

Audit Report

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

November 2007

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

November 30, 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 related units of the Department of Human Resources (DHR) for the period beginning July 1, 2003 and ending February 28, 2007.

Our audit disclosed certain deficiencies in the awarding of computer services contracts that may have precluded the State from receiving the best value. For example, DHR combined what were previously separate contracts into a single procurement. This bundling of contracts contributed to only one vendor submitting a proposal on a three-year contract that had a value of approximately \$110 million. Furthermore, DHR did not ensure that the lowest possible contractor rates were obtained under a subsequent modification to that contract. Specifically, the vendor was paid hourly rates that were substantially higher than the rates paid for similar information technology (IT) services under a statewide contract with the same vendor. In addition, certain documentation was incomplete pertaining to the award of another IT service contract.

Our audit also disclosed that, because DHR did not obtain the required approval from the federal government for a computer services contract in a timely manner, federal funding totaling approximately \$3.5 million was not received.

Finally, various internal control weaknesses and other procedural deficiencies were noted in the areas of information systems security, budget closeout transactions, payroll, and equipment. For example, DHR's information systems were not fully secured from external threats, access to critical computer files was not properly restricted, and the disaster recovery plan was not complete.

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 November 2007

- **DHR's computer services contracting practices may have resulted in reduced competition and higher contract costs. For example, DHR's decision to bundle two contracts that were previously separate into a single contract contributed to only one bid being received for a contract valued at approximately \$110 million. Additionally, DHR did not ensure that the lowest possible contractor rates were obtained under a modification to this contract.**

DHR should take appropriate action to maximize competition in its data processing procurements and to ensure that costs are minimized.

- **Delays in procuring a new contract for Electronic Benefits Transfer System services resulted in a negotiated contract extension with the prior vendor at considerably higher payment rates. The procurement documentation for the new contract was incomplete.**

DHR should initiate timely procurement processes in order to avoid contract extensions and should fully document all aspects of the procurement process.

- **Potential federal funding totaling \$3.5 million was not obtained for information technology contract expenditures because a contract amendment was not submitted in advance for federal approval.**

DHR should take appropriate action, such as obtaining required advance approvals of contracts, to maximize its federal funding.

- **Controls had not been established to adequately secure DHR's information systems from external threats. In addition, access to critical data files, databases, and program files were not properly restricted, and security reporting and review processes were inadequate. Furthermore, DHR's information systems disaster recovery plan was incomplete.**

DHR should take the recommended actions to provide adequate security over its information systems and to ensure that its disaster recovery plan is complete.

- **Internal control and record keeping deficiencies were also noted in the areas of budget closeout transactions, payroll, and equipment.**

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 eight 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 five units of DHR are audited and reported upon separately.

According to the State's records, during fiscal year 2007, expenditures for the three units included in this audit totaled approximately \$108 million.

### **Current Status of Findings From Preceding Audit Report**

Our audit included a review to determine the current status of the 22 findings contained in our preceding audit report dated September 7, 2004. We determined that DHR had satisfactorily resolved 14 of these findings. The remaining 8 findings are repeated in this report.



# Findings and Recommendations

## Computer Hosting and Maintenance Contract

### Background

On June 21, 2006, the Board of Public Works approved a \$110 million information technology (IT) hosting and maintenance contract. The contract was effective on July 1, 2006 and has a three-year term. The contractor supports and maintains DHR mainframe and server operations (hosting services) and provides computer application maintenance and enhancements (maintenance services) for DHR's critical systems. Such systems include the Clients' Automated Resource and Eligibility System (which maintains information about eligibility and calculates, initiates, and issues benefits – benefit payments of approximately \$488 million were processed in fiscal year 2007), the Child Support Enforcement System (which supports child support enforcement services), and the Children's Electronic Social Services Information Exchange system (which is a case management system for foster care and adoptions). In response to DHR's request for proposals, only one proposal was received, and the contract was subsequently awarded to this vendor.

### Finding 1

**DHR's decision to bundle two previously separate contracts into one procurement appears to have contributed to a lack of competition.**

### Analysis

DHR's decision to combine IT hosting services and maintenance services into a single procurement appears to have contributed to a lack of competition for the individual component services. Prior to the current contract, hosting and maintenance services were separate contracts provided by different contractors. During the current contract's procurement, at least two potential bidders (with interest in the maintenance portion of the contract) advised DHR that the combination of the services into a single contract precluded them from submitting a proposal. The potential bidders stated that the combined contract was too large for their firms. This information was not provided to the Board of Public Works (BPW) when DHR sought BPW's approval. Rather, the related agenda item submitted to the BPW by DHR stated that other vendors did not submit proposals because those vendors' current resources were committed to other contractual obligations.

DHR did not perform a documented assessment of the sole proposal to ensure the costs for services to be received were reasonable. In this regard, DHR could not document that it sufficiently assessed the proposal cost to determine if it was reasonable. Consequently, the lack of competition for this contract may have

resulted in DHR paying higher prices for the IT services. With respect to the portion of the contract pertaining to hosting services, DHR paid the prime contractor \$18.4 million during fiscal year 2007. This exceeded the amount that the prime contractor advised us was paid to two subcontractors that provided virtually all of the hosting services (\$13.5 million) by \$4.9 million. We also noted that the primary hosting services subcontractor (that was identified in the proposal submitted to DHR by the prime contractor) was the sole prime contractor providing these services under the previous, separate hosting contract.

### **Recommendation 1**

**We recommend that for future contracts, DHR formally analyze the impact on competition and cost of bundling separate contracts into a single procurement, and refrain from bundling, if there is an indication that the combination will result in significantly reduced competition or increased cost. We also recommend that for significant contract procurements involving a sole proposal, DHR document its assessment of the reasonableness of the costs, and include a consideration of this in deciding whether to award or to re-bid the contract. Finally, we recommend that DHR accurately disclose to the Board of Public Works all significant information concerning contract procurements.**

### **Finding 2**

**DHR did not ensure that the lowest possible contractor rates were obtained under a contract modification.**

### **Analysis**

DHR did not formally assess the reasonableness of costs associated with a modification to the hosting and maintenance contract to perform system enhancements on the Child Support Enforcement System. This modification was dated January 25, 2007 and required the contractor to provide 10,200 hours of service at a total cost of \$1.7 million.

Our review disclosed that the hourly rates charged for certain IT job categories under the contract modification were higher than the rates established under a statewide contract with the same vendor for the same types of positions. For example, senior software/integration analysts were to be paid \$197 an hour under the contract modification, but only \$137.40 an hour under the statewide contract with this contractor. Furthermore, under a prior DHR contract (that expired in 2006) with the same contractor, the contractor was paid even less for the same job categories, and our review disclosed at least eight individuals who worked on both contracts in the same labor categories, but were billed at significantly different rates (for example, \$103.50 an hour versus \$197 an hour).

## **Recommendation 2**

**We recommend that DHR ensure that IT services are obtained at the lowest possible cost and, when appropriate, use the statewide IT contract.**

## **Electronic Benefits Transfer System**

### **Background**

DHR provides its assistance recipients with access to cash and food stamp benefits through an Electronic Benefits Transfer System (EBTS). On September 1, 2000, DHR awarded a six-year contract to a financial institution to operate its EBTS system. When that contract expired, DHR had not yet completed the procurement process for a new contract, resulting in a contract extension with the incumbent vendor. DHR subsequently issued a request for proposal (RFP), selected a new vendor, and in April 2007 awarded a contract to administer its EBTS system that was scheduled to be effective September 1, 2007. This new contract was awarded to the same vendor that provides the aforementioned hosting and maintenance services. Due to issues pertaining to the award, as of November 8, 2007, the new contractor has not yet begun operations, thus requiring additional extensions with the incumbent vendor.

### **Finding 3**

**Delays in procuring a new contract resulted in a negotiated contract extension with the prior EBTS vendor at a considerably higher payment rate.**

### **Analysis**

Since DHR did not procure a new EBTS contract in a timely manner, it originally entered into a contract extension (from September 1, 2006 to August 31, 2007) with the incumbent contractor and negotiated rates that were substantially higher than the rates that were subsequently obtained under the new contract. DHR attributed the delay in conducting the procurement before the expiration of the EBTS contract to the Department of Budget and Management's (DBM) rejection of their initial RFP due, in part, to DBM's concern about a lack of specifics in that RFP. As a result of the delay, during the one-year contract extension period, DHR was charged an average fee of \$2.56 per month for each food stamp recipient (the most common type of recipient) while the new contractor's monthly fee is only \$0.84. The maximum cost for the one-year extension was \$6.4 million.

Consequently, DHR's failure to conduct a competitive procurement before the expiration of the EBTS contract in August 2006 appears to have resulted in excessive fees and costs being incurred during the period of the contract

extension. If DHR had entered into the new contract effective September 1, 2006, we estimated that DHR could have paid over \$3 million less in EBTS fees during the one-year period.

### **Recommendation 3**

**We recommend that DHR initiate procurement processes sufficiently in advance of contract expirations to help avoid contract extensions requiring negotiated rates.**

### **Finding 4**

**Documentation of certain aspects of the procurement was incomplete.**

#### **Analysis**

Certain documentation was not maintained to justify the contract procurement method and to support the proposal evaluation results. The EBTS contract was awarded to a vendor whose cost estimate over the life of the contract (\$15.2 million, including the initial three-year term and two two-year options) exceeded the incumbent vendor's proposal by over \$1 million. The EBTS contract was procured via a competitive sealed proposal bid method which differs from the competitive sealed bidding method in that the proposal method considers subjective evaluation factors such as the vendor's qualifications and experience as well as the proposed cost. Under the bid method, the contract is awarded to the qualified bidder who submits the lowest cost bid. Our review of the competitive sealed proposal process for the new EBTS contract disclosed the following issues:

- DHR did not prepare a written determination as to why the procurement of the EBTS contract could not be accomplished using competitive sealed bidding rather than by competitive sealed proposal. The State Procurement Regulations generally give preference to the use of competitive sealed bidding and require such a written determination whenever contracts are procured by competitive sealed proposals. A DHR official advised us that a determination was not prepared for the EBTS procurement because the contract was considered a human services contract, which according to the regulations do not require such a determination. However, counsel to the Board of Public Works advised us that the EBTS contract was not a human services contract and the aforementioned written determination should have been prepared.
- Documentation was not available to adequately support the six-member evaluation committee's review of the two proposals. Evaluations were to be completed by each member of the committee for both of the proposals received. However, 5 of the 12 evaluations could not be located. A document in the procurement files summarizing the committee members' evaluations of

bidder proposals indicated that the incumbent vendor's technical proposal had no deficiencies in any of the seven evaluation factors. The winning bidder's technical proposal received one deficiency that was resolved to DHR's satisfaction. Ultimately, DHR concluded that the winning bidder's technical proposal was superior. DHR advised us that the cost differential was insignificant when considered over the seven-year life of the contract and therefore selected the vendor with the higher bid. We also noted that a senior DHR IT staff member, who was not on the evaluation committee, prepared a memo questioning the decision to select the vendor with the higher cost. This memo claimed that the evaluation committee did not adequately justify how the higher cost provided enhanced benefits to DHR. We were advised that the evaluation committee considered this memo; however, this assessment was not documented.

#### **Recommendation 4**

**We recommend that DHR procure contracts using the competitive sealed bid procurement method in accordance with State regulations unless a proper written determination is made to justify using another method. We also recommend that DHR maintain evaluation committee members' evaluations that fully document procurement decisions made.**

#### **Federal Funds Disallowance**

##### **Finding 5**

**Potential federal funds totaling \$3.5 million were not obtained because a contract extension was not submitted in advance for federal approval.**

##### **Analysis**

The federal government disallowed approximately \$3.5 million in claimed federal reimbursement of expenditures because DHR failed to obtain prior federal approval before executing a contract extension. DHR extended its Client Information System Hosting Services contract from July 1, 2005 to June 30, 2006, but did not request prior federal approval (for continued federal funding participation). In a letter dated June 28, 2006, the federal government acknowledged receipt of DHR's delayed request for funding approval on May 2, 2006, but denied all federal cost participation prior to May 2, 2006 citing the lack of prior approval. Federal reimbursement for the extension has been received for expenditures incurred after May 2, 2006.

DHR could not provide us with an adequate explanation for the delay in requesting federal approval of the contract extension.

### **Recommendation 5**

**We recommend that DHR, when applicable, obtain prior federal approval of any contract or contract modification eligible for federal reimbursement.**

## **Budget Closeout Transactions**

### **Finding 6**

**Federal fund revenues recorded at fiscal year-end totaling approximately \$32.2 million could not be substantiated.**

### **Analysis**

At the close of fiscal year 2006, DHR recorded federal fund revenues to offset expenditures previously made totaling approximately \$32.2 million relating to the Temporary Assistance for Needy Families (TANF) grant and the Foster Care IV-E grant even though federal funds were not available to finance these costs. DHR records indicated that \$21.7 million of this amount related to TANF expenditures that were incurred as far back as fiscal year 2001. DHR has been unable to eliminate the unfunded expenditures due to a lack of available general fund appropriations. In its fiscal year 2006 closeout documents submitted to the Comptroller of the Treasury – General Accounting Division, DHR also reported this amount as an unfunded accounts payable and indicated that it was taking action to eliminate the unfunded payables by fiscal year 2008.

DHR records also indicated that the other portion of unsubstantiated federal fund revenues totaling \$10.5 million related to Title IV-E grant expenditures. These unsubstantiated revenues related to accounting entries as far back as March 1999, according to DHR's records. These entries resulted from DHR charging 75 percent of their foster care expenditures against the grant even though, under the terms of the grant, only 50 percent of the expenditures would be eligible for reimbursement by the federal government.

General funds will be needed to cover these unsubstantiated revenues if federal grant funds are not available. Similar conditions were commented in our preceding audit report and the report related to our statewide review of budget closeout transactions for fiscal year 2006.

The Comptroller of the Treasury - General Accounting Division requires that detail documentation be maintained to support accrued revenues recorded as part of the year-end closing process.

## **Recommendation 6**

**We again recommend that DHR maintain adequate documentation supporting accrued revenues recorded as part of the year-end closing process as required by the Comptroller of the Treasury.**

## **Information Systems Security and Control**

### **Background**

DHR's information systems provide substantial support for accomplishing DHR's mission. These systems include critical applications such as the mainframe-based Clients' Automated Resource and Eligibility System (CARES) and the Child Support Enforcement System (CSES). DHR also operates the Baltimore City Foster Care/Adoption Payment System which is used to make foster care payments to providers. Information systems and integrated statewide network connectivity are provided by a combination of outsourced services and DHR personnel.

DHR operates a local area network at its headquarters, as well as a wide-area network (WAN) for connecting local departments of social services located throughout the state. DHR's WAN provides system connectivity to other state entities, such as the Department of Health and Mental Hygiene (DHMH), and to certain other local and federal governmental entities. DHR's WAN also connects to outsourced DHR systems operated at vendor owned and operated locations.

### **Finding 7**

**Access to DHR's critical production data files, databases, and program files was not properly restricted.**

### **Analysis**

Access to DHR's production data files, databases, and program files was not properly restricted. Specifically, we noted the following conditions:

- Numerous individuals had unnecessary, direct modification access to certain critical data files and one critical database. For example, certain of these files are used to add recipients to DHMH's Medicaid system and make foster care payments. In this regard, eight individuals had unnecessary, logged, direct modification access to a Medicaid transfer data file. This is important because DHR is responsible for determining client eligibility for certain assistance programs, including Medicaid. Once clients are listed on this Medicaid transfer file, they are automatically eligible for Medicaid services.

- Several users had unnecessary, direct modification access to certain critical production programs. For example, eleven users had unnecessary, logged, direct modification access to Baltimore City Foster Care/Adoption Payment System programs. As a result, there was a lack of assurance the related production data were processed in a manner approved by management.

Similar conditions pertaining to direct modification access to production data files have been noted in a number of our preceding audit reports dating back to 1990.

#### **Recommendation 7**

**We again recommend that DHR modify security rules to restrict direct modification access to critical production data files, databases, and programs to users who require such access.**

#### **Finding 8**

**DHR had not established effective menu screen access controls over electronic benefits authorization and payment.**

#### **Analysis**

System security features were not always used to adequately restrict system menu screen access capabilities for CARES. Since CARES is used to authorize public assistance and food stamp benefits, inappropriate access to menu screens, which are used to define and restrict user capabilities, could result in undetected and improper benefits and payments. Specifically, we noted the following conditions:

- Eleven employees had unrestricted access or modification access to critical CARES files even though their job responsibilities did not require such capabilities.
- Forty employees had been granted unrestricted access to critical CARES files required to perform their job duties; however, the related transactions processed by these employees were not subject to independent review and approval.

Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 8**

**We again recommend that DHR restrict critical system capabilities to employees whose job responsibilities require such access. We also again recommend that unrestricted access to critical CARES files be subject to independent review and approval via automated reports of transactions that can be reviewed and approved, on a test basis, by supervisory personnel.**

**Finding 9**  
**Reporting, reviewing, and monitoring of critical mainframe system security events were inadequate.**

**Analysis**

Reporting, reviewing, and monitoring of critical mainframe system security events were inadequate. Specifically, we noted the following conditions:

- Security software reports of direct changes to Baltimore City Foster Care/Adoption Payment System data files and the Medicaid transfer data file were not reviewed. Additionally, security software reports of changes to userids and security rules protecting the foster care and Medicaid transfer files were not reviewed. Accordingly, improper changes made to these files would not be detected.
- Mainframe security software reports generated for CARES and CSES did not include changes to system userids or the security system's operating parameters. Furthermore, the log of security commands, which controls the operation of the security software, was not reviewed.
- At the time of our review, mainframe security software reports generated for CARES and CSES of logged access to critical data files and programs and access and password violations had not been reviewed for over eight months.
- A critical database security report was not generated for CARES and CSES.

Similar conditions pertaining to the review of security reports for the CARES and CSES systems have been noted in our four preceding audit reports.

**Recommendation 9**

**We again recommend that DHR improve its reporting, reviewing, and monitoring of critical mainframe system security events. We made detailed recommendations which, if implemented, will provide for adequate controls in these areas.**

**Finding 10**  
**The DHR internal network was not properly protected from security risks.**

**Analysis**

DHR's internal network was not properly protected from security risks. Specifically, we noted the following conditions:

- Intrusion detection/prevention (IDP) systems were not properly used to protect critical portions of the internal network. While the network included an IDP system, its placement did not protect critical systems from threats originating from untrusted third party network connections. IDP systems gather and analyze network traffic to identify and block network security breaches and attacks, and alert network administrators of these situations. The Department of Budget and Management's *Information Technology Security Policy and Standards* requires State networks be continually monitored by intrusion detection systems at critical junctures.
- Five widely accessible servers were located on DHR's internal network rather than being placed in a neutral network zone. Widely accessible servers should be placed in a neutral network zone, separate from the internal network, to enhance protection of sensitive data and systems on the internal network.
- Nine untrusted third parties had direct connections to the DHR internal network and resulting traffic was almost totally unfiltered by any DHR network devices (for example, a firewall). Accordingly, these untrusted third parties had unnecessary network level access to numerous servers and workstations on the DHR internal network. A similar condition was commented upon in our prior audit report.
- Administrative access to a device, which provided numerous employees remote access to the internal network, was not limited to authorized individuals. In addition, administrative sessions to manage this device were not encrypted and the device's operating system was old and no longer supported by the vendor for any vulnerabilities found in the system. As a result, the device was vulnerable to malicious attacks, which if successful, could deny employees remote access to the internal network.

#### **Recommendation 10**

**We recommend that DHR employ IDP systems to provide coverage for all critical network traffic in accordance with the provisions of the aforementioned *Information Technology Security Policies and Standards* and place its widely accessible servers in a neutral network zone separate from the internal network. Furthermore, we again recommend that DHR appropriately filter traffic passing into its network from untrusted third party networks. We also recommend that DHR limit administrative access to the remote network access device to personnel requiring such access, use only secure connection protocols to administratively access the device, and upgrade the device's operating system to the current version supported by the vendor.**

**Finding 11**

**DHR's firewalls did not adequately secure the internal network, and procedures for firewall administration and device backup need improvement.**

**Analysis**

DHR's firewalls did not adequately secure the internal network, and the procedures for firewall administration and device backup need improvement. Specifically, we noted the following conditions:

- Rules on two critical firewalls were not configured to adequately secure the internal network. For example, unnecessary Internet access was allowed to a critical internal network device and unnecessary connections from networkMaryland (a statewide high-speed network designed for public sector use) were allowed to numerous devices on the internal network. Therefore, critical network devices were susceptible to attacks which could result in a loss of data integrity, the destruction of critical files, or the interruption of network services.
- Numerous individuals had unnecessary administrative access to a critical firewall and an insecure connection protocol, which did not encrypt traffic, was enabled on the firewall for administration purposes. Access rules for critical network devices should use a "least privilege" security strategy which gives individuals only those privileges needed to perform assigned tasks and all remote firewall administration should be secured using encryption.
- Backup copies of the configurations for one critical firewall and other critical network devices were created, but not stored offsite. A disaster at the facility housing the original and backup configurations would cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist if these backup copies were stored offsite. A similar condition was commented upon in our preceding audit report. According to the Department of Budget and Management's *IT Disaster Recovery Guidelines*, backup media should be stored off-site in a secure, environmentally-controlled location.

**Recommendation 11**

**We recommend that DHR configure its firewalls to adequately secure its internal network. We also recommend that administrative access to all firewalls be limited to personnel requiring such access and that only secure connection protocols be enabled on these devices. Finally, we again**

**recommend that DHR follow the guidance provided in the aforementioned *IT Disaster Recovery Guidelines*, with respect to backup of all critical network device configurations.**

**Finding 12**

**DHR did not have a department-wide information technology disaster recovery plan.**

**Analysis**

DHR did not have a department-wide information technology disaster recovery plan for recovering from disaster scenarios (for example, a fire). In place of a disaster recovery plan, DHR had a Continuity of Operations Plan (COOP) which was meant to encompass the disaster recovery plan requirements. However, DHR's COOP did not adequately address certain provisions of the Department of Budget and Management's *IT Disaster Recovery Guidelines*, as follows:

- The COOP did not contain an information technology risk assessment
- Information technology recovery strategies were not identified
- Data, program, and critical device backup procedures which include retrieval procedures, backup test procedures, file naming conventions, and media rotation frequency were not addressed
- Offsite storage for backed up material was not addressed
- Information technology equipment replacement was not addressed
- Testing of the information technology components of the COOP was not performed

Without a complete disaster recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. A similar condition was commented upon in our preceding audit report.

**Recommendation 12**

**We again recommend that DHR develop a complete department-wide disaster recovery plan that, at a minimum, includes the items specified above.**

## Payroll

### **Finding 13**

**A questionable retroactive salary adjustment of \$31,300 was paid to a former senior management employee.**

#### **Analysis**

A \$31,300 lump-sum salary payment was made in March 2006 to a former senior management employee, without adequate documented justification. In a February 2006 memo, DHR requested approval from the Department of Budget and Management's Office of Personnel Services and Benefits (OPSB) to increase the employee's annual salary from \$94,649 to \$114,905. The memo also requested that the higher salary be retroactive to employee's date of hire in September 2004. OPSB subsequently approved both the increase in annual salary and the retroactive salary adjustment.

To justify the retroactive salary adjustment to OPSB, DHR cited an "error" it made in the processing of the employee's appointment but it did not provide any further supporting documentation. Furthermore, the employee's personnel file contained no documentation regarding any salary errors. When questioned, the DHR employee who prepared the justification to OPSB requesting approval of the salary action could not explain the nature of the "error" in the employee's salary. Consequently, we question the existence of an error, especially since the employee was paid the salary specified in DHR's original offer of employment between September 2004 and March 2006. Finally, State personnel laws and regulations generally do not provide for retroactive salary adjustments unless there was a related change in the employees job duties.

#### **Recommendation 13**

**We recommend that DHR maintain adequate documentation for all personnel actions. We also recommend that DHR pay employees in accordance with State personnel laws and regulations.**

## Equipment

### **Finding 14**

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

#### **Analysis**

Adequate accountability and control was not established over equipment that, according to DHR records, totaled approximately \$80.4 million at June 30, 2006.

- Differences between the results of the fiscal year 2006 physical inventories of information technology (IT) equipment and the related detail records had not been completely identified, investigated, and resolved as of June 14, 2007. Specifically, DHR did not generate exception reports to identify any inventory discrepancies for 122 out of 175 locations inventoried during fiscal year 2006. According to DHR's records, IT equipment recorded in the equipment records totaled \$60.1 million.
- Equipment control accounts were not reconciled with the related detail records. For example, as of June 30, 2006, the total value of equipment recorded in the control accounts (\$80.4 million) exceeded the related amounts recorded in the detail records (\$61.2 million) by \$19.2 million. DHR believes that the majority of this difference is due to a failure to record existing assets on the detail records.
- Equipment purchases were not always posted to the detail records. Our test of 20 invoices, that included 763 capital equipment items totaling approximately \$934,000 purchased during our audit period, disclosed that 19 items totaling \$62,000 were not recorded in the detail records.
- As of June 14, 2007, DHR had not reported the value of its equipment as of June 30, 2006 to the Department of General Services as required.

The Department of General Services' *Inventory Control Manual* requires that variances between physical counts and the detail records be promptly investigated and resolved. 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 have been commented upon in our five preceding audit reports, dating back to 1992.

#### **Recommendation 14**

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

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

We have audited the Department of Human Resources and related units (DHR) for the period beginning July 1, 2003 and ending February 28, 2007. 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 DHR'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 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.

We did not audit DHR'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 DHR's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all DHR cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

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 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

Brenda Donald  
Secretary

November 27, 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 Related Units for the period beginning July 1, 2003 and ending February 28, 2007. 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 Office of the Inspector General 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 410-767-7109 or Brian Wilbon of my staff at 410-767-7107.

Sincerely,

A handwritten signature in cursive script that reads "Brenda Donald".

Brenda Donald  
Secretary

Enclosure

cc: Brian Wilbon, Deputy Secretary for Operations, DHR  
William E. Johnson, Jr., Inspector General, DHR

Audit Report

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

November 2007

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**Agency Response**

# Findings and Recommendations

## Computer Hosting and Maintenance Contract

### **Finding 1**

**DHR's decision to bundle two previously separate contracts into one procurement appears to have contributed to a lack of competition.**

### **Recommendation 1**

**We recommend that for future contracts, DHR formally analyze the impact on competition and cost of bundling separate contracts into a single procurement, and refrain from bundling, if there is an indication that the combination will result in significantly reduced competition or increased cost. We also recommend that for significant contract procurements involving a sole proposal, DHR document its assessment of the reasonableness of the costs, and include a consideration of this in deciding whether to award or to re-bid the contract. Finally, we recommend that DHR accurately disclose to the Board of Public Works all significant information concerning contract procurements.**

### **Department's Response**

For the three recommendations listed above DHR has the following response.

DHR concurs that the decision to bundle two previously separate contracts appears to have contributed to a lack of competition. DHR agrees that significant analysis and dialogue with the vendor community should be completed when making future decisions regarding the scope of services.

For this contract, DHR did complete an analysis and a review of the pros and cons of bundling this contract. As part of the decision making process, this information was formally presented to DHR executive leadership, DHR procurement, the Department of Budget and Management and our Federal partners, however, only informal and limited input was solicited from the vendor community.

Based on this analysis and feedback there was no indication that the mere act of bundling the contract singularly would increase cost and decrease competition. Many other states and large county governments have bundled services with good results.

It appears that other factors such as onerous contract terms and conditions, lack of sufficient transition time, inability to negotiate transition costs separately, and the combination of liquidated damages and unlimited liability could have presented

perception of significant risk to the vendor community and that might have limited competition.

Because the end result was limited competition, DHR has followed the audit recommendation and will bid these services in smaller contracts. The agency has been working to solicit formal input from the vendor community and address the onerous terms and conditions in an effort to incite competition and drive price competitiveness in the market.

This report also recommends that for significant contract procurements involving a sole proposal, DHR document its assessment of the reasonableness of the costs, and include a consideration of this in deciding whether to award or to re-bid the contract.

DHR concurs with this recommendation. Normally the evaluation committee would use the receipt of multiple bids to determine a norm in terms of pricing. Moving forward if DHR received only one bid we agree a determination should be made on whether or not the procurement should move forward or be re-bid. These determinations will be predicated on whether the evaluation committee has access to external benchmarks that provide a good cost comparison.

Finally, this report recommends that DHR accurately disclose to the Board of Public Works all significant information concerning contract procurements.

DHR disagrees that significant accurate information was not disclosed to the Board of Public Works (BPW). Several meetings, phone calls, and written responses were provided to BPW advising them of the situation. DHR made a full disclosure to BPW regarding this contract, and as is customary, DHR will continue to do so for all future contracts.

In addition, DHR provided a copy of documentation to BPW documenting responses received when it contacted vendors to determine why they elected not to be a prime bidder. The results of these contacts included:

- 1) Other contract obligations
- 2) Could not accept the State's Terms and Conditions
- 3) Combination of liquidated damages and unlimited liability resulted in too great a risk
- 4) Transition costs were not being paid by the State

While DHR did pay \$18.4M for hosting services in FY07 two things should be noted. First the prime contractor also provided hosting services for smaller applications.

Second, DHR paid approximately \$16.5 M the last year under the previous contract or approximately \$1.8M less than the current contract. As the auditors noted the previous contractor was the sole prime contractor. The current contract includes more services than the previous contract including disaster recovery, technology refresh for the mainframe, hosting for the CCATS application in FY07, hosting of the CHESSIE application, and hosting for a number of smaller DHR applications.

**Finding 2**

**DHR did not ensure that the lowest possible contractor rates were obtained under a contract modification.**

**Recommendation 2**

**We recommend that DHR ensure that IT services are obtained at the lowest possible cost and, when appropriate, use the statewide IT contract.**

**Department's Response**

DHR concurs that it should ensure the lowest contractor rates that can be obtained without putting the agency at undue risks. This is what was done in this case. DHR used the contract that had been established for these services to obtain these services. The rates for these services had been agreed upon before award. Not using the existing contract that is in place for this purpose would not have been advisable or viable from both a business and technical perspective.

DHR agrees that, where appropriate, the statewide master contract should be used and makes it a practice to use the statewide contract. Use of the statewide contract for these changes was neither advisable nor viable from a business or technical perspective.

**Electronic Benefits Transfer System**

**Finding 3**

**Delays in procuring a new contract resulted in a negotiated contract extension with the prior EBTS vendor at a considerably higher payment rate.**

**Recommendation 3**

**We recommend that DHR initiate procurement processes sufficiently in advance of contract expirations to help avoid contract extensions requiring negotiated rates.**

**Department's Response**

DHR does not concur with this finding. While DHR agrees that procurement processes should be initiated sufficiently in advance of contract expirations, DHR

would like to note that in this case the process was followed for this Request for Proposal (RFP), and due to circumstances outside of the control of DHR, there was an unforeseen delay of several months.

Based on the established and published procurement timeframes and guidelines, DHR did initiate this procurement in a timely manner. DHR initiated the procurement for the re-bid of the EBT system almost two years (22 months) before the end of the current contract award.

While complications arose that caused a delay, the agency followed established protocol and initiated this award well in advance of the expected contract end date. DHR anticipated that a two year head start would have provided sufficient time to complete this procurement.

#### **Finding 4**

**Documentation of certain aspects of the procurement was incomplete.**

#### **Recommendation 4**

**We recommend that DHR procure contracts using the competitive sealed bid procurement method in accordance with State regulations unless a proper written determination is made to justify using another method. We also recommend that DHR maintain evaluation committee members' evaluations that fully document procurement decisions made.**

#### **Department's Response**

DHR agrees that state regulations should be followed when selecting the most appropriate procurement method. DHR disagrees that the process was not followed in this procurement. While the interpretation of the determination as whether this was a human, social or cultural services contract is in question, the method of procurement was in fact correct. The specification for these services could not be sufficiently prepared to permit an award based on price only. The Contractors who prepared proposals must be qualified technically to perform the services for the clients.

DHR concurs that individual committee member evaluation forms should be retained and all discussions regarding the procurement should be fully documented and maintained with the procurement file. DHR will ensure the proper processes are in place and followed to adequately maintain these records. Effective January 1, 2008 DHR is including a checklist in the procurement file completed by the Procurement Officer that will assure inclusion of the above documentation.

## **Federal Funds Disallowance**

### **Finding 5**

**Potential federal funds totaling \$3.5 million were not obtained because a contract extension was not submitted in advance for federal approval.**

### **Recommendation 5**

**We recommend that DHR, when applicable, obtain prior federal approval of any contract or contract modification eligible for federal reimbursement.**

### **Department's Response**

DHR concurs that when applicable, DHR obtain prior Federal approval of any contract or contract modification eligible for federal reimbursement. Extensive administrative procedures and checkpoints have been put in place to help ensure Federal approval is requested and obtained as appropriate. It should also be noted that DHR found and self-reported this oversight to our Federal partners, and worked in concert with our Federal partners to minimize the loss of FFP to the extent that it could be minimized under the regulations.

## **Budget Closeout Transactions**

### **Finding 6**

**Federal fund revenues recorded at fiscal year-end totaling approximately \$32.2 million could not be substantiated.**

### **Recommendation 6**

**We again recommend that DHR maintain adequate documentation supporting accrued revenues recorded as part of the year-end closing process as required by the Comptroller of the Treasury.**

### **Department's Response**

The Department of Human Resources agrees with the finding related to unsubstantiated Federal fund revenue in the FY 2007 Statewide Closeout Review. However, the Department has been proactive in addressing both the Temporary Assistance to Needy Families (TANF) and Title IV-E Foster Care funding issues. The Department has reduced the unsubstantiated federal fund revenue from \$32.2 million to \$12.5 million and is committed to eliminating the remaining balance by the end of FY 2008.

## Information Systems Security and Control

### **Finding 7**

**Access to DHR's critical production data files, databases, and program files was not properly restricted.**

### **Recommendation 7**

**We again recommend that DHR modify security rules to restrict direct modification access to critical production data files, databases, and programs to users who require such access.**

### **Department's Response**

DHR agrees with the recommendation that DHR modify security rules to restrict direct modification access to critical production data files, databases, and programs to users who require such access. The agency is currently updating policies and procedures to assure that users will not be given unnecessary direct modification access to critical production data files, databases and programs.

### **Finding 8**

**DHR had not established effective menu screen access controls over electronic benefits authorization and payment.**

### **Recommendation 8**

**We again recommend that DHR restrict critical system capabilities to employees whose job responsibilities require such access. We also again recommend that unrestricted access to critical CARES files be subject to independent review and approval via automated reports of transactions that can be reviewed and approved, on a test basis, by supervisory personnel.**

### **Department's Response**

DHR agrees with the recommendation that DHR restrict critical system capabilities to employees whose job responsibilities require such access, and that unrestricted access to critical CARES files are subject to independent review and approval via automated reports of transactions that can be reviewed and approved, on a test basis, by supervisory personnel.

DHR has initiated review of the forty user IDs, which represent approximately .005% of system users. Of these 40 users, all users were deemed to need access to the CARES system. A subset of these users required the higher access level, and for the others action has been taken to restrict access to unnecessary functions.

Of the 11 users that were identified that had unrestricted access four (4) were CARES developers and had appropriate access and seven (7) were Level II Help Desk, and a review of the access indicated the access was appropriate based on job function.

DHR will assure that only those employees that need access to critical files regarding electronic benefits authorization have appropriate access. DHR will also adopt an automated process by which reviews of staff with unrestricted access to critical CARES files are preformed on a routine basis.

**Finding 9**

**Reporting, reviewing, and monitoring of critical mainframe system security events were inadequate.**

**Recommendation 9**

**We again recommend that DHR improve its reporting, reviewing, and monitoring of critical mainframe system security events. We made detailed recommendations which, if implemented, will provide for adequate controls in these areas.**

**Department's Response**

DHR agrees with the recommendation that DHR improve its reporting, reviewing, and monitoring of critical mainframe system security events. DHR accepts and appreciates the detailed recommendations that when implemented, will provide for adequate controls in these areas. Currently, DHR is developing both an automated procedure as well as refining existing policies and procedures to improve security log reporting, reviewing and monitoring of critical mainframe system security events. In addition, enhanced procedures will be established to govern security log analysis activities, including improved escalation/notification measures.

**Finding 10**

**The DHR internal network was not properly protected from security risks.**

**Recommendation 10**

**We recommend that DHR employ IDP systems to provide coverage for all critical network traffic in accordance with the provisions of the aforementioned *Information Technology Security Policies and Standards* and place its widely accessible servers in a neutral network zone separate from the internal network. Furthermore, we again recommend that DHR appropriately filter traffic passing into its network from untrusted third party networks. We also recommend that DHR limit administrative access to the remote network access device to personnel requiring such access, use**

**only secure connection protocols to administratively access the device, and upgrade the device's operating system to the current version supported by the vendor.**

#### **Department's Response**

DHR agrees with all of the recommendations. The agency will employ and comply with the following: First, secure an IDP system for all critical network traffic in accordance with the *Information Technology Security Policies and Standards*. Second, DHR will place its widely accessible servers in a network zone away from the internal network. Third, DHR will appropriately filter untrusted, third-party network traffic. Finally, DHR will limit access on the remote network access devices only to personnel requiring such access, utilize only secure connection protocols, and upgrade the devices' operating system to a currently supported version.

#### **Finding 11**

**DHR's firewalls did not adequately secure the internal network, and procedures for firewall administration and device backup need improvement.**

#### **Recommendation 11**

**We recommend that DHR configure its firewalls to adequately secure its internal network. We also recommend that administrative access to all firewalls be limited to personnel requiring such access and that only secure connection protocols be enabled on these devices. Finally, we again recommend that DHR follow the guidance provided in the aforementioned *IT Disaster Recovery Guidelines*, with respect to backup of all critical network device configurations.**

#### **Department's Response**

DHR agrees with the recommendations to configure its firewalls to adequately secure its internal network, limit the administrative access to all firewalls, and only allow secure connection protocols be enabled on these devices, as well as the recommendation to follow the guidance provided in *the IT Disaster Recovery Guidelines* for backup of all critical network device configurations.

DHR will configure its firewalls to adequately secure its internal network. DHR will limit the internal access to firewalls through the recommended protocols. DHR will follow the guidance suggested in the *IT Disaster Recovery Guidelines* regarding backup of critical network device configurations.

**Finding 12**

**DHR did not have a department-wide information technology disaster recovery plan.**

**Recommendation 12**

**We again recommend that DHR develop a complete department-wide disaster recovery plan that, at a minimum, includes the items specified above.**

**Department's Response**

DHR agrees with the recommendation. Disaster recovery and continuity of operations has been a high priority for DHR for several years. It should be noted, however, that this is primarily a budgetary issue and without additional resources, DHR is extremely limited in what continuity of operations and disaster recovery plans may be implemented. DHR is, however, employing options that are available to it in order to provide some relief and resolution to the critical issue. In order to fully comply, DHR will need to obtain and allocate funding. Once funding is secured, a department-wide disaster recovery plan will be developed, implemented and tested.

DHR recognizes that comprehensive department-wide disaster recovery plans require coordination and participation from many areas within the agency, and these strategies are not limited to just technology. The Division of Administrative Operations is currently working across DHR to coordinate the various areas that would need to be mobilized and coordinated in the event of a disaster.

Within the existing fiscal constraints, DHR has developed a COOP plan. In addition, DHR requires limited disaster recovery under its hosting and outsourcing contract as a stop-gap.

In accordance with the aforementioned recommendation, DHR will review its COOP plan and address, to the degree that options exist, the following items:

- Ensuring the existing COOP is updated to contain an information technology risk assessment as well as a comprehensive test strategy
- Ensuring that information technology recovery strategies are identified such that when funding is available to implement the plan, the approach is readily executable
- Addressing data, program, and critical device backup procedures that adequately encompass retrieval procedures, backup test procedures, file naming conventions, and media rotation frequency
- Addressing strategies for offsite storage for backed up material and replacement of information technology equipment

## Payroll

### **Finding 13**

**A questionable retroactive salary adjustment of \$31,300 was paid to a former senior management employee.**

### **Recommendation 13**

**We recommend that DHR maintain adequate documentation for all personnel actions. We also recommend that DHR pay employees in accordance with State personnel laws and regulations.**

### **Department's Response**

The Department does not concur with this finding. The Department does maintain adequate documentation for personnel transactions and pays employees in accordance with State personnel laws and regulations. The personnel action referenced in the finding was properly authorized, and the reasons for the action were documented in the letter requesting the adjustment and retroactive payment.

## Equipment

### **Finding 14**

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

### **Recommendation 14**

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

### **Department's Response**

The Department concurs with the recommendation to comply with the requirements of the Department of General Services' *Inventory Control Manual*.

We have procedures in place for the accountability of the inventory, however we are currently limited in resources required to operate in a timelier manner. Delays are due to inadequate inventory processing equipment and continued staffing challenges.

To address the variances cited in the audit report, the Department has:

- As of October 31, 2007, entered information regarding the Department's 412 vehicles totaling \$5.5 million into the detail equipment records.
- As of October 25, 2007 entered information regarding new furniture and IT equipment totaling \$5.4 million into the detail records.

- On October 24, 2007 sent a memo to each Local Department Accountable Officer requesting that they provide furniture inventory cost and acquisition data for items received prior to February 2004 (date of centralization of the inventory process) by November 2, 2007 to the Division of Administrative Operations. As of November 16, 2007 information totaling \$2.1 million has been provided. Information from thirteen (13) locations is forthcoming. The anticipated completion date is December 10, 2007.

The June 30, 2006 report of the value the Department's equipment will be submitted to the Department of General Services by December 10, 2007.

The Department is in the final stages of identifying a vendor to provide a Web-based application for inventory processing that will enable staff to identify and reconcile discrepancies at the time of the physical inventory. Currently, the staff person updating the detail records must also generate and reconcile exception reports.

With the receipt of the Web-based application, necessary equipment (scanners that download) and relief in staffing challenges the Department will be able to prepare month-end reconciliation of the inventory.

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