

Audit Report

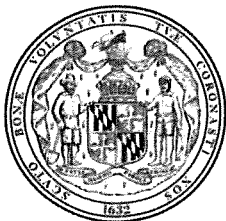
**Comptroller of Maryland
Information Technology Division
(Fiscal Operations)**

December 2011



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

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

December 7, 2011

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the fiscal operations of the Comptroller of Maryland (COM) – Information Technology Division (ITD) for the period beginning February 11, 2008 and ending February 7, 2011. ITD procures and provides computing and network resources and operates as a computer services bureau for the COM and certain other customer agencies.

In December 2010, the COM suspended work on the development and implementation of one of the two components of the Modernized Integrated Tax System (MITS) that was intended to replace the COM's current automated tax processing systems. The COM advised that work on the component, which had cost approximately \$17.9 million, was suspended for several reasons, including cost concerns and the contractor's failure to meet deliverables. ITD was responsible for administering the contract. Subsequently, COM has been assessing its options concerning potential legal proceedings. At the request of the Office of the Comptroller of Maryland, which was supported by advice from legal counsel, our audit did not include a review of the MITS contract to avoid interfering with an investigation related to potential legal proceedings. Expenditures under the contract totaled approximately \$36 million as of January 10, 2011.

Our audit did not disclose any findings.

We wish to acknowledge the cooperation extended to us by ITD during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Information Technology Division (ITD) operates the Annapolis Data Center (ADC) as a shared cost data center. All operating costs are reimbursed by user agencies that are charged for services performed. In addition to operating a statewide computer network and providing data center disaster recovery capabilities, ITD develops and maintains application systems for the Comptroller of Maryland (COM) and certain other State agencies. Additionally, ITD maintains the operating system and security software environment in which agency applications are executed. Finally, ITD procures and monitors information technology related services, procures information technology equipment, and maintains the related inventory records for the COM. According to the State's records, ITD operating costs totaled approximately \$26.7 million during fiscal year 2011.

This audit focused on ITD's fiscal operations. A separate audit was conducted of the ADC computer operations and security controls, and the related report was issued in December 2010.

Integrated Tax System Project - Major Component Terminated

In December 2008, the Board of Public Works approved a multi-year contract for the development and implementation of the Modernized Integrated Tax System (MITS). The MITS project consisted of two components: (1) an integrated tax system (ITS) to replace the COM's current automated tax processing and recordation system, known as SMART (State of Maryland Tax system), as well as the existing business tax collection system, and (2) a data warehousing component to compile and store relevant taxpayer data for tax compliance enforcement purposes. The SMART system is used to process tax return information and issue refunds for individual income taxes, as well as for other taxes, such as corporate income taxes, employer withholding taxes, and sales and use taxes. When the MITS design and implementation contract was executed, the estimated total cost was approximately \$72.3 million, and the projected completion date was July 2013; this excluded other related project costs, such as for maintenance and training. ITD was responsible for administering this contract.

In December 2010, the COM informed the MITS development contractor that it was exercising its right under the contract to suspend all further work on the ITS

component of the project. According to the COM, this decision was based on several factors, including cost concerns and failure on the part of the contractor to meet deliverable deadlines. According to COM's records, as of January 10, 2011, costs incurred for both components totaled almost \$36 million. Specifically, for the suspended portion of the contract, costs incurred totaled approximately \$17.9 million and \$24.5 million remained unspent. For the data warehousing portion, \$18 million had been spent to date, with \$11.9 million remaining on the contract. With the cancellation of the ITS component, the COM advised that it would continue to use SMART as the State's integrated tax system, as well as the existing business tax collection system. Development of the data warehousing component, which is ongoing, was unaffected by this action.

Potential Legal Proceedings and Audit Scope Limitation

Subsequent to its decision to suspend all further work on the ITS component of the MITS project, the COM has been assessing its options concerning potential legal proceedings the State may pursue arising from possible contractor violations with provisions of the contracts. At the request of the Office of the Comptroller of Maryland, supported by advice from the assistant attorneys general representing COM and our office, our audit did not include a review of the MITS contract to avoid interfering with an investigation related to potential legal proceedings. Specifically, we did not review contractor payments, contractor compliance with terms and deliverables, and ITD's contract monitoring procedures.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of ITD's internal control. Nor did our audit disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

A draft copy of this report was provided to ITD. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have audited the fiscal operations of the Comptroller of Maryland (COM) – Information Technology Division (ITD) for the period beginning February 11, 2008 and ending February 7, 2011. 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. Except for the scope limitation regarding the MITS contract (as described below), 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 ITD's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included accounts receivable, collections, and property. Our audit also included a review of certain support services provided by ITD to the other units of the Comptroller of Maryland. These support services consisted of the procurement and monitoring of information technology related services, the procurement of information technology equipment, and maintenance of the related inventory records.

Our audit did not include the computer operations and security controls of ITD's Annapolis Data Center (ADC). Rather, a separate audit was conducted of the ADC and the related report was issued in December 2010. Our audit also did not include a review of certain support services provided to ITD by the Comptroller of Maryland - Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller.

At the request of the Office of the Comptroller of Maryland, supported by advice from the assistant attorneys general representing COM and our office, our audit of ITD did not include a review of the MITS contract to avoid interfering with an investigation related to potential legal proceedings. Specifically, we did not review contractor payments, contractor compliance with terms and deliverables, and ITD's contract monitoring procedures. As of January 10, 2011, MITS contract expenditures totaled almost \$36 million. This scope limitation is further described on page 4 of this report.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of ITD's fiscal 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.

ITD'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.

AUDIT TEAM

Joshua S. Adler, CPA, CFE
Audit Manager

Laura J. Tucholski, CPA, CFE
W. Thomas Sides
Senior Auditors