

Audit Report

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

January 2011

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**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**

January 11, 2011

**Karl S. Aro**  
Executive Director

**Bruce A. Myers, CPA**  
Legislative Auditor

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Secretary and related units of the Department of Human Resources (DHR) for the period beginning March 1, 2007 and ending November 16, 2009. DHR provides intervention services to stabilize families and vulnerable adults, encourages financial independence by providing temporary support and transition services, and provides for the welfare of children at risk.

Our audit disclosed that the United States Department of Health and Human Services (DHHS) disallowed certain DHR grant expenditures totaling \$9.6 million; consequently, these expenditures were paid with State general funds. In addition, procedures had not been established to ensure that payments made to legal firms on behalf of indigent individuals were proper. Furthermore, DHR did not adequately monitor its grantees to ensure that the funds were spent and services were performed in accordance with the grant agreements.

Our audit also disclosed that DHR circumvented the procurement process to purchase computers costing \$850,000. Finally, various internal control weaknesses and other procedural deficiencies were noted in the areas of cash receipts, information systems security and control, and equipment.

An executive summary of our findings can be found on page 5. DHR'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 DHR.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



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



# Executive Summary

## Legislative Audit Report on Department of Human Resources (DHR) and Related Units January 2011

- **The United States Department of Health and Human Services disallowed \$9.6 million in certain Title IV-E expenditures because there was no provision for those expenditures in DHR's cost allocation plan. Consequently, the funds, which were paid with State general funds, will not be recovered.**

In the future, DHR should comply with the requirements of federal regulations and timely submit amended cost allocation plans.

- **Adequate procedures had not been established to ensure that payments made to legal firms on behalf of indigent individuals were proper and that the firms provided the related services. Such payments totaled \$16.1 million during fiscal year 2009.**

DHR should ensure that payments made to legal firms are only for those individuals for whom DHR is responsible to provide legal services and should conduct on-site monitoring to ensure that the related services were provided.

- **DHR did not adequately monitor its grantees to ensure that grant funds were spent as intended and services were performed in accordance with the grant agreements. For example, although grantees are required to provide expenditure reports on a regular basis, DHR did not independently verify the accuracy of these reports.**

DHR should adequately monitor its grantees to ensure that funds were spent and services were performed in accordance with grant agreements.

- **DHR circumvented the State procurement process by allowing a contractor to purchase 450 computers on its behalf, at a total cost of approximately \$850,000, without soliciting competitive bids. Consequently, DHR had no assurance that the computers were purchased at the lowest cost to the State.**

DHR should ensure that its procurements are competitively bid in accordance with State Procurement Regulations.

- **Internal control and record keeping deficiencies were noted in the areas of cash receipts, information systems, and equipment. For example, DHR did not independently review the propriety of actions taken by users with unrestricted access to electronic benefit and payment menu screens in the Clients' Automated Resource and Eligibility System.**

DHR should take the recommended actions to improve controls and record keeping in these areas.

## **Background Information**

### **Agency Responsibilities**

The Department of Human Resources (DHR) provides intervention services to stabilize families and vulnerable adults, encourages financial independence by providing temporary support and transition services, and provides for the welfare of children at risk. To deliver these services, DHR is organized into seven budgetary units. This audit included the operations of the Office of the Secretary, which provides overall direction and coordination for all DHR programs and activities; the Operations Office, which provides core administrative services to DHR units; and the Office of Technology for Human Services, which is responsible for the overall management and direction of DHR's information systems. The remaining four units of DHR are audited and reported upon separately.

According to the State's records, during fiscal year 2010, expenditures for the three units included in this audit totaled approximately \$165 million.

### **Reorganization**

Chapter 116, Laws of Maryland 2008, effective April 8, 2008, abolished the Community Services Administration (CSA) within the Department and transferred the duties and responsibilities of its six programs to the Social Services Administration, the Family Investment Administration, and the Office of the Secretary. Our last audit of CSA included the period ending July 31, 2006; accordingly, the scope of this audit includes the activities of those programs transferred to the Office of the Secretary for the period beginning August 1, 2006 and ending November 16, 2009. In this regard, the Shelter and Nutrition Program and the Victim Services Program were consolidated into the Office of Grants Management within the Office of the Secretary, and the Maryland Legal Services Program was transferred to the Office of the Secretary.

### **Status of Findings From Preceding Audit Reports**

Our audit included a review to determine the status of the 14 findings contained in our preceding audit report dated November 30, 2007. We determined that DHR satisfactorily resolved 13 of these findings. The remaining finding is repeated in this report. Our audit also included a review to determine the status of one finding related to the Maryland Legal Services Program that was contained in our preceding audit report, dated April 25, 2007, on the former CSA. We determined that DHR had not satisfactorily addressed this item; therefore, it is repeated in this report.



# Findings and Recommendations

## Federal Disallowances

### **Finding 1**

**Federal expenditure disallowances totaling approximately \$9.6 million were paid with State general funds.**

### **Analysis**

The United States Department of Health and Human Services (DHHS) disallowed \$9.6 million of DHR's Title IV-E grant expenditures in fiscal year 2009. As a result, these expenditures, which were paid with State general funds, will not be reimbursed. The disallowances were principally based on the lack of a provision in the Department of Human Resources' (DHR) cost allocation plan for Title IV-E foster care pre-placement costs (costs incurred for in-home services to prevent a child from being placed into foster care) and the lack of a process for documenting whether children were at imminent risk of being placed in foster care. Consequently, DHHS did not pay for foster care pre-placement costs claimed on DHR's Title IV-E reports for the quarters ending September 30, 2008 and December 31, 2008.

DHR disagreed with the DHHS disallowances and appealed its decision to the DHHS Departmental Appeals Board. However, on October 18, 2010, the appeal was denied. According to the related settlement agreement, in order for DHR to obtain Title IV-E funding for these costs in the future, it will need to submit to DHHS an amended cost allocation plan and develop an adequate process for documenting when children are at risk of being placed in foster care. DHR management advised that, as of December 2010, the cost allocation plan has not been amended and no additional grant expenditure reimbursement claims have been submitted.

The Code of Federal Regulations Title 45, Part 95, Section 509 requires the State to promptly amend its cost allocation plan and submit the amended plan to DHHS if changes occur that make the allocation basis or procedures in the approved cost allocation plan invalid. A cost allocation plan is a narrative description of the procedures that a State agency will use in identifying, measuring, and allocating certain costs in support of a program.

### **Recommendation 1**

**We recommend that DHR**

- a. take immediate action to amend its cost allocation plan and submit eligible grant expenditures for federal reimbursement; and**
- b. in the future, comply with the requirements of the Code of Federal Regulations and timely submit amended cost allocation plans.**

## Maryland Legal Services Program

### **Finding 2**

**DHR did not have adequate procedures to ensure that payments to legal firms on behalf of indigent individuals were proper, and it did not perform site visits to ensure that legal firms provided the required services.**

### **Analysis**

State regulations require DHR to contract with legal firms to represent indigent adults in Adult Protective Services proceedings, and to represent children in Children In Need of Assistance (CINA) and Termination of Parental Rights (TPR) cases. According to State records, payments to eight legal firms during fiscal year 2009 totaled approximately \$16.1 million. Our review disclosed the following conditions:

- DHR did not have adequate procedures to ensure the propriety of payments made to legal firms on behalf of indigent individuals. Generally, these firms are paid a flat fee per case. Specifically, although the legal firms submitted invoices listing the individuals served, DHR paid the firms without verifying that it was responsible for providing legal services to these individuals. Such verifications could be done by reviewing a copy of the court order, appointing the legal firm as the representative, for each individual.
- During fiscal years 2008, 2009, and 2010, DHR did not perform any site visits (quality control reviews) of the legal firms, as provided for in the contracts. These site visits can be used to help ensure compliance with the contract terms. Consequently, this would help verify the propriety of the amounts billed, and can help ensure that the legal firms were providing the required number of hours for each case. It would also help ensure that the attorneys had a sufficient number of contacts with the client, the attorney/client ratio was reasonable, and the overall quality of services performed was adequate.

As a result of these conditions, there was a lack of assurance that amounts paid for legal services were proper and that the related services were provided in accordance with the contract terms.

As noted previously, effective April 8, 2008 the Maryland Legal Services Program was transferred to the Office of the Secretary from the former Community Services Administration. A similar comment regarding the failure to perform site visits was noted in our previous Community Services Administration audit report, dated April 25, 2007.

## **Recommendation 2**

**We recommend that DHR**

- a. verify that payments made to legal firms are only for individuals for whom DHR is responsible to provide legal services (for example, require legal firms to submit copies of the court orders appointing the firm as the representative); and**
- b. conduct on-site monitoring to ensure that amounts invoiced were proper and services were provided in accordance with the contract terms (repeat).**

## **Grants Management**

### **Finding 3**

**DHR did not adequately monitor its grant expenditures.**

### **Analysis**

DHR did not adequately monitor its grant expenditures to ensure that the funds were spent and services were performed in accordance with the grant agreements. DHR's Office of Grants Management provides funding to a network of community and faith-based organizations, local departments of social services, and other state and local agencies. Specifically, our review and testing noted the following conditions:

- DHR did not independently verify that grant funds were spent as intended. Although grantees were required to provide expenditure reports on a regular basis, DHR did not independently verify the accuracy of the reports (such as by obtaining and verifying source documentation), even on a test basis. For example, expenditures reported by grantees that provide services to victims of domestic violence should be supported by appropriate detailed expenditures, such as for counseling services.
- DHR did not ensure that all reports required by the grant agreements, including audited financial statements and activity reports (such as the number of individuals served), were submitted by the grantees. For example, our test of 24 multi-year grants totaling approximately \$6.4 million disclosed that, for 7 grants totaling approximately \$3.5 million, 28 of the required 124 activity reports required to be submitted in fiscal year 2009 were not on file.
- DHR frequently did not perform annual site visits of grantees, as allowed by the grant agreements. Our test of 24 grants, totaling approximately \$6.4 million, for fiscal year 2009 disclosed that, for 17 grants totaling approximately \$4.8 million, DHR did not perform a site visit during fiscal

year 2009. Site visits are performed to ensure that services are being provided in accordance with the terms of the grant agreements.

According to the State's records, during fiscal year 2009, expenditures to grantees totaled approximately \$30 million.

### **Recommendation 3**

#### **We recommend that DHR**

- a. independently verify, on a test basis, that grant funds were spent as intended;**
- b. ensure that all required reports are submitted, including the missing reports noted above; and**
- c. ensure that annual site visits are performed.**

## **Procurement**

### **Finding 4**

**DHR circumvented the State procurement process by allowing a contractor to purchase 450 computers on its behalf without soliciting competitive bids.**

#### **Analysis**

DHR circumvented the State procurement process (including competitive bidding) by allowing a contractor to purchase 450 computers at a total cost of \$850,000, during the period from May through July 2009. We were advised that these computers, which are recorded in DHR's property records, were needed by the contractor to perform services required in its existing contract with DHR, such as training and software development. However, these purchases were not part of the contract scope. Since DHR did not competitively bid the purchase of these computers, it had no assurance that the computers were purchased at the lowest cost to the State. State Procurement Regulations generally require that all procurements over \$5,000 be competitively bid.

We discussed these concerns with DHR management who asserted that it received the computers at no cost because the computers were purchased with funds included in the existing fixed-cost contract with the contractor. However, the scope of the contract is to provide support for DHR's mainframe and server operations, as well as computer application maintenance and enhancements; the purchase of hardware needed to perform the contract is DHR's responsibility. Since the computers were purchased by the contractor as part of the contract, other services may need to be reduced in order to keep within the cost of the contract or DHR may need to increase the cost of the contract. Also, these

purchases, if considered a contract modification, would have needed the approval of the Board of Public Works, which DHR did not obtain.

The fixed cost of the contract was \$179 million and the original contract term was fiscal years 2007 through 2009. The contract has been extended through December 31, 2010, and a renewal option, through June 30, 2011, remains. As of December 2009, expenditures under this contract totaled approximately \$139 million.

#### **Recommendation 4**

**We recommend that DHR comply with State Procurement Regulations by obtaining competitive bids, as required.**

### **Cash Receipts**

#### **Finding 5**

**Deposit verification procedures were not adequate.**

#### **Analysis**

DHR did not establish adequate controls over collections (for example, child support collections), which according to DHR records, totaled approximately \$44.6 million during fiscal year 2009. Specifically, the employee responsible for preparing the initial record of collections also performed the deposit verifications for the majority (\$38.9 million) of the collections and, therefore, was not independent of the cash receipts process. Another employee, who performed the deposit verifications for the remaining \$5.7 million, did not perform the verifications in a timely manner. We were advised that those verifications were performed approximately twice per month; however, we were unable to determine when the verifications were performed because the verification dates were not documented.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that a reconciliation of recorded collections to amounts deposited be performed by an employee independent of the cash receipts functions.

#### **Recommendation 5**

**We recommend that**

- a. employees independent of the cash receipts function verify that all recorded collections are subsequently deposited, and**
- b. deposit verifications be performed as deposits are made and be properly documented.**

**We advised DHR on accomplishing the necessary separation of duties utilizing existing personnel.**

## **Information Systems Security and Control**

### **Background**

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

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

### **Finding 6**

**DHR had not established internal controls to ensure the propriety of actions taken by users with unrestricted system access to public assistance and food stamp benefits authorization and payment menu screens.**

### **Analysis**

DHR had not established internal controls to ensure the propriety of actions taken by users with unrestricted access to electronic benefit and payment menu screens in CARES. These users (such as system help desk employees) required access to critical menus within CARES to perform their job duties; however, the critical actions processed by these employees were not recorded for subsequent independent review and approval. In this regard, we noted that 22 employees had been granted unrestricted access to critical CARES files. CARES is used to authorize public assistance and food stamp benefits and, therefore, a user with unrestricted access could make unauthorized changes to a client account (such as reducing the amount of client income) that would result in an increased monthly benefit being improperly paid to the client without detection. According to DHR's records, benefits and payments totaling approximately \$753 million were processed via CARES during fiscal year 2009.

## **Recommendation 6**

**We recommend that critical actions taken on the production system by users with unrestricted CARES access be recorded and be subject to independent supervisory review and approval, at least on a test basis.**

### **Finding 7**

**Access and monitoring controls over critical production programs and data were inadequate.**

### **Analysis**

Access and monitoring controls over critical production programs and data were inadequate. Specifically, we noted the following conditions:

- Mainframe security software access rules allowed 36 users either unnecessary and/or unlogged direct modification access to critical production programs and data files. As a result of this condition, unauthorized changes to certain critical production programs and files could be made without detection.
- Security software reports of critical security events over mainframe systems either were not reviewed, were only reviewed when problems arose, or were reviewed with no documentation retained of the reviews. For example, a report of the creation of and changes to security system profiles was not reviewed on a regular basis but rather only when problems arose.
- Security software reports did not include direct modifications to certain critical mainframe database production tables. For example, security software reports of direct modifications to numerous mainframe database production tables containing sensitive information, such as social security numbers, were not generated. As a result, unauthorized direct modifications to these database tables could be made without detection.
- Database security reports of critical mainframe production database security-related events (such as logon violations) were not generated. In addition, the server-based CHESSIE production database security-related events were not recorded because the “audit” feature was disabled for this database. As a result of these conditions, security-related events could occur which could impair effective system security controls and may not be detected.

### **Recommendation 7**

**We recommend that the DHR establish effective access and monitoring controls over critical production programs and data. We made detailed recommendations to DHR which, if implemented, should provide adequate security in this area.**

### **Finding 8**

**DHR's internal network and the vendor network that contained the mainframe and servers which hosted critical DHR systems were not adequately secured.**

### **Analysis**

DHR's internal network and the vendor network that contained the mainframe and servers that hosted critical DHR systems were not adequately secured. DHR operated firewalls at its network interfaces with the Internet and with SwGI, and was responsible for the configuration of the firewall that protected the vendor network containing the mainframe and servers that hosted the CARES, CSES and CHESSIE systems. Specifically, we noted the following conditions:

- Firewall rules were not configured to adequately secure connections into the DHR internal network from the Internet, SwGI, and untrusted third parties (for example, the aforementioned computer vendor and a federal agency).
- Firewall rules were not configured to adequately secure connections into the vendor's network that hosted CARES, CSES, and CHESSIE.

As a result, these areas were susceptible to attacks which could result in a loss of data integrity, the destruction of critical files, and the interruption of critical network services.

### **Recommendation 8**

**We recommend that DHR**

- a. configure its firewall rules to adequately protect its internal network devices; and**
- b. require the vendor that hosts CARES, CSES, and CHESSIE to configure the aforementioned firewall to adequately protect the critical devices on the network hosting these systems.**

## Equipment

### Finding 9

#### Adequate accountability and control was not established over equipment.

#### Analysis

Adequate accountability and control was not established over equipment that, according to DHR's records, totaled approximately \$86.4 million as of June 30, 2009. Specifically, we noted the following conditions:

- Differences between the results of the physical inventories and the related detail records had not been adequately investigated and resolved. Specifically, there were no procedures to investigate and resolve missing items; rather, the items were simply noted in the inventory records as "not found". As of February 2010, according to DHR's inventory records, there were 42,433 missing items, including sensitive items such as computer equipment, with a total cost of \$27.5 million. These items had been missing over a 10-year period and represented approximately 30 percent of the inventory recorded on the detail records. Furthermore, these missing items were not reported to DGS, as required.
- The equipment control account was not reconciled with the related detail records. As of January 31, 2010, the total value of equipment recorded in the detail records (\$98 million) exceeded the related control account balance (\$86.7 million) by \$11.3 million.
- Equipment purchases were not always posted to the detail inventory records. Specifically, our test of 47 equipment items totaling \$64,000 disclosed that 14 items totaling \$24,000 were not recorded in the detail inventory records. In addition, a separate test disclosed that one lot of modular office furniture costing \$207,500 was also not recorded in the records.

The Department of General Services' *Inventory Control Manual* requires that variances between physical counts and the detail records be promptly investigated and resolved and that missing items be reported to DGS within ten days of the discovery of the loss. It further requires that control accounts be maintained and the account balances be periodically reconciled with the aggregate balance of the detail records, and that equipment purchases be recorded in the detail equipment records. Similar deficiencies with regard to the reconciliation of physical counts and recording of equipment purchases were commented upon in our six preceding audit reports, dating back to 1992.

**Recommendation 9**

**We recommend that DHR comply with the requirements of the Department of General Services' *Inventory Control Manual* (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have audited the Department of Human Resources and related units (DHR) for the period beginning March 1, 2007 and ending November 16, 2009 and the units transferred from the Community Service Administration within DHR for the period beginning August 1, 2006 through November 16, 2009. 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 DHR's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report on DHR and, as a result of a reorganization, the status of the one finding related to the Maryland Legal Services Program that was included in our preceding audit report on DHR's Community Services Administration.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included electronic benefit transfers, grants, purchases and disbursements, cash receipts, information systems security and control, equipment, and payroll. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DHR'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 DHR's Office of the Secretary and related units to the other units of DHR.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of DHR's compliance with federal laws and regulations pertaining to those programs, because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DHR.

DHR'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 the 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 DHR'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 DHR that did not warrant inclusion in this report.

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

## APPENDIX

State of Maryland  
Department of Human Resources



Maryland's Human Services Agency

Martin O'Malley  
Governor

Anthony Brown  
Lt. Governor

Brian Wilbon  
Interim Secretary

January 7, 2011

Bruce A. Myers, CPA  
Legislative Auditor  
Office of the Legislative Audits  
301 West Preston Street – Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed is our response to the draft audit report on the Department of Human Resources – Office of the Secretary for the period beginning March 1, 2007 ending November 16, 2009. We appreciate the opportunity to provide responses and information relating to the 9 findings and recommendations.

If you have any questions concerning our responses, please contact Mr. William E. Johnson, Jr., Inspector General, at 443-378-4060 or [wjohnson@dhr.state.md.us](mailto:wjohnson@dhr.state.md.us).

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Wilbon', written over a faint, larger signature.

Brian Wilbon  
Interim Secretary

Enclosure

cc: Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. Deboy, Sr., Co-Chair, Joint Audit Committee  
Joint Audit Committee Members  
William E. Johnson, Jr., Inspector General, DHR  
Karl S. Aro, Executive Director, Department of Legislative Services



**Department of Human Resources  
Office of the Secretary  
Findings and Recommendations  
3/1/2007 – 11/16/2009**

**Response to Audit Finding**

**Federal Disallowances**

**Finding 1**

**Federal expenditure disallowances totaling approximately \$9.6 million were paid with State general funds.**

**Recommendation 1**

We recommend that DHR:

- a. take immediate action to amend its cost allocation plan and submit eligible grant expenditures for federal reimbursement, and
- b. in the future, comply with the requirements of the Code of Federal Regulations and timely submit amended cost allocation plans.

**Department's Response**

The Department concurs with the analysis as described in the (final) audit findings. At this time, the approval of a new Title IV-E state plan is imminent. Assuming that we will receive approval of a Title IV-E State plan by the end of the year, the Department has implemented steps to secure the appropriate resources to assist in the development of a plan to document "candidacy" for foster care, which will allow claiming of pre-placement costs through the cost allocation plan.

**Department of Human Resources  
Office of the Secretary  
Findings and Recommendations  
3/1/2007 – 11/16/2009**

**Response to Audit Finding**

**Maryland Legal Services Program**

**Finding 2**

**DHR did not have adequate procedures to ensure that payments to legal firms on behalf of indigent individuals were proper, and it did not perform site visits to ensure that legal firms provided the required services.**

**Recommendation 2**

We recommend that DHR:

- a. verify that payments made to legal firms are only for individuals for whom DHR is responsible to provide legal services (for example, require legal firms to submit copies of the court orders appointing the firm as the representative); and
- b. conduct on-site monitoring to ensure that amounts invoiced were proper and services were provided in accordance with the contract terms (repeat).

**Department's Response**

The Department agrees with the finding and have enhanced the procedures to ensure that payments to legal firms for indigent individuals are proper and the related services were provided.

The Department continues to make site visits (quality control reviews) to legal firms. The Department will continue to document these site visits to Contractor law firms, and perform reviews of files.

**Department of Human Resources  
Office of the Secretary  
Findings and Recommendations  
3/1/2007 – 11/16/2009**

**Response to Audit Finding**

**Grants Management**

**Finding 3**

**DHR did not adequately monitor its grant expenditures.**

**Recommendation 3**

We recommend that DHR:

- a. independently verify, on a test basis, that grant funds were spent as intended;
- b. ensure that all required reports are submitted, including the missing reports noted above; and
- c. ensure that annual site visits are performed.

**Department's Response**

The Department agrees with the finding that grant expenditures were not adequately monitored. The Department will verify that grant funds were spent as intended by requesting that supporting documentation be submitted with each expenditure report. The Department has formed a staffed Monitoring and Compliance Unit within OGM that will ensure that all required audit reports and activity reports are reviewed, including the missing reports indicated above. In addition, OGM staff assigned to grantees will maintain a "tickler" file to ensure that all required reports from all grantees are received. The receipt of those reports will be logged. Management will conduct a quarterly review with OGM staff to ensure that the reports are received and reviewed as planned.

The Monitoring and Compliance Unit completed a Monitoring Requirement Summary for its programs in October of 2010, which will be utilized to develop a schedule of announced and unannounced site visits for calendar year 2011. This unit will assist staff with making site visits.

**Department of Human Resources  
Office of the Secretary  
Findings and Recommendations  
3/1/2007 – 11/16/2009**

**Response to Audit Finding**

**Procurement**

**Finding 4**

**DHR circumvented the State procurement process by allowing a contractor to purchase 450 computers on its behalf without soliciting competitive bids.**

**Recommendation 4**

We recommend that DHR comply with State Procurement Regulations by obtaining competitive bids, as required.

**Department's Response**

The Department disagrees that this contract did not adhere to procurement regulations by obtaining competitive bids. The Department closely monitors this contract to obtain the best value for the State of Maryland. In this case, the Department was unable to fulfill its obligation to provide the equipment, and was able to work with its business partner under the existing terms of the contract to meet the needs of the State of Maryland under the fixed price contract for the same fixed price amount and no reduction in services.

The RFP states that the Department would furnish PCs to the Contractor for use in the execution of this contract. Due to continued funding issues and loss of funds for equipment, DHR was unable to provide PCs, which was endangering the ability to deliver services timely. The RFP and contract do not prohibit the purchase or provision of equipment by the contractor. The contract actually addresses the purchase and treatment of assets specifically and provides guidance and governance on how to handle the treatment of the purchase of assets as outlined in the contract under section Z – Purchase and Treatment of Assets. This section clearly articulates how to handle and title purchases made by the contractor for equipment. The acquisition of the PCs, which were “titled” and received by DHR was not outside the provisions of this contract nor did it circumvent procurement as the purchase of assets is allowed under and governed by the contract.

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**Response to Audit Finding**

The audit finding states that the Department “lacked assurance that the computers were purchased at the lowest cost to the State.” On 4/1/10, the department provided a copy of a current PC quote to the auditors showing the statewide cost for an equivalent PC was \$1,335 per PC. The cost paid by the vendor was approximately \$1,100 per PC.

The finding also states “Since the computers were purchased by the contractor as part of the contract, other services may need to be reduced in order to keep within the cost of the contract or DHR may need to increase the cost of the contract.

Also, these purchases, if considered a contract modification, would have needed the approval of the Board of Public Works, which DHR did not obtain.” Again the Department disagrees with this logic and characterization. All services that were required under the contract were performed; therefore, there was no reduction in services, and no additional funds were added or required. The provision of the PCs was a no cost value-add under a fixed price contract, which was appropriate and allowed under the provisions of the contract.

Because the cost did not change and the scope of the contract did not change, no contract modification and approval by the Board of Public works was required. The purchase of equipment and treatment of assets is already part of the contract and since no additional funding was required, no contract modification occurred.<sup>1</sup>

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<sup>1</sup>**Auditor’s Comment:** As stated in the audit report, our position is that these purchases by the contractor were not within the scope of the contract and that, at a minimum, a contract modification should have been presented to the Board of Public Works and any approved purchase should have been subject to a competitive bid process. DHR states that, although it did not obtain competitive bids, it disagrees that it did not adhere to procurement regulations. However, DHR acknowledges its obligation to provide the computer equipment, which confirms that using the contractor to obtain DHR equipment (much of which was procured for DHR employees) was not within the scope of the contract. We discussed DHR’s assertions with a senior representative of the Board of Public Works, who advised that the purchase appeared to represent a contract modification. Accordingly, we continue to believe that this procurement was inappropriate and violated State Procurement Regulations.

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**Response to Audit Finding**

**Cash Receipts**

**Finding 5**

**Deposit verification procedures were not adequate.**

**Recommendation 5**

We recommend that:

- a. employees independent of the cash receipts function verify that all recorded collections are subsequently deposited, and
- b. deposit verifications be performed as deposits are made and be properly documented.

**We advised DHR on accomplishing the necessary separation of duties utilizing existing personnel.**

**Department's Response**

The Department disagrees with the finding that deposit verification procedures were less than adequate. Prior year audit notes included no exceptions with the existing cash receipts controls, and a review of the cash receipts log reflected no errors or irregularities in the \$44.6 million receipted, deposited, recorded, and approved by the Department. All receipts are traced to subsidiary ledgers reconciled to bank statements. As such, the Department safeguarded the assets as required.

Existing controls over cash receipts prevent errors or irregularities without the presence of collusion in that the cash receipts clerk would need to fail to record a collection in the receipts log to go undetected. Failure to record cash receipts by the receipts clerk could not be prevented by controls. (The majority of cash receipts received by the Department consist of checks. On occasion a money order may be received, and less than \$500 a year is received in currency.)

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**Response to Audit Finding**

The receipts log is secured and the cash receipts depositor, recorder, and approver do not have access. In the absence of the receipts clerk, the log is secured in the Accounting Operations Division safe, and employees with access to the safe are independent of the deposit, recording, and approving functions.

The Department is in compliance with the requirement that recorded collections be reconciled to amounts deposited by an employee independent of the cash receipts functions. All receipts are physically deposited and then recorded by someone other than the receipts clerk, and are then approved by someone other than the depositor, recorder, or receipts clerk. Part of that approval process is a reconciliation of deposited amounts to recorded collections in subsidiary ledgers that are subsequently reconciled to bank statements by yet another person independent of the receipt, deposit, recording, and approving function.

The Department has, however, assigned the deposit verification function to someone other than employees involved in the receipting, depositing, recording, and approving functions effective 6/21/2010, and will ensure that deposit verifications occur on a daily basis, and that approval of the reconciliation of deposited amounts to recorded collections is always documented.

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**Response to Audit Finding**

**Information Systems Security and Control**

**Finding 6**

**DHR had not established internal controls to ensure the propriety of actions taken by users with unrestricted system access to public assistance and food stamp benefits authorization and payment menu screens.**

**Recommendation 6**

We recommend that critical actions taken on the production system by users with unrestricted CARES access be recorded and be subject to independent supervisory review and approval, at least on a test basis.

**Department's Response**

DHR agrees with this finding and will record the actions taken by users with unrestricted CARES access. In addition actions taken will be subject to independent supervisory review at least on a test basis. DHR will implement corrective actions by March 1, 2011.

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**Response to Audit Finding**

**Finding 7**

**Access and monitoring controls over critical production programs and data were inadequate.**

**Recommendation 7**

We recommend that the DHR establish effective access and monitoring controls over critical production programs and data. We made detailed recommendations to DHR which, if implemented, should provide adequate security in this area.

**Department's Response**

DHR agrees with this finding and will make sure that the agency establishes effective access and monitoring controls over critical production programs as recommended. Presently, DHR currently creates and monitors 19 separate security reports for the Agency's 8000 users in the areas mentioned.

Specifically:

- DHR will assure that the 36 users with direct modification access to critical production programs and data files will be necessary and logged. This change has already been completed.
- DHR will review and document software reports of critical security events. Although DHR is currently compliant with this recommendation at present the Agency is working to improve the reporting that is currently being done to provide more detail on security related events. DHR will implement corrective actions by March 1, 2011.
- DHR will include all critical database production tables in DHR's software security report. This will assure that all changes made to the critical database production tables will have an audit trail. This change has already been completed.

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**Response to Audit Finding**

- DHR will assess the impact of turning on the audit feature on the CHESSIE production system. DHR is in the process of turning on the audit feature as specifically requested by the auditors and has implemented this feature in DHR's non-production environment. If this feature is found not to cause impact degradation of the application performance as it had in the past, it will then be implemented in the production environment. DHR will implement corrective actions by February 15, 2011 pending there is no impact to the performance of the production system.

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**Response to Audit Finding**

**Finding 8**

**DHR's internal network and the vendor network that contained the mainframe and servers which hosted critical DHR systems were not adequately secured.**

**Recommendation 8**

We recommend that DHR:

- a. configure its firewall rules to adequately protect its internal network devices; and
- b. require the vendor that hosts CARES, CSES, and CHESSIE to configure the aforementioned firewall to adequately protect the critical devices on the network hosting these systems.

**Department's Response**

DHR agrees with this Recommendation and will adequately secure connections into the DHR internal network from the Internet, SwGI, untrusted third parties, and networks hosted by DHR's hosting vendor. DHR currently manages over 2250 firewall rules that protect the DHR network and infrastructure.

Specifically:

- DHR will configure its firewall rules to protect its internal network devices. The changes recommended have already been completed.
- DHR has required that the vendor that hosts CARES, CSES and CHESSIE configure their firewall to adequately protect the critical devices on the network of the hosting vendor. DHR is currently monitoring all firewall changes made by the vendor and will conduct periodic reviews of the hosting vendors firewall configuration. This project will begin in January of 2011 and will be ongoing to assure periodic reviews are conducted.

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**Response to Audit Finding**

**Equipment**

**Finding 9**

**Adequate accountability and control was not established over equipment.**

**Recommendation 9**

We recommend that DHR comply with the requirements of the Department of General Services' *Inventory Control Manual* (repeat).

**Department's Response**

The Department agrees with the recommendation to comply with the requirements of the Department of General Services' (DGS) *Inventory Control Manual*.

The Asset Management Unit staff categorized and researched again the missing items stored in the inventory database by year and location. The Department submitted to DGS form DGS 950-8, Report of Missing and Stolen State Property for calendar years 1997-2007 for review and processing the week of August 2, 2010. The form listed 11,433 missing items for that time period. Many items were identified/found during the categorizing process. As of December 2010, we are awaiting a response from the Department of General Services regarding the approval to delete these items (11,433) from the inventory data base. We are in the process of reconciling the physical inventory for FY 2008. Any items identified as missing will be reported to DGS within 10 working days. The target date for completion of the FY 2008 physical inventory reconciliation is the second quarter of calendar year 2011.

Beginning July 2010, when items are not identified/disclosed during the physical inventory, a listing of the missing items is generated and provided to the appropriate Accountable Officer for resolution within 30 days. Any equipment not identified/located will be reported on the form DGS 950-8, Report of Missing or Stolen Personal State Property for submission to DGS for approval to delete from the inventory database per the DGS *Inventory Control Manual*.

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**Response to Audit Finding**

The Department has reconciled the June 2010 control account to the related detail records as of August 20, 2010. The first quarter of FY 2011 has also been reconciled. The Department continues to reconcile the control account to the related detail records on a monthly basis.

As of July 2010, the asset tags are provided to the local department for new equipment and are assigned to each piece of equipment at the time the information (purchase order) is received. This process allows DHR to record equipment purchases to the detail records in a timely manner.

As of July 8, 2010, all 14 items disclosed as not being recorded have been posted to the detail records.

The modular office furniture (\$207,500) has been tagged with inventory stickers and posted in the detail inventory records as of July 13, 2010. The Asset Management Unit provided the Accountable Officer in the local department with the asset tags for the modular furniture in August 2009.

The asset tags that are provided to the local department for new equipment is assigned to each piece of equipment at the time the information (purchase order) is reconciled, which allows DHR to record equipment purchases to the detail records when items is received.

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