Audit Report

Department of Health and Mental Hygiene
Office of the Secretary and Other Units

August 2007

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 8, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Secretary and other units of the Department of Health and Mental Hygiene (DHMH) for the period beginning July 10, 2003 and ending August 31, 2006.

Our audit disclosed serious deficiencies relating to the issuance of, accounting for, and safeguarding of vital records, including birth certificates. As a result, there was no assurance that certificates were only issued for legitimate purposes and that the related fees were deposited. For example, sufficient identification was not always required from applicants when requesting birth certificates. In addition, DHMH did not use prenumbered certificates for the majority of critical forms issued, and did not adequately account for the forms that were prenumbered. We also noted that DHMH did not properly oversee the issuance and security of birth and death certificates by the local health departments. Finally, access to the vital records automated system was not adequately restricted. Falsified or stolen vital statistics could allow the holder to obtain other critical documents (such as passports) and improper benefits (such as Social Security benefits).

Our audit also disclosed that DHMH did not review the budgets of subproviders that received a significant portion of the financial assistance provided to primary providers (such as to local health departments), and certain subproviders were not audited, as required, to provide assurance that their expenditures were reasonable. In addition, DHMH did not inspect various health care facilities annually as required by law. For example, 1,139 of the 1,567 (73 percent) licensed assisted living facilities were not inspected during fiscal year 2006. Furthermore, since its inception in 2005, taxpayer donations to the Cancer Fund, totaling $890,000, have not been spent; these donations are to provide grants for cancer research, prevention and treatment. Additionally, a federal fund reimbursement was not requested timely, resulting in lost interest to the State of approximately $396,000.

Finally, we noted internal control and record keeping deficiencies relating to purchases and disbursements, corporate purchasing cards, information systems, payroll, and equipment.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

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

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Executive Summary

Legislative Audit Report on the Department of Health and Mental Hygiene
August 2007

- **Controls over the issuance of, accounting for, and safeguarding of vital records were inadequate. Procedures and controls over critical forms, including birth certificates, were inadequate to safeguard against fraudulent certificates being obtained for illegal purposes or to ensure that all related fees were being collected and deposited. For example, applicants were not always required to provide sufficient identification when requesting certified copies of birth certificates. Furthermore, DHMH did not properly oversee the issuance and security of birth and death certificates by the local health departments, and access to the vital records automated system was not adequately restricted to the appropriate employees.**

  DHMH should take the recommended actions to establish adequate controls over the issuance of, accounting for, and safeguarding of vital records, both at DHMH headquarters and at the local health departments.

- **DHMH did not ensure that individual funding units reviewed the budgets of subproviders that received a significant portion of the financial assistance provided to primary providers (such as local health departments). For example, based on our tests of eight fiscal year 2006 grants, the subprovider budgets of seven, which totaled $19 million, were not reviewed by the providers or by the funding units. In addition, certain subproviders were not audited by the providers, as required.**

  DHMH should ensure that thorough reviews of subprovider budgets and audits of subprovider expenditures are performed.

- **DHMH did not conduct annual on-site inspections of certain health care facilities in accordance with State law. For example, DHMH had not inspected 1,139 of the 1,567 (73 percent) licensed assisted living facilities in fiscal year 2006.**

  DHMH should ensure that annual provider inspections are conducted as required.

- **Taxpayer donations to the Cancer Fund, totaling $890,000, have not been spent since its inception in 2005. These donations are to provide grants for cancer research, prevention, and treatment.**

  DHMH should spend the funds retained in the Cancer Fund in accordance with State law.

- **A $72.9 million federal fund reimbursement was not requested timely, resulting in lost interest to the State of approximately $396,000.**

  DHMH should continue recent efforts to ensure that federal funds are requested timely.

- **Additional internal control and recordkeeping deficiencies were noted with respect to purchases and disbursements, corporate purchasing cards, information systems, payroll, and equipment.**

  DHMH should take the recommended actions to improve internal controls in those areas.

Background Information

Agency Responsibilities

The Department of Health and Mental Hygiene (DHMH) 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 four units:

- Office of the Secretary (excluding the Health Professional Boards and Commission)
- Deputy Secretary for Health Care Financing
- Operations
- Deputy Secretary for Public Health Services

According to the State's records, during fiscal year 2006, expenditures for these four units totaled approximately $55 million.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the 20 findings contained in our preceding audit report dated August 11, 2004. We determined that DHMH had satisfactorily resolved 12 findings. The remaining 8 findings are repeated in this report, 2 of which have been combined into 1 finding.

Findings and Recommendations

Vital Records

Background

The Department of Health and Mental Hygiene (DHMH) issues certified copies of birth, death, and marriage certificates. Information for births since 1939 is maintained on an automated system, which resides on the Comptroller of the Treasury's Annapolis Data Center. All death and marriage records, as well as birth information prior to 1939, are manually maintained. Applicants for a certified copy of a birth, death, or marriage certificate are required to pay a fee of $12 and to provide sufficient identification and other relevant information. Certified copies of the original records can be requested from DHMH in person or by mail, telephone, fax, or internet. Birth certificates and certain death certificates are also available at the majority of the local health departments (LHDs). According to its records, DHMH collected approximately $7.4 million in vital record fees during fiscal year 2006 for the issuance of approximately 621,000 certified copies of certificates.

The control and accountability of these documents, especially birth certificates, is critical because false identification could be a major factor in many types of crimes, including illegal immigration and flight from justice. Also, falsified or stolen vital statistics could allow the holder to obtain other critical documents (such as passports and driver's licenses) and improper benefits (such as Social Security benefits and temporary financial assistance).

Finding 1
Controls over the issuance of, accounting for, and safeguarding of vital records were not adequate to ensure that critical certificates were legitimately issued, and that the proper fees were collected and deposited.

Analysis

Adequate controls were not established over the issuance of, accounting for, and safeguarding of vital records. As a result, DHMH lacked assurance that critical certificates were only issued for legitimate purposes and that the proper fees for issued forms were collected and deposited. Specifically, we noted the following conditions:

- Sufficient documentation was not always provided by applicants for certified copies of birth certificates. DHMH's policy requires the requestor to present government-issued identification (such as a driver's license), as well as certain

relevant information (such as mother's name). However, management personnel at 3 of 10 LHDs contacted advised us that non-government identification (such as a private sector employee identification card) is accepted. Deficiencies in the documentation required to obtain a certified copy of a birth certificate were commented upon in our preceding audit report.

- DHMH did not use prenumbered forms for the issuance of death and marriage certificates, as well as for birth certificates for persons born before 1939. As a result, DHMH could not adequately account for these forms and the related collections. According to DHMH records, 337,965 death certificates and 5,516 marriage certificates were issued during fiscal year 2006; DHMH was unable to provide us with a reliable count of certified copies of birth certificates issued for persons born before 1939.

- For the forms that were prenumbered (for certified copies of birth certificates for persons born after 1938), DHMH did not adequately account for the forms as to issued, voided, or on hand. For example, the forms were accounted for by an employee who had access to the blank certificates. Furthermore, DHMH did not reconcile the number of certificates issued to the related fees collected and deposited. In addition, DHMH's records indicated that 1,966 birth certificates were issued during five days that we selected for testing during fiscal years 2005 and 2006; however, DHMH was unable to provide us with the corresponding applications for 293 of these certificates. Lack of controls over prenumbered certificates was commented upon in our three preceding audit reports dating back to 1999.

- Original birth certificates, prenumbered blank stock certificates, and completed applications were not always adequately secured. Specifically, we observed that the room where the original birth certificates and blank stock certificates were stored was not locked during the day and could be accessed by unauthorized employees. In addition, we observed that completed applications were not placed in a secure location. These applications contain personal information which could be used to fraudulently request a birth certificate and/or to allow identity theft. A similar condition was commented upon in our preceding audit report.

Recommendation 1
We again recommend that DHMH establish adequate controls over the issuance of, accounting for, and safeguarding of vital records. Specifically, we recommend that DHMH (including the LHDs) strictly comply with its policy regarding acceptable identification required to receive a certificate. We also recommend that DHMH use prenumbered forms for all certificates

issued. In addition, we again recommend that an employee independent of the cash receipts and certificate issuance functions account for all prenumbered forms as to issued, voided, or on hand, and reconcile the number of certificates issued to the related fees collected and deposited. We further recommend that any resulting discrepancies be investigated and adequately resolved, including the aforementioned 293 unlocated applications. Finally, we again recommend that the original birth certificates, blank stock certificates, and completed applications be adequately secured at all times.

Finding 2
DHMH did not properly oversee the issuance and security of birth and death certificates by the LHDs.

Analysis
DHMH did not conduct certain oversight activities to help ensure that the LHDs complied with laws, regulations, and security procedures with respect to the issuance of vital records. These activities should include onsite training and meetings with LHD personnel. In addition, formal, comprehensive reviews of the controls over the issuance and security of the certificates at the LHDs were not periodically conducted.

As a result of the lack of oversight, our visit to one large LHD and communications with nine others disclosed that procedures over issuance of certificates were inconsistent and were not always adequate. At the LHD we visited, two employees that accounted for birth certificates also had access to the blank certificate forms, applications, and related collections. These two employees also had user access on the automated system to print certificates. We were further advised by an employee of that LHD that one individual, who had not been assigned a userid, routinely used the userids and passwords of two other individuals to access and print birth certificates. Consequently, there was a lack of accountability for these individuals' activities.

Because certificates are issued in many locations, the need for proper oversight is critical. A similar situation was commented upon in our preceding audit report.

Recommendation 2
We again recommend that DHMH provide guidance and training, and perform formal, comprehensive reviews of procedures and controls over the

issuance and security of certificates by the LHDs. We also recommend that DHMH take appropriate follow-up action to ensure that the aforementioned deficiencies are corrected.

Finding 3
Access to critical birth information on DHMH's vital records automated system was not adequately restricted.

Analysis
DHMH did not periodically review access to the vital records system to ensure that capabilities assigned to employees were proper. Consequently, employees were assigned additional capabilities that were not needed, which could result in birth certificates being issued to unauthorized individuals. Our review of DHMH's automated vital records system access, as of August 1, 2006, disclosed the following instances of improper or unnecessary access:

- Fifteen DHMH employees who did not work for the Division of Vital Records or for a LHD had access to view birth records.

- Of 31 DHMH users with the ability to print certificates, 26 had access to add and/or change related birth information and 5 users had routine access to cash collections received from the sale of certificates. Five of these 26 users also had access to the blank certificate forms. In addition, we were advised that the employee accesses for 1 of these 26 users, and for another user who could print certificates, were not necessary for their job duties.

- There were three generic userids with the capability to view certificate data and/or print certificates, and these userids were shared by several DHMH employees, making it difficult to hold specific employees accountable for their activities. In addition, three individuals had two userids each.

- Five DHMH users had the capability to modify access for existing users (for example, to grant print capability); however, supervisory reviews were not performed to ensure that these modifications were properly authorized.

- Although 116 LHD users had access to print certificates, DHMH lacked assurance that this access was granted only to employees that required such access and that did not have other conflicting system capabilities (such as access to related collections).

A similar situation was commented upon in our preceding audit report, in which we noted 157 individuals with access to the vital records automated system. As of August 1, 2006, there were 209 userids with access to critical birth information on the vital records automated system.

Recommendation 3
We again recommend that DHMH periodically (such as quarterly) review and evaluate the vital records system capabilities assigned to all individuals (including LHD employees) and initiate appropriate corrective action. We also again recommend that DHMH restrict system access capabilities to those employees whose job duties require such access and that do not have incompatible job duties. We also again recommend that specific userids be established for all individuals assigned access. Finally, we recommend that DHMH independently verify that additions, deletions, and changes to system capabilities are properly authorized.

Provider Assistance and Monitoring

Background
Various units of DHMH (such as the Alcohol and Drug Abuse Administration) provided annual financial assistance to providers (that is, LHDs and private providers) to support health-related services. According to DHMH's records, during fiscal year 2006, financial assistance granted to providers totaled approximately $438 million. In many instances, the primary providers subsequently awarded a portion of this funding to subproviders (such as drug treatment programs and family planning clinics).

DHMH's General Accounting Division, in conjunction with the respective DHMH units, is responsible for reviewing the budgets prepared by the providers and for authorizing the disbursement of the funds awarded. In addition, DHMH requires the funding units to maintain documentation that subprovider budgets have been reviewed. DHMH's *Human Services Agreement Manual* and *Local Health Department Funding System Manual*, both of which are incorporated by reference into the provider agreements, provide general guidelines relating to the financial assistance provided by DHMH. These *Manuals* also require providers to audit expenditures of subproviders that receive annual grant funds exceeding $100,000 to ensure that the funds were spent appropriately. Furthermore, these *Manuals* require the DHMH Audit Division to examine the financial records of providers that receive grants over $250,000.

Finding 4
Subprovider budgets were not always reviewed, and subprovider expenditures were not always audited.

Analysis

DHMH did not ensure that subprovider budgets were reviewed, and related expenditures were audited. Subprovider expenditures frequently accounted for a significant portion of the financial assistance provided to the primary providers. Specifically, we noted the following conditions:

- DHMH did not ensure that the funding units reviewed subprovider budgets to assess the reasonableness of the expenses, as required by DHMH's policy. Specifically, we were advised by personnel from all five funding units contacted that they did not ensure that the providers reviewed the subprovider budgets for reasonableness. Our test of eight fiscal year 2006 grants to LHDs, totaling approximately $28.2 million, disclosed that subprovider budgets for seven of these grants were not reviewed by the LHDs or by the funding units. These seven grants totaled $24.4 million, of which approximately $19 million was awarded to subproviders.

- The Audit Division's reports for six providers —all of which were LHDs that awarded a significant number of annual grants exceeding $100,000 to subproviders—stated that two LHDs had not audited any subprovider expenditures for the fiscal years 2002 through 2004 grant periods, as required. Grants to subproviders for these two LHDs totaled $6.8 million during fiscal year 2004. Furthermore, DHMH had not established procedures which would allow it to take substantive action, such as withholding funding, when the audits of subprovider expenditures were not obtained.

Inadequate review of subprovider budgets and lack of subprovider expenditure audits were commented upon in our two preceding audit reports.

Recommendation 4

We again recommend that subprovider budgets be subject to a comprehensive review process. We also again recommend that DHMH ensure that audits of subproviders are performed as required. Finally, we recommend that DHMH establish procedures regarding actions to be taken, such as withholding funding, when audits of subprovider expenditures are not received.

Finding 5
DHMH had not inspected assisted living facilities and developmentally disabled facilities at least annually, as required.

Analysis

According to DHMH's records, which we determined were reliable, various health care facilities had not been inspected annually as required by State law. These inspections are designed to ensure compliance with State and federal regulations regarding patient care and safety. Our review disclosed the following conditions:

- DHMH had not inspected 1,139 of the 1,567 (73 percent) licensed assisted living facilities in fiscal year 2006. State law requires that these facilities be inspected at least annually. In addition, DHMH management advised us that, as of November 2006, inspections had not been performed for most of the 337 unlicensed assisted living facilities that had applied for licensure as far back as 1998. Many of these facilities are serving patients while the applications are pending approval. Per DHMH policy, inspections must be performed before an assisted living facility is fully licensed. As such, these facilities will continue to operate unless significant violations of quality of care standards are reported.

- For fiscal year 2006, DHMH had not inspected 110 of the 186 (59 percent) facilities that are operated for the developmentally disabled. For example, as of June 30, 2006, the most recent inspections for 10 of the 110 facilities were conducted prior to July 1, 2004. In addition, DHMH had not inspected 10 of the 14 related resource coordination agencies (which are primarily county health departments). These agencies are responsible for developing appropriate individualized plans for developmentally disabled individuals; DHMH inspections would include reviews of the adequacy of these plans. State law requires that these facilities and agencies be inspected at least once a year.

Similar situations were commented upon in our preceding audit report. DHMH management again stated that an increasing workload, combined with reductions in staff, have caused the delays in performing required inspections. DHMH management advised us that they continue to analyze staffing needs, and continue to request additional positions in the budget-setting process.

Recommendation 5
We again recommend that DHMH complete inspections of the various health care facilities, as required by law. We also again recommend that DHMH ensure that any deficiencies noted during these inspections are resolved.

Cancer Fund

Finding 6
Taxpayer donations to the Cancer Fund totaling $890,000 have not been spent since its inception in 2005. State law requires that contributions to the Fund be used for cancer research, prevention, or treatment.

Analysis
DHMH has not used taxpayer donations to the Cancer Fund totaling $890,253 for research, prevention, or treatment, as required by State law, since such funds were first received in April 2005. Chapter 392, Laws of Maryland 2004, effective July 1, 2004, established the Maryland Cancer Fund within DHMH and provided that voluntary contributions to the Fund may be made by individuals through a checkoff on individual tax return forms beginning in tax year 2004. The law also required DHMH to use the Fund to provide grants for cancer research, prevention, and treatment, and required DHMH to adopt regulations to implement a program related to the Fund expenditures. As of October 26, 2006, no Fund expenditures have been made; however, regulations have been adopted effective October 9, 2006.

Recommendation 6
We recommend that DHMH use the funds retained in the Cancer Fund in accordance with State law.

Federal Funds

Finding 7
A federal fund reimbursement was not requested timely, resulting in a loss of interest income to the General Fund of approximately $396,000.

Analysis
Our test of all federal fund drawdowns in fiscal years 2005 and 2006, which totaled approximately $5.6 billion, disclosed that a fiscal year 2005 federal fund reimbursement request for Medicaid provider payments totaling $72.9 million—

which was made by the DHMH Office of the Secretary on behalf of the Medical Care Programs Administration—was made 93 days after the funds could have been requested. Consequently, State general funds, which would have otherwise been available for investment, were used to finance federal fund expenditures for extended periods. We estimate that this untimely request resulted in a loss of interest income to the State General Fund of approximately $396,000. Upon discovering the error, DHMH took appropriate follow-up actions and implemented a procedure to help ensure that future drawdowns were performed timely.

The Federal Cash Management Improvement Act states that reimbursement requests for the provider payments may be made six days after the funds are disbursed by the State. DHMH is responsible for requesting federal fund reimbursement requests for all the DHMH units.

Recommendation 7
We recommend that DHMH continue to ensure that requests for federal fund reimbursements are made in a timely manner.

Purchases and Disbursements

Finding 8
Proper internal controls were not established over the processing of purchasing and disbursement transactions.

Analysis
DHMH did not fully use the security features of the State's Financial Management Information System (FMIS) to establish proper internal controls over purchases and disbursements. Consequently, unauthorized transactions could be processed which may not be readily detected.

Specifically, 19 employees could process certain purchasing or disbursement transactions that were not subject to independent on-line approvals. Furthermore, 3 of these employees could establish vendors on FMIS. According to the State's accounting records, during fiscal year 2006, DHMH used FMIS to process disbursements totaling approximately $1.6 billion, including $23.4 million in disbursements which were both initiated and approved by eight of these employees. Similar conditions were commented upon in our three preceding audit reports dating back to 1999.

Recommendation 8
We again recommend that DHMH fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions.

Corporate Purchasing Cards

Finding 9
DHMH had not established adequate controls over the issuance of purchasing cards.

Analysis
The employee who completed online applications required to obtain purchasing cards also received the cards from the bank and distributed the cards to the applicable DHMH employees. As a result, purchasing cards could be issued to unauthorized employees and discrepancies could occur without timely detection. The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* states that the employee who requests purchasing cards from the bank should not receive the cards from the bank. According to the State's accounting records, during fiscal year 2006, DHMH's purchasing card expenditures totaled approximately $13.3 million.

Recommendation 9
We recommend that the employee who requests corporate purchasing cards from the bank be denied access to those cards. We also recommend that the employee who receives the cards from the bank verify, prior to distribution, that the cards have been authorized in accordance with the *Corporate Purchasing Card Program Policy and Procedures Manual*. We advised DHMH on accomplishing the necessary separation of duties using existing personnel.

Network Information Systems

Background
DHMH's Information Resources Management Administration (IRMA) is responsible for the overall management and direction of the DHMH information systems and administration of mainframe application security software. These systems, which include the Vital Records systems, the Medicaid Management Information System II (MMIS II), and the Hospital Management Information System (HMIS), are supported by the DHMH network. DHMH operates a

headquarters' local network, which has connections to affiliated State hospital centers and local health departments through the DHMH wide area network, the Statewide Government Intranet (SWGI) network, and the Internet.

Finding 10
IRMA did not have a listing of critical mainframe application files to help ensure that all such files were properly protected.

Analysis
IRMA did not have a listing of critical application files for the mainframe applications for which it was responsible for providing file security. Furthermore, IRMA did not have procedures established which required user agencies (such as the Medical Care Programs Administration) to inform IRMA of new or deleted application files. As a result, IRMA could not ensure that all critical application files were properly protected and that all direct accesses to these critical files were properly logged. In this regard, during our most recent audits of affected DHMH units, we commented upon inadequate access controls over critical files.

The Department of Budget and Management's (DBM) *Information Technology Security Policy and Standards* requires that agencies establish 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." The lack of a thorough and current listing of all critical DHMH files makes it very difficult, if not impossible, for IRMA to comply with this requirement.

Recommendation 10
We recommend that IRMA comply with DBM requirements by developing and maintaining a complete, current listing of all critical mainframe application files for which it is responsible for providing file security. We further recommend that IRMA use this listing to help ensure that all critical mainframe application files have adequate access controls and logging provisions.

Finding 11
Security reporting and related review processes were inadequate.

Analysis
Security reporting and related review processes were inadequate. Specifically, we determined that various security software reports were either not reviewed at all or were reviewed on a superficial basis. For example, the report which identifies

invalid attempts to sign on to the mainframe system was not reviewed. In addition, documentation did not exist to evidence that another critical security report was routinely generated or reviewed. As a result of these conditions, improper changes made to critical production files may not be detected by management. A similar condition was commented upon in our preceding audit report.

Recommendation 11
We again recommend that security software reports related to production files be properly reviewed and investigated when necessary, and that these processes be documented.

Finding 12
Security over DHMH's computer network needs to be enhanced.

Analysis
Security over DHMH's internal network, which hosts numerous servers which support approximately 60 systems, needs to be enhanced. Specifically, we noted the following conditions:

- Several critical publicly-accessible servers were located on the internal network rather than in a separate network zone to minimize security risks. These servers, which could potentially be compromised, exposed the internal network to attack from external sources.

- Firewall rules allowed various unnecessary or outdated connections to portions of DHMH's internal network, placing various network devices at risk. For example, we identified nine firewall rules, which were outdated and no longer necessary, that allowed Internet access to several critical sections of the network over numerous ports.

- IDP (intrusion detection prevention) systems were not properly used to protect critical portions of the network. While the network included an IDP system, its placement did not protect critical systems from threats originating from untrusted third party network connections and from other internal network users not associated with these critical systems. IDP systems gather and analyze network traffic to identify and block network security breaches and attacks, and alert network administrators of these situations.

- Several untrusted entities, which connected to DHMH's internal network behind its firewalls, had unnecessary network level access to virtually all

internal computer resources over all protocols and ports. As a result, these internal computer resources were at risk of exposure from these untrusted networks.

Recommendation 12
We recommend that DHMH improve security over its internal network. We made detailed recommendations which, if implemented, should provide for adequate security over the internal network.

Payroll

Finding 13
Controls over payroll processing and personnel transactions were inadequate.

Analysis
Procedures and controls over payroll and personnel transactions were inadequate. According to DHMH's records, payroll expenditures for the units included within the scope of this audit totaled approximately $306 million for fiscal year 2006. Our review disclosed the following conditions:

- DHMH did not adequately control user access to the DBM automated system used to process critical personnel transactions (such as adding new employees and terminating existing employees). Specifically, as of October 2, 2006, 23 users had two or more userids that, in combination, allowed them to initiate and approve personnel transactions without independent approvals. DHMH began using the DBM automated personnel system during fiscal year 2005 and, as of October 2, 2006, DHMH had 118 active userids.

- Twenty-one employees who submitted timesheets and requests to change personnel data (such as add or delete employees) for processing also received the related payroll checks. Therefore, these employees could alter and/or misappropriate payroll checks without detection.

- Signature cards were not maintained for authorized approvers of critical personnel and payroll transactions (such as timesheet approvals and requests from the various DHMH units to add or delete employees) from any of the 36 units being audited or receiving personnel and payroll services. Consequently, DHMH lacked assurance that these transactions were approved by authorized personnel.

Recommendation 13
We recommend that DHMH only assign one userid to each employee on DBM's automated personnel system so that each applicable employee can only initiate or approve a transaction. We also recommend that DHMH adequately segregate the responsibilities for submitting payroll and personnel documentation and receiving the related payroll checks. Finally, we recommend that DHMH maintain and use signature cards to verify, at least on a test basis, that critical personnel and payroll transactions were approved by authorized personnel. We advised DHMH on accomplishing the necessary separation of duties using existing employees.

Equipment

Finding 14
A complete physical inventory of sensitive equipment had not been performed since 2003 and equipment records were not adequately maintained.

Analysis
DHMH had not complied with certain requirements of the Department of General Services' (DGS) *Inventory Control Manual*. As of June 30, 2006, DHMH's equipment as reported to DGS totaled $46.5 million, of which $35 million was considered sensitive (such as computer equipment). Our review disclosed the following conditions:

- As of August 31, 2006, DHMH had not performed a complete physical inventory of its sensitive equipment—which would include a reconciliation of actual physical counts with the related detail records—since September 2003. DGS' *Inventory Control Manual* requires a complete physical inventory of all sensitive equipment items to be conducted annually, the results to be reconciled with the detail records, and the variances between the physical counts and the detail records to be investigated and resolved.

- Our test of 20 equipment items totaling $356,390, that were purchased during fiscal years 2005 and 2006, disclosed that 3 of these items, totaling $135,746, were not recorded in the detail records as of September 2006.

- We were unable to verify the physical existence of 4 items totaling $38,444 out of our test of 20 sensitive equipment items totaling $58,660 selected from DHMH's equipment records. In addition, DHMH was also unable to locate these items. We were advised by DHMH management that 1 of the 4 items,

which totaled $2,141, was returned to the vendor; however sufficient supporting documentation was not available.

Recommendation 14
We recommend that DHMH comply with the requirements of the DGS *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the following units of the Department of Health and Mental Hygiene (DHMH) for the period beginning July 10, 2003 and ending August 31, 2006:

Office of the Secretary (excluding the Health Professional Boards and Commission)
Deputy Secretary for Health Care Financing
Operations
Deputy Secretary for Public Health Services

The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DHMH's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DHMH's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit included various support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) provided by DHMH's Office of the Secretary and related units to the other units of DHMH.

We did not audit DHMH's federal financial assistance programs for compliance with federal laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies.

Our audit scope was limited with respect to DHMH's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during the audit period. Due to this condition, we were unable to

determine, with reasonable assurance, that all DHMH cash transactions were accounted for and properly recorded on the related State accounting records as well as the banks' records.

DHMH'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 DHMH's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHMH that did not warrant inclusion in this report.

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

APPENDIX

STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201
Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – John M. Colmers, Secretary

August 7, 2007

Mr. Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Office of the Secretary and other units beginning July 10, 2003 and ending August 31, 2006. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Division of Internal Audits will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-6505 or Thomas Russell of my staff at 410-767-5862.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Russell Moy. M.D., M.P.H., Director, FHA, DHMH
James P. Johnson, Deputy Secretary for Operations, DHMH
Lisa Ellis, Chief Administrative Officer, DHMH
Wendy Kronmiller, Director, Office of Health Care Quality, DHMH
Ellwood L. Hall, Assistant Inspector General, Audits, DHMH
Thomas Russell, Inspector General, DHMH

Findings and Recommendations

Finding 1
Controls over the issuance of, accounting for, and safeguarding of vital records were not adequate to ensure that critical certificates were legitimately issued, and that the proper fees were collected and deposited.

Recommendation 1
We again recommend that DHMH establish adequate controls over the issuance of, accounting for, and safeguarding of vital records. Specifically, we recommend that DHMH (including the LHDs) strictly comply with its policy regarding acceptable identification required to receive a certificate. We also recommend that DHMH use prenumbered forms for all certificates issued. In addition, we again recommend that an employee independent of the cash receipts and certificate issuance functions account for all prenumbered forms as to issued, voided, or on hand, and reconcile the number of certificates issued to the related fees collected and deposited. We further recommend that any resulting discrepancies be investigated and adequately resolved, including the aforementioned 293 unlocated applications. Finally, we again recommend that the original birth certificates, blank stock certificates, and completed applications be adequately secured at all times.

Department response
The Department concurs with the auditors' recommendations. In response to a recommendation included in the legislative audit completed in 2004, the Division of Vital Records (DVR) implemented new requirements for identity documents that a customer must present in order to obtain a certified copy of a vital record. Local health departments were advised of the new requirements through written communication and in-house training. The State Registrar recently sent another letter to local health officers reiterating the identification requirements and advising local health officers that Vital Statistics Administration field staff will be visiting all local health departments to ensure that policies and procedures are being followed.

An RFP was issued in April 2007 for a new electronic vital records system that addresses the auditor's concerns about prenumbered forms and reconciliation of certificates issued to the related fees collected and deposited. A contract is expected to be in place by October 1, 2007. The new system, when fully implemented, will allow DVR to issue all certified copies of certificates on pre-numbered security paper, account for each prenumbered form, identify to whom a pre-numbered form was issued, identify forms that were voided, and identify the

location of pre-numbered forms that have not yet been issued (i.e., at DVR or at a specified local health department). The functionality needed to match applications to certificates issued and payments will be operational on January 1, 2009. As an interim measure, DVR will explore the feasibility of photocopying onto prenumbered security paper the birth, death and marriage certificates currently printed on plain white paper. In addition, DVR is piloting an interim, in-house program for matching applications with pre-numbered security paper and fees collected. However, the system requires substantial rekeying of information and is unlikely a feasible option since it is estimated that nine FTEs would be needed to handle the increased workload.

With respect to the 293 applications from fiscal years 2005 and 2006 that could not immediately be located, DVR is confident that all applications are in boxes in DVR's storage area. DVR issues more than 650,000 certificates per year. An application must be completed before a certificate is issued because the area where applications are stored is massive and older applications can be difficult to locate. DVR staff cannot be redirected from serving customers to search for applications during normal business hours, and insufficient overtime funding is available to pay staff to locate 293 records. To assure the auditors that the applications are in the storage area, the Department proposes that the auditors provide DVR with control numbers and dates for a random sample of 10 of the 293 records and DVR staff will locate the records.

To protect the security of records, a camera will be installed to monitor entry into the vault, where original copies of certificates are stored. Although a small number of applications relating to certificates that have just been issued to customers must remain in the area of the front counter to allow staff to address customer inquiries, they will be kept out of reach of personnel who do not require access to these records.

The Department takes the security of vital records seriously and this matter is being assigned as a priority to the newly-appointed Deputy Secretary for Operations. The Deputy will be directed to work with DVR and other departmental staff to implement an interim solution to comply with the auditor's recommendations until the new system becomes operational.

Finding 2
DHMH did not properly oversee the issuance and security of birth and death certificates by the LHDs.

Recommendation 2
We again recommend that DHMH provide guidance and training, and perform formal, comprehensive reviews of procedures and controls over the

issuance and security of certificates by the LHDs. We also recommend that DHMH take appropriate follow-up action to ensure that the aforementioned deficiencies are corrected.

Department's response
The Department concurs with this recommendation. All local health officers are required to sign MOUs agreeing to follow all policies with respect to the safeguarding and issuance of vital records and receive periodic correspondence from the State Registrar on this matter. In addition, vital records staff at all local health departments are routinely visited by field representatives of the Vital Statistics Administration to review laws, regulations and policies pertaining to the issuance of vital records. The State Registrar recently sent all local health officers a letter outlining vital records security concerns and field staff are in the process of meeting with staff in each local health department to ensure that they are following all departmental policies. Local health departments are being advised that they must comply with all departmental policies in order to continue to issue certified copies of vital records.

Finding 3
Access to critical birth information on DHMH's vital records automated system was not adequately restricted.

Recommendation 3
We again recommend that DHMH periodically (such as quarterly) review and evaluate the vital records system capabilities assigned to all individuals (including LHD employees) and initiate appropriate corrective action. We also again recommend that DHMH restrict system access capabilities to those employees whose job duties require such access and that do not have incompatible job duties. We also again recommend that specific userids be established for all individuals assigned access. Finally, we recommend that DHMH independently verify that additions, deletions, and changes to system capabilities are properly authorized.

Department's response
The Department concurs with these recommendations. The Vital Statistics Administration has been working closely with the Department's Information Resources and Management Administration (IRMA) to address deficiencies found in the legislative audit completed in 2004, and will continue to do so to address the issues found in the current audit.

In response to your recommendation that DHMH periodically (such as quarterly) review and evaluate the vital records system capabilities assigned to all individuals (including LHD employees) and initiate appropriate action, DVR will

review, on a quarterly basis, each user's access and initiate appropriate corrective action as deemed necessary**.**

In response to your recommendation that DHMH restrict system access capabilities to those employees whose job duties require such access and that do not have incompatible job duties, DVR evaluated the system capabilities assigned to all individuals and has limited the system access and printing privileges to only those employees whose job responsibilities require such access. With the exception of supervisory staff, no DVR employees with access to cash collections will have userids that allow print privileges. The Department's IT rules were modified to remove access to DVR systems by individuals not employed by DVR or a local health department. The three individuals who each have two userids were investigated and corrected.

In response to your recommendation that specific userids be established for all individuals assigned access, the three group user IDs are used by IRMA staff. On advice of IRMA, one was deleted from the system and the other two are deemed necessary and will remain operational; one was created to be used in the event that all members of the Quality Assurance team are out of the office when an emergency necessitates the resolution of a production problem, and the other is assigned to the Data Entry Optical Character Reader system used to transmit data files to the ADC mainframe.

Finally, in response to your recommendation that DHMH independently verify that additions, deletions, and changes to system capabilities are properly authorized, approval of modifications by management personnel will be addressed in the new electronic birth registration system which will have the capability to generate reports of all records that are added, deleted or modified. In addition, the system will include a biometric thumbprint reader or similarly secure method to verify the identity of individuals who have the authority to generate new birth records, amend records, view sealed records and print certified copies of records.

Finding 4
Subprovider budgets were not always reviewed, and subprovider expenditures were not always audited.

Recommendation 4
We again recommend that subprovider budgets be subject to a comprehensive review process. We also again recommend that DHMH ensure that audits of subproviders are performed as required. Finally, we recommend that DHMH establish procedures regarding actions to be taken, such as withholding funding, when audits of subprovider expenditures are not received.

Department Response
We concur with the recommendations. As a result of previous audit recommendations, the Department instituted a policy that required the funding administrations to sign an attestation that they had reviewed the subprovider's budgets for reasonableness before funding was issued. In response to this latest audit finding, the Department will perform an investigation of the attestations that had been signed to determine what measures, if any, had been taken by the funding administrations, and if necessary based upon the results of the review, institute additional measures to ensure that at a minimum the more significant subprovider budgets get reviewed.

The Department will also establish a policy on the action to be taken against providers who do not comply with the "Standards for Audit of Human Services Sub-Vendors". Estimated timetable for establishing new policy is March 1, 2008.

Finding 5
DHMH had not inspected assisted living facilities and developmentally disabled facilities at least annually, as required.

Recommendation 5
We again recommend that DHMH complete inspections of the various health care facilities, as required by law. We also again recommend that DHMH ensure that any deficiencies noted during these inspections are resolved.

Department Response
The Office of Health Care Quality (OHCQ) concurs with the findings of the auditors and their recommendation. The OHCQ acts as the State's licensing authority on behalf of the Secretary of the Department of Health and Mental Hygiene and is under contract with the federal government, the Center for Medicare and Medicaid Services (CMS), to enforce Medicare and Medicaid regulations for certification. It is staffed by approximately 194 dedicated individuals that range from healthcare professionals to paraprofessionals to administrators to support staff. State, federal laws and regulations are used to determine a facility's or program's compliance. Licensure (the authority to operate or do business in the state) and certification (authorization to participate in federal reimbursement programs including Medicare and Medicaid) is dependent on actual compliance with the regulations that is determined by surveys. The frequency of surveys and federal complaint investigations timelines is mandated by law. The OHCQ also serves as the primary resource for consumers who have complaints about health care facilities or who have questions about them.

Over the course of Fiscal Year 2006 and Fiscal Year 2007, the Office of Health Care Quality received a total of five positions specifically assigned to increase

oversight of assisted living programs. These positions were given to the OHCQ on the basis that the positions would be supported with increases in licensing fees. The Department attempted to obtain additional staff for the Developmental Disabilities Unit through assessing licensure fees; however, there was language included in the FY 2008 budget bill which expresses that it is the intent of the General Assembly that the Department shall not impose any licensing or survey fees on those provider types. Given its inability to meet statutorily mandated survey requirements for community programs for individuals with developmental disabilities, the OHCQ has contracted with a consultant to evaluate the current survey process and determine whether it can be more efficient. The consultant will also analyze recommendations for alternatives to annual surveys, including accreditation, prioritizing certain surveys and sampling sites rather than surveying all sites.

The OHCQ has made great progress in achieving its goals of using its limited resources in a focus and efficient way to promote safe healthcare for Maryland consumers. For example, due to the additional surveyors and new management strategies with OHCQ's assisted living survey program, the percentage of assisted living providers surveyed sharply increased over the past fiscal year. The OHCQ has been appropriately aggressive with licensure actions and other sanctions in all of our programs while expanding efforts to educate consumers, providers, advocates and other stakeholders. The OHCQ has worked to improve communications with government entities, accrediting organizations and others so that we work in concert. The most recent staffing analysis reveals that OHCQ's staffing challenges remain even though additional resources have been provided. There is a surveyor deficit of 67 positions.

It should be noted, however, that this is mainly a budgetary issue and barring the receipt of additional resources may be difficult to resolve. The Department's PIN cap prevents the Office from obtaining additional resources to fulfill its current mandated responsibilities. The Department is assisting OHCQ in determining what options may be available to provide some relief in resolving this problem. In the interim, the Department is processing hiring freeze exceptions as quickly as possible for vacant positions at OHCQ.

Cancer Fund

Finding 6
Taxpayer donations to the Cancer Fund totaling $890,000 have not been spent since its inception in 2005. State law requires that contributions to the Fund be used for cancer research, prevention, or treatment.

Recommendation 6
We recommend that DHMH use the funds retained in the Cancer Fund in accordance with State law.

Department's response:
The program concurs. An employee has been hired to oversee the grant distribution process and will begin employment in August 2007. DHMH anticipates awarding Maryland Cancer Funds during FY 2008. To award funds, Grant Application Instructions have to be developed for each component of the Maryland Cancer Fund: Prevention (primary and secondary), Treatment, and Research. Initial draft applications have been written. The new employee will be responsible for finalizing the grant applications, publicizing the availability of funds, and convening a separate grant review committee for each component of the Maryland Cancer Fund. It is anticipated that it could take approximately six to nine months to implement the grant process before funds can be awarded.

Federal Funds

Finding 7
A federal fund reimbursement was not requested timely, resulting in a loss of interest income to the General Fund of approximately $396,000.

Recommendation 7
We recommend that DHMH continue to ensure that requests for federal fund reimbursements are made in a timely manner.

Department Response:
We concur with the auditor's recommendation. As stated in the audit report, upon discovering the error, DHMH took appropriate follow-up actions and will continue to ensure that requests for federal fund reimbursements are made in a timely manner.

Finding 8
Proper internal controls were not established over the processing of purchasing and disbursement transactions.

Recommendation 8
We again recommend that DHMH fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions.

Department Response:
The Department partially concurs with the auditors' finding. We have reviewed the procedures at the location of the eight employees cited by the auditors, and found that they are in compliance with the Application Systems Management's Internal Control and Security Policy and Procedures manual. The manual gives

agencies the option to either establish an ADPICS approval path for Direct Vouchers or perform a 100% review/approval via the R*STARS 32 screen and they have chosen the later. However, to avoid this finding in the future, in December 2006, we initiated approval paths for payment vouchers processed by the eight employees cited by the auditors.

We concur with the auditors list of employees who have procurement related security violations. We were aware of the specific problem with one of the eleven. The remaining 10, along with numerous others, were appearing on a monthly FMIS report as a "possible" violation. We have 84,000 approval paths of which 10,100 are related to purchase orders. The information being provided on the FMIS report did not indicate the specific path(s) associated with the "possible" violation and we were unable to identify the problem. The auditors supplied a report which allowed us to readily identify the 3 approval paths causing the violation for the 10 employees.

We thank the auditors who have provided the Department with their program source code which will allow us to produce the same report used by them to identify security violations. The source code is currently being reviewed, modified and tested by our IT unit. Estimated completion date: December 2007.

Corporate Purchasing Cards

Finding 9
DHMH had not established adequate controls over the issuance of purchasing cards.

Recommendation 9
We recommend that the employee who requests corporate purchasing cards from the bank be denied access to those cards. We also recommend that the employee who receives the cards from the bank verify, prior to distribution, that the cards have been authorized in accordance with the *Corporate Purchasing Card Program Policy and Procedures Manual*. We advised DHMH on accomplishing the necessary separation of duties using existing personnel.

Department Response
The Department agrees with the recommendation. The Comptroller's Office has instructed the bank to send all DHMH Corporate Purchasing Cards to an employee who does not have authority to complete online applications to acquire cards. Effective immediately, prior to distribution, the employee who receives the cards will verify that the cards have been authorized in accordance with the *Corporate Purchasing Card Program Policy and Procedures Manual*.

Finding 10
IRMA did not have a listing of critical mainframe application files to help ensure that all such files were properly protected.

Recommendation 10
We recommend that IRMA comply with DBM requirements by developing and maintaining a complete, current listing of all critical mainframe application files for which it is responsible for providing file security. We further recommend that IRMA use this listing to help ensure that all critical mainframe application files have adequate access controls and logging provisions.

Department Response:
We concur with the recommendation. IRMA will identify critical mainframe files and include them in a critical files directory. Additionally, IRMA will establish a formal periodic process with Medicaid and other DHMH business units hosting mainframe applications to assure that we are notified of new mainframe applications and datasets deemed critical.

In order to comply with the Department of Budget and Management's (DBM) *Information Technology Security Policy and Standards* requiring an authorization process which specifically grants access to information, (i.e., ensuring that access is strictly controlled, audited, with "least possible privileges" based on a "need-to-know), IRMA will establish a formal review process to specifically assure that all critical application files are properly protected and that all direct access to these critical files are properly logged and reviewed by an independent security monitor.

Implementation Timetable:

1. Develop and publish a formal review and timely reporting process with mainframe system owners to verify the baseline listing of critical files, establish a regular review process, and require updates when new applications or datasets containing critical data are created. *(Anticipated completion date: September 28, 2007.)*
2. Identify, compile, and verify a listing of critical mainframe files. *(Anticipated completion date: November 16, 2007.)*
3. Implement the formal review process and use the critical file list to verify that all critical mainframe application files have adequate access controls and logging provisions, and exceptions to the logs are reviewed by an independent security monitor. *(Anticipated completion date: February 29, 2008.)*

Finding 11
Security reporting and related review processes were inadequate.

Recommendation 11
We again recommend that security software reports related to production files be properly reviewed and investigated when necessary, and that these processes be documented.

Department Response:
We concur with the recommendation. IRMA will coordinate among DHMH unit security monitors a security review of critical production data and program files with a documented formal investigative follow-up. Because of the scope of the task, IRMA will develop and deploy an automated tracking system to manage the timely review and reporting process.

Additionally, IRMA will conduct a daily review of the security system logging reports for all activities performed by all users and assures such review documentation is maintained for audit.

Implementation Timetable:

1. Implement the coordination of DHMH business unit Security Monitors to receive, review and report back security violations notifications. *(Anticipated completion: February 29, 2008)*
2. Develop and implement the automated reporting and tracking system. *(Anticipated completion date: July, 2008)*
3. Conduct daily user security monitoring reviews in a manner appropriate for audit records. *(Anticipated completion date: August 15, 2007)*

Finding 12
Security over DHMH's computer network needs to be enhanced.

Recommendation 12
We recommend that DHMH improve security over its internal network. We made detailed recommendations which, if implemented, should provide for adequate security over the internal network.

Department Response:
We concur with the recommendation. IRMA has already taken the necessary steps previously recommended by the auditors to improve security over the internal network, with the exception of relocating publicly accessible servers.

These systems will be migrated pending the completion of additional electrical and environmental systems being installed in the Data Center.

Implementation Timetable: 30-90 days.

Payroll

Finding 13
Controls over payroll processing and personnel transactions were inadequate.

Recommendation 13
We recommend that DHMH only assign one userid to each employee on DBM's automated personnel system so that each applicable employee can only initiate or approve a transaction. We also recommend that DHMH adequately segregate the responsibilities for submitting payroll and personnel documentation and receiving the related payroll checks. Finally, we recommend that DHMH maintain and use signature cards to verify, at least on a test basis, that critical personnel and payroll transactions were approved by authorized personnel. We advised DHMH on accomplishing the necessary separation of duties using existing employees.

Department Response:
The Department concurs with the auditor's recommendations. DHMH will ensure that no employee has more than one userid, adequately segregate the responsibilities for submitting payroll and personnel documentation and receiving the related checks, and that all personnel transactions are subject to independent approval. On January 31, 2007, the Department issued instructions and guidance to the local health departments requiring them to identify the staff responsible for certain payroll/personnel functions within their counties which will allow the Administration to adequately segregate payroll. Also, the Administration is now using signature cards to verify, on a test basis, timesheets and other critical transactions with proper approval.

Equipment

Finding 14
A complete physical inventory of sensitive equipment had not been performed since 2003 and equipment records were not adequately maintained.

Recommendation 14
We recommend that DHMH comply with the requirements of the DGS *Inventory Control Manual*.

Department Response
We concur with the auditor's recommendation that DHMH comply with the requirements of the DGS *Inventory Control Manual* and have addressed the conditions cited in the audit report:

- Inventory of sensitive items was halted when a new Barcode System was implemented in July 2005. Implementation required that all inventoried items including sensitive equipment receive a barcode. The purpose is to identify all missing items that were recorded in a previous inventory system. As of June 2007, DHMH has completed the implementation. A list is being prepared and will be submitted to the Department of General Services of items that could not be located so that these missing items can be dropped from the records. Once approved, the Office of Procurement and Support Services will have a starting point and a sensitive inventory report can be generated. A complete inventory, including sensitive items, has now been performed.

- All items for inventory now have a barcode label placed on them when they are received. A form is submitted to inventory control personnel that has a duplicate barcode label on it adjacent to the description and serial number of the item received. This information is then entered into a database. The barcode system and inventory procedure will prevent items from not being recorded into the inventory database. All sensitive items are identified as such in the database.

- Since the investigation was completed, two of the four items mentioned as missing from twenty items selected by the auditors, have been located. One is Tag # 110837 at $32,703 and the other is tag # 110899 at $599.98. One other item was returned to the manufacturer without proper documentation and one item still remains missing. We will continue our efforts to resolve the remaining item.

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