilities to determine their ability to pay for the cost of care and/or to identify other liable parties (such as Medicaid or Medicare). DCAR establishes the related accounts receivable, and bills and collects the amounts due. According to DCAR's records, as of June 30, 2016, there were 1,149 outstanding accounts totaling approximately $17.9 million, of which 394 accounts totaling $5.9 million had been outstanding for more than 120 days. According to MDH's records, cost recoveries for fiscal year 2016 totaled approximately $58.2 million.

Our test of 12 accounts totaling approximately $1.6 million that had been outstanding for more than 120 days disclosed that the collection efforts for 4 accounts totaling approximately $580,000 were not sufficient. Three of these accounts, with outstanding claims totaling $503,000, were delinquent from 7 to 81 months and, as of June 2016, had not been referred to CCU, as required. For two of these three accounts, evidence was lacking to support any collection efforts, such as referral warning letters. The fourth accounts receivable included in our test was referred to CCU three months late. CCU regulations, as amended for MDH, provide that delinquent balances be referred 120 days after the first billing. Similar conditions were noted in our preceding audit report.

Recommendation 14
We recommend that MDH ensure delinquent accounts receivable are adequately pursued for collection and transferred to CCU as required (repeat).

Payroll

Finding 15
Overtime earned by certain Secure Evaluation and Therapeutic Treatment Program employees for an extended period appeared questionable and was not investigated.

Analysis
Our review of overtime earned by MDH employees disclosed 12 employees within the Secure Evaluation and Therapeutic Treatment (SETT) Program that had excessive overtime for an extended period that had not been investigated. For example, we noted that three security guards earned, on average, between 73 and 80 hours of overtime each two-week pay period during a period of approximately two years. One of these employees earned more than 100 hours of overtime during 16 different pay periods, including one in which the employee earned 158 hours of overtime. Although the timesheets for these employees were approved by a supervisor, the extent and duration of overtime earnings appears questionable.

In addition, our comparison of SETT's budgeted overtime costs to actual overtime paid between fiscal years 2013 and 2016 disclosed that, while these costs were generally absorbed within the program's budgets, overtime payments of approximately $2.7 million exceeded the amounts budget by approximately $2.2 million, or by 506 percent.

SETT is a program responsible for providing evaluation and treatment services to individuals committed to MDH by the courts. We were advised by SETT management that it was generally aware of the amount of overtime earned by the unit but it had not performed any investigation relating to the specific individuals' questionable overtime amounts. We were further advised that SETT's overtime was the result of staffing shortages, including shortages at certain MDH facilities. In this regard, in some instances, SETT employees were providing services at other MDH facilities but the SETT budget was absorbing the overtime charges. Although we were advised that there have been some actions taken to reduce the overtime, such as requests for additional positions and reassessments of SETT's operational structure, no documentation could be provided to support any formal actions taken.

Recommendation 15
We recommend that MDH
a. investigate the legitimacy of the overtime for the employees cited as having questionable overtime; and

b. take necessary actions to reduce overtime, consistent with budgetary levels, and ensure that overtime charges are charged against proper agency budgets.

Corporate Purchasing Cards

Finding 16
MDH did not comply with certain corporate purchasing card requirements relating to the sharing of cards and certain purchasing activities.

Analysis
MDH did not comply with certain requirements of the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*. According to the credit card processor's records, as of November 30, 2015, MDH had issued 311 corporate purchasing cards to employees, and the related expenditures totaled approximately $25.3 million during fiscal year 2015. Our test of 61 transactions totaling approximately $71,600, based on certain high-risk characteristics, disclosed the following conditions:

- MDH did not always establish individual accountability over card purchases made. Specifically, our procedural review and testing of transactions disclosed five instances related to 13 transactions totaling $14,200 where corporate purchasing cards were being shared with other employees within the same operating unit. These shared cards had expenditures totaling approximately $501,000 in fiscal year 2015. The *Manual* prohibits the sharing of purchasing cards or account numbers.

- We identified six sets of purchases totaling approximately $44,250 that were intentionally split into 13 smaller transactions to avoid individual transaction spending limits, which also resulted in competitive procurements not being performed for certain of these purchases. These purchases were identified as potential split purchases (purchases made to the same vendor, on the same day, by the same cardholder) through an analysis we performed on the corporate purchase card data. State procurement regulations generally provide that procurements may not be divided to avoid the use of the competitive procurement processes. Each set of purchases exceeded the $5,000 threshold in which bids should have been obtained. Furthermore, the *Manual* prohibits artificially splitting purchases to circumvent corporate card spending limits.

- One cardholder purchased 650 gift cards totaling $6,500 through 12 transactions in January 2015. The gift cards were to be used as incentives for

encouraging a specific population of individuals to take health surveys. The *Manual* prohibits the purchasing of gift cards, and that prohibition is also stated on the MDH monthly activity log. Nevertheless, the cardholder's supervisor approved these purchases because of their purpose. In February 2015, the Comptroller of Maryland identified $3,000 of the $6,500 purchases as questionable, which lead to the cardholder's account being suspended for 45 days for violation of the *Manual*.

Recommendation 16
We recommend that MDH comply with the *Corporate Purchasing Card Policy and Procedures Manual*. Specifically, we recommend that MDH ensure that

a. purchasing cards are not shared by more than one employee so that individual accountability exists for each purchase,
b. purchasing card purchases are not artificially split into smaller purchases to circumvent the procurement regulations and individual transaction limits, and
c. purchasing cards are not used to purchase gift cards.

Equipment

Finding 17
MDH physical inventory procedures did not comply with certain DGS requirements.

Analysis
MDH physical inventory procedures were not in compliance with certain provisions of the Department of General Services (DGS) *Inventory Control Manual*. MDH's Office of the Secretary maintains equipment records for certain MDH units. According to MDH's records, as of June 22, 2016, the value of equipment for these units totaled approximately $58 million, of which $39.2 pertained to sensitive equipment, such as desktop and laptop computers.

- For one unit with equipment totaling $3.1 million, the differences between the results of the physical inventory conducted and the related detail records had not been adequately investigated and resolved, and the missing equipment was not reported to DGS, as required. In our preceding audit report, we noted that, as of July 15, 2013, this unit had not performed the required annual physical inventory of sensitive equipment in three years. In response, MDH completed a physical inventory of this unit's equipment on March 30, 2016. While the results of this inventory disclosed 442 missing items with a total cost of

$910,000, as of December 2016, MDH had not investigated and resolved their disposition and had not reported the missing items to DGS, as required. These missing items represent approximately 30 percent of the inventory recorded in this unit's detail records and included many sensitive items, such as 166 two-way radios with a cost of $615,000.

- Physical inventories of sensitive equipment were not completed annually, as required. Our test of physical inventories for sensitive equipment in 10 units disclosed that, as of June 22, 2016, a physical inventory of sensitive equipment for 6 units was last completed between March 2012 and December 2014. According to MDH detailed records, the sensitive equipment for these 6 units had a collective cost of $17.3 million.

DGS' *Inventory Control Manual* requires that, when physical inventories of equipment are taken, missing items should be investigated, reported, and removed in accordance with the *Manual*. Furthermore, missing or stolen items are to be reported to DGS within 10 working days of the discovery of the loss. Finally, the *Manual* requires that that a physical inventory be conducted for sensitive equipment items on an annual basis.

Recommendation 17
We recommend that MDH comply with the requirements of the Department of General Services' *Inventory Control Manual*. Specifically, we recommend that MDH

a. investigate and resolve missing items identified through physical inventories,
b. report missing or stolen items to DGS within 10 days of discovery, and
c. conduct annual physical inventories of sensitive equipment (repeat).

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the Secretary and other units of the Maryland Department of Health (MDH) for the period beginning February 27, 2013 and ending January 10, 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 MDH'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 federal funds, audits of local health departments and private providers, grants, procurement and disbursements, corporate purchasing cards, cash receipts, payroll, financial investigations and related accounts receivable records for patients in State facilities, information security, and equipment. Our audit also included a review of certain support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) provided by MDH's Office of the Secretary and related units to the other units of MDH. 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 for federal financial assistance programs and an assessment of MDH'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 MDH.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MDH'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 various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from various key MDH internal systems, such as the Hospital Management Information System for the purpose of testing accounts receivable for patients in State facilities. 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MDH'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 MDH's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also include findings regarding significant instances of

noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MDH that did not warrant inclusion in this report.

MDH'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 MDH regarding the results of our review of its response.

APPENDIX

MARYLAND
Department of Health

Larry Hogan, Governor · Boyd Rutherford, Lt. Governor · Dennis Schrader, Secretary

August 29, 2017

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

Dear Mr. Barnickel,

Thank you for your letter regarding the draft audit report of the Office of the Secretary and Other Units for the period beginning February 27, 2013 and ending January 10, 2016. Enclosed is the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Administration Directors, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Office of the Inspector General's Division of Audits will follow-up on the recommendations and responses to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Megan Davey Limarzi, Inspector General, at 410-767-5862.

Sincerely,

Dennis R. Schrader
Secretary

Enclosure

cc: J. David Lashar, Chief of Staff
Megan Davey Limarzi, Inspector General, MDH

Agency Responses
to the
Findings and Recommendations

Interagency Agreements

Finding 1
MDH did not provide adequate guidance and oversight regarding 304 interagency agreements valued at $329.5 million that MDH administrations entered into with units of State universities. As a result, assurance was lacking that the services provided under these agreements were appropriate and represented the best value. In addition, certain administrative fees included in the agreements appeared excessive.

Recommendation 1
We recommend that MDH

a. provide oversight of and guidance to its administrations regarding agreements with State institutions of higher education,
b. evaluate existing interagency agreements with State institutions of higher education to determine whether each arrangement is appropriate and the most cost beneficial option for MDH,
c. refrain from executing agreements to augment its staff,
d. establish procedures to perform a documented analysis to determine the most cost beneficial option for MDH to obtain services prior to entering into future interagency agreements, and
e. ensure that the administrative fees are reasonable when it is determined appropriate to use an interagency agreement.

Department's Response

a. The Department concurs with the recommendation. MDH has provided oversight and guidance to its administrations regarding interagency agreements (IA) with public universities. This has included department-wide training in April 2017 by the Office of Purchasing and Support Services (OPASS) on a new IA template that OPASS developed in March 2017. Among other disciplines, the new IA template requires the definition of deliverables and sets limits on administrative overhead (even for IAs that are not with institutions of higher education), as described below. Further, the Secretary and the Chief of Staff have provided information and directives in both MDH leadership staff meetings and the MDH bi-weekly cadence

meeting for review and approval of departmental purchases, which meeting now includes all IAs in addition to high-dollar procurements.

b. The Department concurs with the recommendation. As of July 2017, MDH has removed authority of offices and units to use IAs unless by explicit approval of the Secretary. For any IA presented to the Secretary, the requesting office must submit a justification that demonstrates compelling value for the State. For all existing IAs (with institutions of higher learning or otherwise), MDH launched, in August 2017, a survey and analysis of the IA scope, costs, duration, and rationale as basis for comprehensive assessment of impact and value. This survey and analysis is by OPASS, the Office of Human Resources (OHR), the Office of Finance and Budget, and the Chief of Staff for delivery to the Secretary in fall 2017.

c. The Department concurs with the recommendation. MDH has implemented new policies prohibiting the hiring of new staff by new IAs without the approval of the MDH Secretary. MDH leadership (Deputy Secretaries, Chiefs of Staff, Directors) has been instructed that IAs for staffing augmentation are especially discouraged and are especially required to show compelling value for the State.

d. The Department concurs with the recommendation. As of July 2017, MDH (OPASS, the OHR, and the relevant Deputy Secretary) analyzes whether any given IA is preferable to other methods for securing talent and services. Alternatives include hiring staff on special payroll, obtaining and assigning PINs, conducting a competitive procurement, and even abandoning the position altogether.

e. The Department concurs with the recommendation. In April 2017, MDH implemented both a standard (i.e., target) rate for administrative fees and a process for assessing fees above that rate to determine whether the rates are fair and reasonable. Fees that are above the standard rate require approval by the Secretary. In addition to making these policy changes, MDH began negotiating fees downward for IAs under negotiation in July and August 2017, achieving cost savings for the State. These standards and procedures encompass both indirect costs (IDC) and costs associated with facilities and administrative overhead (F&A).

Finding 2
MDH did not establish procedures to help ensure the agencies responsible for administering interagency agreements verified that the appropriate services were provided by the universities at the agreed-upon costs.

Recommendation 2
We recommend that MDH

a. establish procedures to help ensure the agencies responsible for administering interagency agreements verify that the appropriate services were provided by the universities at the agreed-upon costs;
b. ensure that PHPA – IDB immediately develops work assignments for each individual provided under the aforementioned agreement;
c. ensure that PHPA – IDB performs evaluations of individuals twice annually, and ensure that these evaluations are sufficiently detailed; and
d. as part of the invoice approval process, ensure that PHPA – IDB verifies rates billed to the individual contracts, and obtains and reviews approved timesheets for each individual invoiced.

Department's Response

a. The Department concurs with the recommendation. In March 2017, OPASS developed a template for staffing IAs so that entities receiving funds must specify deliverables and report amounts of actual work performed as reflected in timesheets. This documentation is tracked by contract monitors to assure that any work that is paid for is actually being performed and documented by deliverables and effort.

b. The Department concurs with the recommendation. As of August 2017, the Infectious Disease Prevention and Health Services Bureau has detailed job descriptions for MIPAR positions similar to those for State positions.

c. The Department concurs with the recommendation. As of July 2017, all MIPAR employees are now reviewed twice annually using the same process and tools as reviews for State positions.

d. The Department concurs with the recommendation. The Bureau implemented a reconciliation process that examines invoices every two weeks to determine if invoices match the approved timesheets and agreed upon pay rates. Also, the process includes an approval for payment signature by the Bureau Director.

Procurements

Finding 3
MDH did not always comply with State procurement requirements regarding the award of sole source and emergency contracts.

Recommendation 3
We recommend that MDH

a. ensure sufficient justifications exist for sole source and emergency procurements, and that those justifications are documented;
b. ensure sole source and emergency contract awards provide the most favorable prices, and conduct documented price negotiations as appropriate;
c. ensure that the vendor selection process is handled appropriately; and
d. provide accurate information to the BPW and notify the BPW of the aforementioned erroneous statement.

Department's Response

a. The Department concurs with the recommendation. OPASS provides a template to set forth the narrative justifying sole source or emergency procurement. The form is included in and maintained with the procurement file. The Secretary reviews the justification before approving the sole source or emergency procurement.

b. The Department concurs with the recommendation. MDH promotes and requires competitive procurements. In the relatively infrequent case that a sole source procurement will provide the State best value, MDH and OPASS will require and oversee the development and documentation of the justification, including analysis of cost reasonableness as required by recent BPW Advisory. For emergency procurements, MDH (through OPASS) will promote multiple solicitations, as practicable in context of the emergency situation. Regardless of the practicality or appropriateness of pursuing multiple solicitations for the emergency, MDH will develop and document the justification. Emergency procurements will be in least-quantity amounts and time.

c. The Department concurs with the recommendation. Evaluation committees are counseled on how to conduct a trade-off analysis on low-cost versus high-capability, so as to select the proposal that is highest-value to the State per the

considerations and priorities as defined in the RFP. Deliberations and assessments are overseen and documented by the Procurement Officer.

d. The Department concurs with the recommendation. MDH commits to provide accurate information to BPW. In the event that MDH finds gaps or errors in previously provided information, MDH commits to timely mitigation of gaps or correction of errors.

Finding 4
MDH did not have a formal monitoring procedure to ensure that it consistently complied with publication requirements for service and information technology contract awards.

Recommendation 4
We recommend that MDH establish a formal monitoring procedure to ensure that all applicable contract awards are published on *eMM* not more than 30 days after the execution and approval of the contract as required.

Department's Response

The Department concurs with the recommendation. All MDH procurement personnel have been newly trained about the necessity of publishing contract awards on eMM within 30 days as required by COMAR 21.05.02.16. As a management control point, procurement supervisors making sure that contract officers confirm the 30-day publication as part of the formal close-out procedure for any given procurement. Confirmation is currently via a prompt or check in the form that governs and documents the close-out process. By September 30, 2017, OPASS and the MDH Office of IT will determine whether further automation to enforce the 30-day requirement is practicable for implementation in the MDH Contract Tracking System.

Finding 5
MDH did not always comply with State procurement regulations with respect to bidding requirements and retention of critical procurement documentation. Additionally, MDH also awarded a contract for an amount substantially higher than could be supported by the related bid.

Recommendation 5
We recommend that MDH

a. establish procedures to record vendor bids upon receipt and to secure vendor bids prior to opening;
b. ensure that at least two employees witness the bid openings, and maintain documentation of the employees present;
c. maintain complete procurement documentation, including all bidder financial and technical proposals;
d. ensure contract award amounts are consistent with bid documents or that adequate justification is maintained to support contract award amounts that differ from the supporting bids; and
e. in the future, when significant changes are made to the scope of services or goods being procured, either amend the published solicitation or provide a written justification for why an amendment is not needed.

Department's Response

a. The Department concurs with the recommendation. MDH has implemented procedures to record the receipt of bids and proposals, by date and time stamping them before securing them in a locked location.

b. The Department concurs with the recommendation. MDH has implemented a requirement that each contract officer make a note in the bidder's procurement file as to the names of witnesses to bid openings.

c. The Department concurs with the recommendation All technical and financial proposals are required to be preserved.

d. The Department concurs with the recommendation. Contract awards are required to be made in the amounts reflected in the successful bid.

e. The Department concurs with the recommendation. A significant material change in the Scope of Work is not permitted in the absence of a competitive procurement.

Federal Funds

Finding 6
Supervisory oversight of federal fund reimbursement requests was not always effective.

Recommendation 6
We recommend that MDH

a. ensure that federal fund reimbursement requests are thoroughly reviewed, along with supporting documentation (repeat); and
b. research the aforementioned four reimbursement requests tested and take appropriate corrective actions, as needed.

Department's Response

a. The Department concurs with the recommendation. MDH staff created a weekly draw checklist detailing review steps to ensure weekly draw accuracy. In addition, each quarter, once the Federal auditors have certified that expenditures reported are correct and finalized, MDH compares expenditure data to the federal Payment Management System to ensure that drawn amounts match reported expenditure amounts. This new process was put into place in April 2016.

b. The Department concurs with the recommendation. The four reimbursement requests were previously corrected and confirmed as corrected on March 1, 2017.

Office of the Inspector General

Finding 7
OIG had not audited certain private providers for more than five years and did not always conduct private provider audits in a comprehensive manner.

Recommendation 7
We recommend that MDH ensure that

a. OIG completes its grant audits on a timely basis (repeat), and
b. future audits are performed in a comprehensive manner.

Department's Response

a. The Department concurs with the recommendation. As noted in the finding, during the previous OLA audit period the OIG was behind on auditing grant providers. In February 2015, the month the previous audit report was issued, the OIG hired a new Chief of the Audit Division who was tasked with bringing the audits current. As of July 2017, grant audits are up-to-date. To ensure future audits are conducted in a timely manner, the OIG has developed several internal monitoring and tracking schedules.

b. The Department concurs with the recommendation. Because grant audits had fallen behind, desk audits were performed as a one-time "fix" to eliminate the backlog. Now that the OIG is current on performing grant audits, desk audits will only be used for vendors receiving less than $250,000 in grants. All other audits conducted in FY 2017 and FY 2018 are more comprehensive in scope.

Finding 8
OIG did not have a formal process for oversight and monitoring to ensure corrective actions were taken by both LHDs and private providers.

Recommendation 8
We recommend that MDH ensure that the OIG establishes a formal process to actively monitor corrective actions taken to address its audit findings.

Department's Response

The Department concurs with the recommendation. This, too, is a by-product of the backlogged audits, as well as the change in management of the OIG and limited audit resources. While there were procedures in place for follow-up audits on providers' corrective action plans, the procedures were not in writing. The OIG has, as of July 2017, formalized the follow-up process in writing. The procedures will be included in the OIG Audit Manual, which is under development and scheduled for completion by December 2017.

Information Systems Security and Control

Finding 9
Sensitive personally identifiable information within the NEDSS database and a HMIS data file was stored without adequate safeguards.

Recommendation 9
We recommend that MDH properly protect sensitive PII information by encryption or other substantial mitigating controls.

Department's Response

The Department concurs with the recommendation. The encryption of sensitive personally identifiable information within the NEDSS database and HMIS data file is expected to be fully implemented by December 2017. The migration of the legacy system to the new system will include encryption of all PHI data either at rest or in motion.

Finding 10
Network access to critical MDH internal network devices was not properly restricted, intrusion detection prevention system coverage was not complete or adequate, and certain wireless connections were not configured securely.

Recommendation 10
We recommend that MDH

a. **configure its firewalls to properly protect all critical network devices, (repeat)**
b. **perform and document periodic reviews of its firewalls' rule bases to ensure that only necessary rules remain active and unnecessary rules are deleted/disabled based on these reviews,**
c. **configure its network-based IDPS devices to prevent high-risk malicious traffic from entering the network and to continuously log lower-risk malicious traffic for review and possible investigation, and**
d. **perform a documented review and assessment of its network security risks and identify how IDPS and/or HIPS coverage should be best applied to its network and implement this coverage for traffic (including encrypted traffic) from all untrusted parties, and**
e. **use the strongest possible encryption method available to protect data in transit over MDH wireless connections.**

Department's Response

a. The Department concurs with the recommendation. The rules specifically referenced have been adjusted as recommended. Completed in May 2017.

b. The Department concurs with the recommendation. OIT is revising current procedures to improve the firewall rule review process. The process will include a requirement for justification to keep "zero hit" rules enabled. A semi-annual documented review will be conducted, and retained centrally. Expected to be completed by December 2017.

c. The Department concurs with the recommendation**.** OIT will implement intrusion prevention on the network as recommended. Expected to implement by January 2018.

d. The Department concurs with the recommendation. OIT will annually review and assess security risks to critical servers and implement IPS where appropriate. Expected to be completed by January 2018.

e. The Department concurs with the recommendation. As of May 2017, OIT implemented the strongest possible encryption method for wireless connections suitable for our system.

Finding 11
Malware protection for MDH computers was not sufficient to provide OIT with adequate assurance that these computers were properly protected.

Recommendation 11
We recommend that OIT ensure

a. that all MDH computers are running current versions of the malware protection software and that malware signatures provided by the malware protection software vendor are installed on these computers immediately upon issuance, document these efforts, and retain the documentation for future reference; and
b. that commonly vulnerable applications on MDH workstations and servers were frequently updated; and
c. that administrative rights on all MDH workstations and servers are restricted to only system/network administrators or non–IT personnel authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference (repeat).

Department's Response

a. The Department concurs with the recommendation**.** OIT will perform monthly reviews of antivirus dashboard reports to ensure deployment of the latest versions of the antivirus client and anti-malware signatures. The documentation will be retained for future reference. Expected to be completed by December 2017.

b. The Department concurs with the recommendation. OIT is in the process of upgrading system management servers that are used for this purpose. Software package updates will be created and deployed as necessary. A new software management environment will be operational by September 2017.

c. The Department concurs with the recommendation. OIT now requires supervisors to sign an authorization form prior to allowing administrative permissions on workstations and servers. The signed authorization form is retained. Expected to be fully implemented by December 2017.

Finding 12
Information technology contractors had unnecessary network-level access to the MDH network.

Recommendation 12
We recommend that MDH

a. limit IT contractors' network-level access to only those network devices and ports required for them to perform their duties; and

b. create and maintain, on a current basis, a centralized schedule of all IT contractor personnel working onsite within MDH and use this schedule to ensure that network-level access for these contractors is appropriately limited as noted in the aforementioned recommendation.

Department's Response

a. The Department concurs with this recommendation as it relates to remote contractors. Prior to the current audit OIT has been limiting remote contractor VPN access as specified by the requestors of VPN tokens, when the recipient is identified as a contractor. We recognize the concern regarding on-site contractors; however, OIT does not currently have the capability to efficiently

limit network level access of on-site contractors. Further, OIT does not manage LANs at all MDH remote locations.

b. The Department does not concur with the recommendation. A list or log would be cost prohibitive to implement and unreliable in practices given the highly-distributed nature of MDH and the statutory independence of many MDH units in terms of managing their IT teams and assets. MDH believes that such a list might create a false sense of security. OIT does, however, agree with the goal of maximizing network security, toward which goal it provides (amongst other practices) only minimally necessary access for any person on the network whether they are employees or contractors.

Auditor's Comment: During previous discussions with MDH personnel on these issues, MDH stated that their new Chief Information Security Officer would perform a risk assessment for the MDH network relative to contractors' access, which would identify risks, controls and expected benefits of restricting such access, and present this assessment to MDH management for its consideration. In addition, MDH personnel agreed that a list of all contractors was necessary and would be created.

Cash Receipts

Finding 13
Controls were not established to ensure collections were properly accounted for, deposited, and secured.

Recommendation 13
We recommend that MDH comply with the *Accounting Procedures Manual* and the *Policy on the Use of Remote Deposit Services*. Specifically, we recommend that MDH ensure that

a. the deposit verification is performed by an employee who does not handle or record collections,
b. collections are verified to deposit using the related initial record,
c. proper segregation of duties are established over cash receipts and accounts receivable functions,
d. access to mail is adequately restricted to authorized personnel only, and
e. remotely deposited checks are destroyed in a timely manner and independently reconciled to the initial check logs.

Department's Response

a. The Department concurs with the recommendation. Fiscal Services will assess staff duties and assign deposit verification responsibilities accordingly.

b. The Department partially concurs with the recommendation. DGA will ensure that collections per DGA's initial record are verified to a receipt and that total daily collections per our cash receipts records are independently verified to bank deposit(s).

   As for amounts received from MDH units, it is the responsibility of a unit's employee to ensure the accuracy of the receipt issued before leaving the Cashier. Furthermore, it is the responsibility of a unit's CFO to have procedures in place to ensure that the DGA's receipt agrees with their initial log and the applicable transaction appears on their financial statement. Each MDH CFO will be advised of the above requirement.

c. The Department concurs with the recommendation. The cashier no longer has access to DGA's electronic check log. Except for referencing an invoice number on a cash receipt, if provided by payee or it is determined that payment applies to an invoice, the cashier has no involvement in the accounts receivable process. DGA cashiers do not generate customer invoices, cannot approve an invoice adjustment/cancellation, cannot add or change customer names and addresses, and are not involved in the monthly review of delinquent accounts receivables or receipt/mailing of statements.

d. The Department concurs with the recommendation. As of March 2017, the Central Services Division has implemented procedures that secure the Department's mail from unauthorized individuals and requires a State identification and a signature on a log sheet to retrieve.

e. The Department partially concurs with the recommendation. Starting September 2017, cash receipts information (i.e. cash receipts summary, correspondence accompanying deposit) will be reconciled to the value of checks being destroyed. At least one person on the destruction team will be independent of the cash receipts function, and will perform the aforementioned reconciliation and initial the remote deposit check destruction log. Also, see Response #13B.

Accounts Receivable

Finding 14
MDH did not adequately pursue collection of certain Division of Cost Accounting and Reimbursements delinquent accounts receivable.

Recommendation 14
We recommend that MDH ensure delinquent accounts receivable are adequately pursued for collection and transferred to CCU as required (repeat).
Department's Response

The Department concurs with the recommendation. Effective October 2016 a new process was implemented in which monthly reports are sent to the field office supervisors who review and ensure that the accounts are adequately being followed up on to prevent account delinquency.

Payroll

Finding 15
Overtime earned by certain Secure Evaluation and Therapeutic Treatment Program employees for an extended period appeared questionable and was not investigated.

Recommendation 15
We recommend that MDH

a. **investigate the legitimacy of the overtime for the employees cited as having questionable overtime; and**
b. **take necessary actions to reduce overtime, consistent with budgetary levels, and ensure that overtime charges are charged against proper agency budgets.**

Department's Response

a. The Department concurs with the recommendation. The Department's Office of Human Resources (OHR) will work with local management at SETT to determine whether the employee's hours cited in this report were legitimate, and thereafter determine the appropriate and applicable actions to take. This review will begin in October 2017.

b. The Department concurs with the recommendation. OHR will begin developing a report that can be used to identify occurrences of potentially excessive overtime usage. This will provide the Department improved oversight of overtime usage. The Department will contact local SETT management and human resources with regard to recruiting positions currently vacant, and to determine whether a change in the process for assigning overtime might result in a more even distribution of hours worked. These processes will begin in October 2017.

Corporate Purchasing Cards

Finding 16
MDH did not comply with certain corporate purchasing card requirements relating to the sharing of cards and certain purchasing activities.

Recommendation 16
We recommend that MDH comply with the *Corporate Purchasing Card Policy and Procedures Manual*. Specifically, we recommend that MDH ensure that

a. purchasing cards are not shared by more than one employee so that individual accountability exists for each purchase,
b. purchasing card purchases are not artificially split into smaller purchases to circumvent the procurement regulations and individual transaction limits, and
c. purchasing cards are not used to purchase gift cards.

Department's Response

a. The Department concurs with the recommendation. Our Division of General Accounting (DGA) will revise the CPC Activity Log statement certified by the cardholder and reviewer, accordingly. The Log will state "...Purchases of gift cards (and other cash-like items), use of card by anyone other than cardholder, and split purchases to circumvent procurement regulations and/or single purchase limit are forbidden." The revised Log will be required starting with the CPC cycle ending September 2017.

However, we do not view the handling of the Department's Travel card as sharing. MDH has been operating in this same manner, without audit exception, since the introduction of the Travel CPC which spans numerous

audits. After consultation and confirmation with GAD, we will continue our current practice, one Travel card for MDH.

b. The Department concurs with the recommendation. DGA will revise the CPC Activity Log statement certified by the cardholder and reviewer, as stated above.

c. The Department concurs with the recommendation. Currently, both the monthly CPC Certification form submitted by each MDH agency and the CPC Activity Log contain language regarding prohibition of the purchase of gift cards using the CPC. In addition, every six months, MDH will send a mass email reminding employees of certain CPC requirements/restrictions along with other items of concern. The first "bulletin" was sent in March 2017.

Equipment

Finding 17
MDH physical inventory procedures did not comply with certain DGS requirements.

Recommendation 17
We recommend that MDH comply with the requirements of the Department of General Services' *Inventory Control Manual*. Specifically, we recommend that MDH

a. investigate and resolve missing items identified through physical inventories,
b. report missing or stolen items to DGS within 10 days of discovery, and
c. conduct annual physical inventories of sensitive equipment (repeat).

Department's Response

a. The Department concurs with the recommendation. Investigations have been conducted and the Department is continuing to investigate to resolve the missing items through physical inventories.

b. The Department concurs with the recommendation. The Department has informed all units, hospitals and local health departments that Form DGS-950-8 (Report of Missing and Stolen Personal State Property) must be forwarded to DGS within 10 working days of discovery of loss.

c. The Department concurs with the recommendation. All units within the Department are conducting annual physical inventories of sensitive equipment. In addition, the MDH RFID Inventory System will be expanded to include the units that have extensive sensitive inventories.

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