

Audit Report

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**Department of Human Resources  
Local Department Operations**

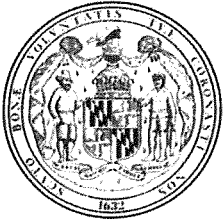
May 2012

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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

May 16, 2012

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Annapolis, Maryland

Ladies and Gentlemen:

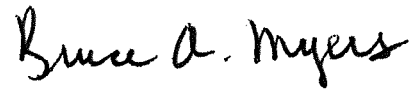
We have audited the Department of Human Resources (DHR) – Local Department Operations (LDO) for the period beginning April 4, 2008 and ending June 30, 2011. LDO is a separate budgetary unit consisting of the funds appropriated to operate the State's 24 local departments of social services (LDSS), as well as for the various assistance activities they administer (such as the Food Supplement Program and Temporary Cash Assistance). The executive director of each LDSS reports to DHR's Secretary.

In accordance with State law, DHR's Office of the Inspector General (OIG) performed the required audits of the 24 LDSSs during our audit period. To avoid duplication of work, we relied on the audit work performed by the OIG. Accordingly, the findings in this report are primarily based on the OIG's audit reports.

Our review of the audit reports for the 24 LDSSs prepared by DHR's OIG during our audit period disclosed that the reports collectively included 373 audit findings, including 77 deemed by the OIG as repeat findings. The OIG audit findings were related to deficiencies in controls over certain critical areas of LDSS operations, including the administration of public assistance and foster care activities. For example, these audits disclosed deficiencies with respect to the maintenance and supervisory review of certain case files, the follow-up of potential eligibility errors, and the timely determination of foster care children's eligibility for federal funding. Also, the OIG determined that proper controls were lacking over certain critical information systems, bank accounts, and corporate purchasing card transactions. The OIG has established monitoring procedures to review corrective action implementation by the LDSSs. In view of the number of repeat findings, however, more active oversight by DHR management may be necessary.

DHR's response to this audit, on behalf of LDO, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by LDO.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive, slightly slanted style.

Bruce A. Myers, CPA  
Legislative Auditor

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

# **Background Information**

## **Agency Responsibilities**

Local Department Operations (LDO) is a separate budgetary unit of the Department of Human Resources (DHR). It consists of the funds appropriated for the various activities administered by the State's 24 local departments of social services (LDSS). These activities primarily involve the various DHR assistance programs, such as the Food Supplement Program<sup>1</sup> and Temporary Cash Assistance, administered by the LDSSs under policies promulgated by other units within DHR. According to the State's records, the LDO's fiscal year 2011 expenditures totaled approximately \$2 billion, which included approximately \$1.5 billion in assistance program expenditures and \$500 million in operating expenditures (primarily employee salaries and benefits).

DHR is organized into seven budgetary units, one of which is the LDO. The remaining six units (Office of the Secretary, Child Support Enforcement Administration, Family Investment Administration, Social Services Administration, Office of Technology for Human Services, and Operations Office) are audited and reported upon separately by our office. Generally, these six units direct or support the activities (including public assistance programs) that are administered statewide by the 24 LDSSs; however, the executive director of each LDSS reports to the DHR Secretary.

## **Audit Approach**

Section 3-602 of the Human Services Article of the Annotated Code of Maryland requires DHR to conduct, or contract for, a financial and compliance audit of each LDSS at least once every three years. During our audit period, all 24 LDSSs were audited by DHR's Office of the Inspector General (OIG). To avoid duplication of work, we performed audit procedures necessary to determine whether we could rely on the audit work of DHR's OIG to accomplish our audit objectives. Our audit procedures were generally limited to obtaining a sufficient basis for that reliance and reviewing aspects of the OIG's audit operations as they related to our prior audit report findings. In this regard, we determined during our prior audit that the OIG audits were not performed in accordance with applicable professional auditing standards nor within the time frame required by State law, and the audits did not fully address significant risks pertaining to the LDSSs' operations.

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<sup>1</sup> In Maryland, the federal Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program, has been designated as the Food Supplement Program.

During our current audit, we reviewed the audit reports and the related working papers of certain OIG audits performed during our audit period. Based on this review, we concluded that the OIG's audit coverage of the LDSSs provided a sufficient basis for reliance on its work. In addition, we concluded that the OIG had addressed the deficiencies identified in our prior report concerning its operations.

As a result, we did not conduct audits of the LDSSs, which differs from the approach taken in our preceding audit. During our preceding audit, we made field visits to three LDSSs—Baltimore City, Baltimore County, and Prince George's County—where we audited LDSS operations in a number of areas; the areas audited included several programs overseen by the Family Investment Administration and the Social Services Administration, and select fiscal operations. We noted a number of significant deficiencies and internal control weaknesses at the several LDSSs and our prior report contained 10 findings specific to the LDSSs visited.

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

Our audit included a review to determine the status of the 13 findings contained in our preceding audit report on LDO dated August 4, 2009. Specifically, we followed up on the 3 findings pertaining to the OIG's operations and determined that those issues were satisfactorily addressed. Using the results of the OIG's audits, we determined whether the applicable LDSSs satisfactorily addressed the remaining 10 findings. We determined that 7 of these items were satisfactorily addressed; the remaining 3 items are repeated in this report.

# Findings and Recommendations

## Repeat Findings From Office of the Inspector General Audit Reports

### **Finding 1**

**The Office of the Inspector General's (OIG) audits of the local departments of social services contain a significant number of reportable conditions, including many repeat findings.**

### **Analysis**

The local departments of social services (LDSSs) continued to have a significant number of deficiencies in five critical areas of operation. Although the OIG has an established corrective action monitoring process, more active oversight could help ensure that audit findings are addressed by the LDSSs and repeat audit findings are avoided.

As previously noted in this report, we placed reliance on the work the OIG performed during our audit period. Our review of the DHR OIG audit report for each of the 24 LDSSs disclosed that the reports collectively included 373 audit findings, including 77 findings deemed by the OIG to be repeat conditions from the preceding OIG audit. Exhibit 1 includes a summary of the number of LDSS findings, prepared by the Office of Legislative Audits (OLA) from OIG audit reports, by critical area, including the number of repeat findings. A representative number of those findings are disclosed in more detail in Findings 2 through 5 in this report. Selected highlights of the information presented in Exhibit 1 are as follows:

- The number of findings resulting from each LDSS audit ranged from 3 (one LDSS) to 40 (two LDSSs). Eight LDSS reports contained at least 20 findings.
- The greatest number of findings was found in the critical areas of Budget and Finance (which includes procurement, disbursements, and receipt processing) and Social Services Administration (which includes foster care). The number of findings in these two areas was 114 and 101, respectively. Every LDSS report did not contain a finding in all five critical areas.
- The percentage of all findings deemed by OIG to be repeated from the preceding OIG audit was 21 percent, although 9 LDSSs had no repeat findings. For those LDSSs with repeat findings, the percentages of repeat findings ranged from 7 percent (for 3 LDSSs) to 45 percent (for one LDSS).

The OIG repeat finding percentages for the three LDSSs included in OLA's preceding audit report ranged from 33 to 42 percent.

According to the OIG's corrective action monitoring procedures, within 90 days of the issuance of each LDSS audit report, the OIG is required to contact the appropriate LDSS Director reminding him or her that the corrective action plan must be implemented, and that corrective action follow-up will take place. OIG auditors are required to visit the LDSS to review corrective action implementation approximately one year after, and again two years after, the issuance of the LDSS audit report. The results of those follow-up visits are provided to the LDSS Director and the DHR Secretary.

Despite the aforementioned monitoring process, the number of repeat findings disclosed in the OIG audits indicates that improved accountability of the LDSSs is necessary and that more active oversight by DHR management could help ensure that LDSSs correct audit findings.

#### **Recommendation 1**

**We recommend that DHR (that is, the Office of the Secretary and the management of the administrations within the Department) actively monitor audit findings and corrective actions taken to ensure that the detailed recommendations contained in the OIG audit reports are implemented.**

### **Local Departments of Social Services Audit Findings**

The OIG classifies the findings from its audits of the 24 LDSSs into several functional areas, referred to by the OIG as "critical areas." These areas generally equate to a local department's major operational responsibilities, which include implementing policies established by the Family Investment Administration (FIA) and the Social Services Administration (SSA), and adhering to budgetary, fiscal, and information system regulations and/or controls. Using the results of OIG's audits of the 24 LDSSs, we summarized some of the more significant findings in five critical areas as they appeared in selected reports. Additional examples of the OIG findings can be found in summary form in Exhibit 2.

**Finding 2**

**Foster care case files were missing or did not include all required documentation and the eligibility of certain children in foster care for federal aid was not determined timely.**

**Analysis**

The LDSSs were found to have a significant number of deficiencies over critical activities subject to Social Services Administration (SSA) oversight. Specifically, 101 findings from the most recent OIG audit reports for 23 LDSSs related to SSA activities (see Exhibits 1 and 2). These findings were primarily related to foster care, which is a temporary service that provides short-term care and supportive services to children who are unable to live at home because of child abuse or neglect. These children are temporarily placed in either kinship care (live with a relative) or a foster care setting (a fee-based individual foster home or group care environment). Our review of various OIG audit reports disclosed the following selected findings related to the SSA Foster Care Program:

- Certain foster care case files could not be located to verify eligibility. In addition, case files were missing documentation of certain required services, including monthly caseworker contact with the child and the delivery of medical and educational services. Consequently, there was a lack of assurance that all children in foster care were receiving vital services necessary for their emotional, physical, and educational well-being.
- Initial eligibility for federal funding (Title IV-E) was not determined for certain children in foster care in a timely manner. Title IV-E eligibility means a child can be moved from a State-funded foster care program (where they are initially placed) into a program that is funded jointly with federal and State funds. Untimely Title IV-E determinations could result in the failure to maximize federal funding for all eligible children. Also, Title IV-E redeterminations were not always performed semi-annually as required to verify continued eligibility. Similar conditions regarding untimely determinations were commented upon in our preceding audit report.
- The collection efforts for certain foster care overpayments were not sufficient. For example, previously identified benefit overpayments made to a foster care provider were not collected by a LDSS as required by DHR policy. DHR OIG audits monthly fees paid to providers of individual family and group home care. These audits periodically identify overpayments based on the level of care provided. The LDSSs are responsible for recovery of certain overpayments. Consequently, funds due to the State may not be recovered or recovered timely.

According to DHR records, during fiscal year 2011, the average monthly caseload for foster care and adoptions totaled 6,860 and 7,800, respectively. The related expenditures totaled \$299 million (funded by State and federal funds).

## **Recommendation 2**

**We recommend that DHR ensure that the LDSSs comply with all SSA program requirements. Specifically, DHR should ensure that the LDSSs**

- a. maintain complete and accurate foster care case files,**
- b. determine the eligibility of foster care children for federal Title IV-E funding in a timely manner and perform redeterminations semi-annually (repeat), and**
- c. promptly collect any overpayments due from foster care providers.**

## **Finding 3**

**The OIG reported numerous deficiencies by the LDSSs related to critical areas subject to the policies of FIA, such as ensuring eligibility for public assistance and food benefits.**

## **Analysis**

The OIG reported numerous deficiencies by the LDSSs related to critical areas subject to the policies promulgated by FIA. Specifically, 79 findings from the most recent OIG audit reports for 20 LDSSs related to FIA policies for public assistance programs, including the Temporary Cash Assistance (TCA) program, the federal Food Supplement Program (FSP), and the Medical Assistance (Medicaid) recipient eligibility process. TCA provides cash assistance to needy families with dependent children when available resources do not fully address the family's needs and while preparing program participants for independence through work, and the FSP helps low-income households buy food. TCA and FSP benefits are accessed through the Electronic Benefits Transfer System (EBT); the associated EBT card functions as a debit card. Medicaid covers health services provided to qualified low-income individuals and is administered by the Maryland Department of Health and Mental Hygiene (DHMH). While administered by DHMH, the majority of Medicaid recipients obtain their preliminary eligibility determinations at a LDSS, and TCA recipients automatically become eligible for Medicaid. Our review of various OIG audit reports disclosed the following selected findings related to FIA programs and Medicaid eligibility:

- Critical duties over EBT cards were not properly segregated. Effective controls are needed to ensure that TCA and FSP benefits are being used by the intended recipient(s). In addition, the physical inventory count of EBT cards

disclosed differences. As a result, missing cards could be improperly activated and used.

- The required number of public assistance case files were not subject to supervisory review, in accordance with FIA quality assurance policies. The reviews are to be performed to help ensure the accuracy and propriety of assistance payments and to help reduce and eliminate program errors.
- Certain assistance case files could not be located or were missing required documentation to substantiate that recipients of both TCA and Medicaid benefits were eligible for the assistance.
- Potential payment or client eligibility errors indicated by periodic OIG computer matches were not pursued timely. The lack of timely computer match follow-up was also commented upon in the most recent OLA audit report on FIA, dated February 9, 2011. In that report, OLA stated that FIA did not always follow up to ensure that the LDSSs investigated and resolved computer match results and system alerts in a timely and adequate manner.

According to the DHR records, during fiscal year 2011, FSP disbursements totaled approximately \$993.2 million (entirely federally funded) and TCA disbursements totaled approximately \$151.5 million (generally split between federal and State funding). Additionally, a total of approximately 350,000 Medicaid applications were received during fiscal year 2011. Medicaid is funded through a combination of federal and state funds.

### **Recommendation 3**

**We recommend that DHR ensure that the LDSSs comply with all FIA program requirements. Specifically, DHR should ensure that the LDSSs**

- a. establish appropriate controls over the EBT card inventory,**
- b. perform supervisory reviews on the required number of case files,**
- c. maintain complete and accurate TCA case files, and**
- d. perform timely follow-up on all potential payment or eligibility errors identified by the DHR OIG.**

**Finding 4****Controls were inadequate over bank accounts, corporate purchasing cards, gift cards, procurements, and cash receipts.****Analysis**

Controls and procedures were inadequate over certain LDSS budget and financial activities. Specifically, 114 findings from the most recent OIG audit reports for 22 LDSSs related to budget and finance-related areas (see Exhibits 1 and 2) such as bank accounts, corporate purchasing cards (CPC), prepaid gift cards, small procurements, and cash receipts. Our review of various OIG audit reports disclosed the following selected findings related to fiscal operations:

- Bank accounts, which were maintained by LDSSs to pay for certain administrative and program-related expenditures, were not reconciled timely, and former employees had remained as authorized check signers. In addition, physical security over blank check inventories was inadequate. Consequently, there is the potential that unauthorized payments could be processed without prompt detection.
- Accountability and approval of certain CPC transactions was not established or documented. For example, CPC activity logs were not always signed by the employee cardholder or by the employee's immediate supervisor as card activity reviewer, as required by the Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual*. As a result of these conditions, assurance was lacking that all disbursements were proper.
- Accountability of prepaid gift cards was not established. For example, physical inventories of prepaid gift cards were not documented or were not performed by an independent employee. Gift cards are provided to certain public assistance recipients who are in urgent need of support and could, for example, cover the cost of a meal at a fast food restaurant. A lack of accountability could result in the misuse of the prepaid cards.
- State Procurement Regulations were not always followed. For example, payments were made to vendors without a written contract and formal procurement processes were circumvented; consequently, assurance was lacking that the related procurements were in the best interest of the State.
- Inadequate controls were noted over the collection of refunds and overpayments. For example, cash receipts were not verified to deposits. Consequently, assurance was lacking that all cash receipts were deposited. Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 4**

**We recommend that DHR establish appropriate accountability and control over fiscal operations. Specifically, DHR should ensure that the LDSSs**

- a. establish adequate controls over bank accounts and blank check inventories, including the timely preparation and approval of account reconciliations;**
- b. comply with all CPC requirements established by the Comptroller of Maryland;**
- c. establish proper accountability over prepaid gift cards;**
- d. comply with State Procurement Regulations; and**
- e. implement controls over the proper processing of cash receipts, including the independent verification of collections to deposit (repeat).**

#### **Finding 5**

**Users' access to certain key computer systems was not properly restricted or monitored.**

#### **Analysis**

Deficiencies related to critical information system security controls, including employee access to key systems, were noted. Specifically, 36 findings from the most recent OIG audit reports for 17 LDSSs related to computer security (see Exhibits 1 and 2). These findings included the lack of adequate security over critical computer applications, such as the mainframe-based Clients' Automated Resource and Eligibility System (CARES), which is used to record, authorize, and disburse TCA and FSP benefits. Our review of various OIG audit reports disclosed the following selected findings related to computer access and controls:

- Controls over the granting of user access to critical systems need improvement. For example, authorization documents for employee access were missing or were not completed and certain employees were granted access capabilities that were not required for their duties.
- Employees' assigned access capabilities were not properly monitored. For example, the logonids of certain former employees were not deleted and employee access was not periodically reviewed for continued appropriateness.

Based on these conditions, assurance was lacking that employee access was necessary and appropriate. Unnecessary system access could result in unauthorized changes to critical data without detection.

### **Recommendation 5**

**We recommend that DHR establish appropriate accountability and control over information system access. Specifically, DHR should ensure that the LDSSs**

- a. maintain a properly completed and approved authorization form for all user accesses granted, and assign access capabilities appropriate to an employee's job duties; and**
- b. perform formal, periodic monitoring of employee system access and promptly delete the access of former employees.**

### **Finding 6**

**Medicaid eligibility determinations for long-term care recipients were not always proper.**

### **Analysis**

The OIG conducted a targeted review to follow up on one prior OLA finding.<sup>2</sup> In our preceding audit report, we noted that one LDSS did not always properly perform or document the eligibility determinations for Medicaid long-term care recipients. Accordingly, the OIG conducted a review to determine if certain larger LDSSs were taking appropriate action to ensure that Medicaid eligibility determinations for long-term care recipients were proper.<sup>3</sup> In a memo dated August 6, 2010, the OIG indicated that the finding had not been resolved. Specifically, certain case records could not be located, certain eligibility documentation was missing and real property searches were generally not conducted to assist in determining if financial resources were within the limit established by State regulation.

### **Recommendation 6**

**We recommend that DHR ensure that LDSSs properly perform Medicaid eligibility determinations (repeat).**

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<sup>2</sup> The review related to Finding 9 from our LDO audit report dated August 4, 2009.

<sup>3</sup> Through an interagency memorandum of understanding between the Department of Human Resources and the Department of Health and Mental Hygiene, the LDSSs perform the eligibility determinations for the majority of Medicaid recipients.

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

We have audited the Department of Human Resources (DHR) – Local Department Operations (LDO) for the period beginning April 4, 2008 and ending June 30, 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. 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 LDO's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

Section 3-602 of the Human Services Article of the Annotated Code of Maryland requires DHR to conduct, or contract for, a financial and compliance audit of each LDSS at least once every three years. During our audit period, all 24 LDSSs were audited by DHR's Office of the Inspector General (OIG). To avoid duplication of work, we performed audit procedures necessary to determine whether we could rely on the audit work of DHR's OIG to accomplish our audit objectives pertaining to LDO's significant financial areas of operations based on materiality and risk. Our audit procedures were generally limited to obtaining a sufficient basis for that reliance. Accordingly, we reviewed the audit reports and the related working papers of certain OIG audits performed during our audit period and reviewed certain aspects of OIG's audit operations, including those related to our prior audit report findings. Based on this review, we concluded that the OIG's audit coverage of the LDSSs provided a sufficient basis for reliance on its work. As a result, we did not conduct audits of the LDSSs. Rather, the findings in this report are primarily based on the results reported by the OIG for the 24 LDSSs it audited during our audit period. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

The audit scope did not include certain support services provided to LDO by the DHR – Office of the Secretary. These support services (such as payroll, maintenance of certain accounting records, and related fiscal functions) are included within the scope of our audit of the Office of the Secretary and related units. In addition, the audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of LDO'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 the LDO.

LDO'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 conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect LDO's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes conditions regarding significant instances of noncompliance with applicable laws, rules, or regulations.

DHR's response to our findings and recommendations, on behalf of LDO, 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.



**EXHIBIT 1**  
**Summary of All Audit Findings**  
**Reported by DHR’s Office of the Inspector General (OIG)**  
**Most Recent Audits of the 24 Local Departments of Social Services**

Local Department of Social Services (LDSS)	Number of OIG Reportable Findings by Area (Refer to EXHIBIT 2 for a description of selected findings.)					Total OIG Findings	Number of Repeat OIG Findings	Percentage of Repeat OIG Findings
	Social Services Admin.	Family Investment Admin.	Budget and Finance	Computer System Security	Other			
Allegany County	3	n/a	3	2	1	9	0	0%
Anne Arundel County	6	n/a	15	1	2	24	7	29%
Baltimore City <sup>(1)</sup>	11	3	15	7	4	40	16	40%
Baltimore County <sup>(1)</sup>	2	6	10	2	4	24	10	42%
Calvert County	1	6	11	1	2	21	0	0%
Caroline County	5	3	5	1	1	15	1	7%
Carroll County	2	3	1	n/a	1	7	2	29%
Cecil County	2	3	1	n/a	1	7	0	0%
Charles County	8	7	6	1	5	27	2	7%
Dorchester County	2	5	3	1	2	13	3	23%
Frederick County	4	2	3	3	2	14	1	7%
Garrett County	3	1	5	1	n/a	10	2	20%
Harford County	4	3	2	2	n/a	11	0	0%
Howard County	6	10	8	5	2	31	7	23%
Kent County	2	4	4	n/a	2	12	2	17%
Montgomery County	10	8	n/a	1	1	20	9	45%
Prince George’s County <sup>(1)</sup>	14	9	6	5	6	40	13	33%
Queen Anne’s County	n/a	1	1	n/a	1	3	1	33%
Somerset County	2	1	3	n/a	n/a	6	0	0%
St. Mary’s County	8	n/a	4	1	1	14	0	0%
Talbot County	1	n/a	1	1	1	4	0	0%
Washington County	1	1	4	n/a	n/a	6	0	0%
Wicomico County	2	1	3	1	3	10	1	10%
Worcester County	2	2	n/a	n/a	1	5	0	0%
<b>TOTAL FINDINGS</b>	<b>101</b>	<b>79</b>	<b>114</b>	<b>36</b>	<b>43</b>	<b>373</b>	<b>77</b>	<b>21%</b>

n/a – Not applicable; no findings reported in this area.

<sup>(1)</sup> This LDSS was included in OLA’s preceding audit report.

## EXHIBIT 2

### Selected Audit Findings

#### Most Recent Audits of the 24 Local Departments of Social Services Reported by DHR's Office of the Inspector General (OIG)

Critical Area	Number of Findings	Selected Findings
<p><b>Social Services Administration</b> <i>Includes programs designed to prevent or remedy abuse, neglect, or exploitation of children and families, including foster care, adoption services, and adult protective services</i></p>	101	<ul style="list-style-type: none"> <li>• case files could not be located to verify eligibility</li> <li>• case files were missing required documentation</li> <li>• initial eligibility for federal funding (Title IV-E) was not determined timely for certain children in foster care</li> <li>• foster care redeterminations were not performed semi-annually, as required</li> <li>• documentation of monthly contact with children in care was missing</li> <li>• controls were inadequate over trust accounts (for example, accounts remained open when children left foster care)</li> <li>• collection efforts for certain overpayments were inadequate</li> <li>• adoption subsidy reapplications were missing</li> </ul>
<p><b>Family Investment Administration</b> <i>Includes the Temporary Cash Assistance (TCA) program, Medical Assistance (Medicaid) Recipient Eligibility, and the Food Supplement Program, including the electronic benefits transfer (EBT) cards</i></p>	79	<ul style="list-style-type: none"> <li>• reviews of new hire alert reports were untimely</li> <li>• critical duties over electronic benefits transfer (EBT) cards were not segregated</li> <li>• physical count of EBT cards disclosed differences</li> <li>• required number of cases were not reviewed by supervisors to help ensure the accuracy and propriety of assistance payments</li> <li>• supervisory reviews of assistance case files were inadequate</li> <li>• overpayment claims were not established timely</li> <li>• welfare avoidance grant case files were not located or were missing required documentation</li> <li>• responses to OIG computer matches were untimely</li> <li>• assistance case files were missing or case files were missing required documentation to substantiate client eligibility</li> </ul>

**EXHIBIT 2 (continued)****Selected Audit Findings****Most Recent Audits of the 24 Local Departments of Social Services  
Reported by DHR's Office of the Inspector General (OIG)**

<b>Critical Area</b>	<b>Number of Findings</b>	<b>Typical Findings</b>
<b>Budget and Finance</b> <i>Includes bank accounts maintained by local departments of social services, small procurements, gift cards, cash receipts, and corporate purchasing cards</i>	114	<ul style="list-style-type: none"> <li>• bank reconciliations were not performed timely or were not adequately approved</li> <li>• former employees remained as authorized check signers on bank accounts</li> <li>• corporate purchasing card activity logs were not signed by the employee or immediate supervisor</li> <li>• physical inventories of pre-paid gift cards were not documented or were not performed by an independent employee</li> <li>• payments were made to vendors without a written contract</li> <li>• procurement processes were circumvented</li> <li>• cash receipts were not verified to deposits</li> <li>• blank check inventories were inadequate</li> <li>• outstanding checks were not voided after 180 days</li> </ul>
<b>Computer System Security</b> <i>Relates to security over critical computer applications, such as the mainframe-based Clients' Automated Resource and Eligibility System (CARES), which is used to record and authorize cash assistance and Food Supplement Program benefits</i>	36	<ul style="list-style-type: none"> <li>• users' accesses were not periodically reviewed</li> <li>• logonids of former employees were not deleted</li> <li>• authorization documents for employee access were lacking</li> <li>• employees were granted access not required for the employees' duties</li> </ul>
<b>Other</b> <i>Includes certain administrative operations and child care subsidy activities overseen by the Maryland State Department of Education</i>	43	<ul style="list-style-type: none"> <li>• child care subsidy cases were missing documentation</li> <li>• supervisory reviews of child care subsidy cases were not performed timely</li> </ul>
<b>Total</b>	<b>373</b>	

## APPENDIX

State of Maryland  
Department of Human Resources



Maryland's Human Services Agency

Martin O'Malley  
Governor

Anthony Brown  
Lt. Governor

Theodore Dallas  
Secretary

May 11, 2012

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

Dear Mr. Myers:

Attached please find the Department of Human Resources' (DHR's) response to the DHR-Local Department Operations draft audit report which summarizes the audits conducted by the DHR Office of Inspector General during the time period from April 4, 2008 through June 30, 2011.

Since my appointment as DHR Secretary in May 2011, I have made improving the Department's local operations a top priority. While there is still some work to do, I am happy to report that many of the conditions noted in the audit have already been corrected and we are on our way to resolving all the findings in the audit.

As of May 11, the Department has already corrected 23 of the 25 high-risk findings in the audit and is on track to address all high-risk findings by July 31, 2012; all repeat findings by November 23, 2012; and all remaining findings by January 18, 2013.

In addition, the Department is making progress in its internal operations in several critical areas such as food stamp overpayments – an issue noted in the audit report. We have brought down food stamp error rate from 6.16 in May 2011 percent to 3.1 percent in December 2011.

At the same time, the Department is making strides to improve accuracy and timeliness in other areas noted in your audit such as eligibility for long-term care. Since my appointment, we have instituted several changes in the eligibility process that have changed the process for the better and improved timeliness by approximately 30 percent.

Moving forward, I will continue to work with the Department's Office of Inspector General and the directors of our 24 local departments of social services to enhance our policies and procedures to both reduce the number of audit findings that will occur in the future and improve the timeliness of our corrective action for any future audit findings.

If there are any questions regarding the corrective actions provided in this report, please do not hesitate to contact Mr. William E. Johnson, Jr., Inspector General, at 443-378-4060 or [wjohnson@dhr.state.md.us](mailto:wjohnson@dhr.state.md.us).

Thank you for the opportunity to comment on the draft audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Theodore Dallas", written in a cursive style.

Theodore Dallas  
Secretary

Enclosure

c: Leonard James Howie, III, Deputy Secretary  
ML Wernecke, Chief of Staff  
Executive Directors  
William E. Johnson, Jr., Inspector General

Department of Human Resources (DHR)  
DHR – Local Department Operations  
Response to Draft Audit Report  
April 4, 2008 – June 30, 2011

**Finding 1**

**The Office of the Inspector General’s (OIG) audits of the local departments of social services contain a significant number of reportable conditions, including many repeat findings.**

**Recommendation 1**

We recommend that DHR (that is, the Office of the Secretary and the management of the administrations within the Department) actively monitor audit findings and corrective actions taken to ensure that the detailed recommendations contained in the OIG audit reports are implemented.

**Department’s Response**

The Department of Human Resources (hereafter, DHR or the Department) is committed to resolving all audit findings identified in the report. The Department has established procedures to monitor the corrective action process and is tracking them through a corrective action matrix.

The matrix categorizes audit findings as high, medium or low risk, identifies the corrective action, responsible official (appointing authority), proposed completion date and a status update section for each finding and recommendation. The audit, which summarizes the issues identified by the Department’s internal Office of Inspector General (OIG), lists has 77 repeat findings found by the OIG. In this case there were twenty-five high risk repeat findings, forty-five medium risk repeat findings and seven low risk repeat findings.

As of May 11, the Department has already corrected 23 of the 25 high-risk findings in the audit and is on track to address all high-risk findings by July 31, 2012; all repeat findings by November 23, 2012; and all remaining findings by January 18, 2013.

The OIG conducts regularly scheduled follow up reviews to ensure adequate implementation of the corrective action steps and ongoing compliance. This process of corrective action monitoring is intended to improve DHR operations and eliminate repeat audit findings to the maximum extent possible.

**Finding 2**

**Foster care case files were missing or did not include all required documentation and the eligibility of certain children in foster care for federal aid was not determined timely.**

**Recommendation 2**

We recommend that DHR ensure that the LDSSs comply with all SSA program requirements. Specifically, DHR should ensure that the LDSSs

- a. maintain complete and accurate foster care case files,
- b. determine the eligibility of foster care children for federal Title IV-E funding in a timely manner and perform redeterminations semi-annually (repeat), and
- c. promptly collect any overpayments due from foster care providers.

**Department's Response**

The Department concurs with the recommendations. The Department has implemented improved processes in each of these areas.

**a. Maintain complete and accurate foster care case files**

The key elements in this finding were that some cases files could not be located at the time of the audit, and other files were missing critical documentation – such as the documentation of caseworker contact and the provision of medical/educational services. In response, the Social Services Administration developed a process by which it sends detailed monthly reports to local departments outlining case items that are missing documentation in MD CHESSIE. As a result of this central office monitoring, the average monthly percent of documented case worker visits has risen from 74 percent in April 2011 to over 92 percent in September 2011. Ninety percent is the federal standard for monthly caseworker visitation. The Department has met or exceeded this standard every month since September 2011. This monitoring process was instituted in April 2011 and continues on a monthly basis.

**b. Determine Title IV-E eligibility timely**

The Department has implemented a series of technological, organizational and other administrative changes to improve the process for determining IV-E eligibility over the last two years. In June 2010, the Department incorporated additional features into the MD CHESSIE automated data system including alerts for missing IV-E case information and ticklers for IV-E initial determination and redetermination deadlines. The Department has developed a monthly report detailing all cases that are pending a review. This report is distributed to all Local DSS Offices. In 2011, the Department reassigned the IV-E eligibility determination function, previously located in Office of Budget and Finance, to the Social Services Administration (SSA). Because local departments report directly to SSA, this change promotes efficient monitoring, targeted training and program-based oversight.

In February and March 2012, the Department provided comprehensive statewide training for all Title IV-E Specialists. Additionally, as of May 2012, the Department has engaged a nationally

recognized consultant to review IV-E collections procedures and to identify additional strategies to improve the eligibility determination process. This review is expected to be completed by July 2012.

**c. Collect any overpayments due from foster care providers**

The Department concurs with the finding but respectfully clarifies a point raised in the OLA analysis. Specifically, there are two types of foster care providers: Individual Families and Group Homes. The Local DSS Offices are responsible for the identification and collection of individual family provider overpayments. Whereas in Group Home overpayment cases, the OIG is charged with auditing the monthly fees while the DHR Central Finance Office collects the overpayments.

The Department now utilizes the new MD CHESSIE Accounts Receivable Aging Report to monitor foster care overpayments to ensure timely collection efforts by both Central Office and Local Departments. With the implementation of the MD CHESSIE Financial module in February 2009, all provider overpayments are generated by the system and recorded in the Accounts Receivable module. The system is designed to detect overpayments and recoup overpayments by reducing subsequent payments to providers as appropriate. Thus, overpayments for active providers, both individual and group home providers are now automatically offset by the system against current provider payments, eliminating manual collection efforts. On the other hand, overpayments for inactive providers (those with no current placements or payments) must be recovered through manual collection efforts. While overpayments may be caused by the inaccurate processing of invoices, retroactive child placement changes frequently result in overpayments to both individual family providers and to group home providers.

**Finding 3**

**The OIG reported numerous deficiencies by the LDSSs related to critical areas subject to the policies of FIA, such as ensuring eligibility for public assistance and food benefits.**

**Recommendation 3**

We recommend that DHR ensure that the LDSSs comply with all FIA program requirements. Specifically, DHR should ensure that the LDSSs

- a. establish appropriate controls over the EBT card inventory,
- b. perform supervisory reviews on the required number of case files,
- c. maintain complete and accurate TCA case files, and
- d. perform timely follow-up on all potential payment or eligibility errors identified by the DHR OIG.

## **Department's Response**

### **Response to a:**

The Department has provided all card custodians at the Local DSS Offices with card inventory procedures and appropriate logs to track card issuance. The logs were put into place with the implementation of the EBT contract in 1999. The logs were updated when a new EBT contract was implemented in 2008. The EBT Project Office verifies the number of cards issued in each Local DSS against the card issuance report provided via the EPPIC system. When a discrepancy occurs, the EBT Project Office works with the Local DSS Office to determine the cause and resolve it. If the cause of the discrepancy cannot be determined, the OIG is notified and initiates an investigation.

The Department has also reissued the FIA Information Memo #07-26 which addresses verification of identity when picking up an EBT card, and FIA Action Transmittal #10-07 which references the use of the Independence Card Referral Form (DHR/FIA EBT 7001) which must be completed and given to the customer to take to the EBT Trainer. The Action Transmittal further states that the EBT Trainer will not issue a vault card to a customer who does not have this form. These documents are enclosed.

### **Response to b:**

In October 2011, the Department implemented a new pre-review system called PIRAMID. This new system allows DHR to review significantly more cases than supervisory review. Over the last six months, all 49 district offices have used PIRAMID Pre-review to review more than 82,000 households -- four times the number of SRS reviews completed during the same time frame last year.

In February 2012, 21 percent of Food Stamp Program (FSP) applications and 22 percent of FSP redeterminations were processed through PIRAMID pre-review. As a result, the 20 percent of the case records that were found to have process and/or payment errors were corrected **before** the issuance of benefits.

In addition to improving accuracy, PIRAMID has built in analytic tools that allow the Department to analyze the most prevalent errors and identify their root causes. The Department is utilizing the findings from the errors identified during pre-review to inform the design online and in-person training modules, plan for future technology enhancements and to modify the business processes at Local DSS Offices.

### **Response to c:**

Recognizing the limitations of using paper case records, particularly in high volume offices, the Department is implementing an Enterprise Content Management System (ECMS). Planning and design for this new data system began more than two years ago, and implementation began August 2011. The ECMS replaces nearly all of the paper case records with searchable, electronic case records. The system enables Local DSS Offices to scan customer documents and link them together as a virtual case record. The Departmental implementation of ECMS improves efficiency at the clerical, managerial and administrative levels, and minimizes the likelihood of lost paper records. To date, five LDSS Offices have implemented ECMS and full implementation by all 24 LDSS Offices should be completed by Fall 2012.

Furthermore, it should be noted that the audit period coincided with a sharp rise in customer volume due to the economic downturn. Applications and verifications from new customers added to the already large amount of paper case records to manage.

**Response to d:**

The Department has made significant progress on preventing process and payment errors before they occur, including food stamp overpayments. Through the use of PIRAMID, online training and other process improvements, DHR has reduced the food stamp error rate from 6.16 percent in May 2011 percent to 3.1 percent in December 2011.

The Department has employed several strategies to improve the timely processing of computer matches to follow-up on payment or eligibility errors. These strategies include:

- Monitoring LDSS compliance at the Family Investment Administration (FIA) central office,
- Detailing FIA central office personnel to correct errors (such as missing Social Security Numbers) noted in the 2011 FIA audit, and
- Processing matches and certain alerts in a more timely and efficient manner by reengineering the business model for local department operations.

The Department will continue to examine processes for improvement in this area.

**Finding 4**

**Controls were inadequate over bank accounts, corporate purchasing cards, gift cards, procurements, and cash receipts.**

**Recommendation 4**

We recommend that DHR establish appropriate accountability and control over fiscal operations. Specifically, DHR should ensure that the LDSSs

- a. establish adequate controls over bank accounts and blank check inventories, including the timely preparation and approval of account reconciliations;
- b. comply with all CPC requirements established by the Comptroller of Maryland;
- c. establish proper accountability over prepaid gift cards;
- d. comply with State Procurement Regulations; and
- e. implement controls over the proper processing of cash receipts, including the independent verification of collections to deposit (repeat).

**Department's Response**

The Department concurs with this finding and recommendations. Responses to each of the specific recommendations are provided below.

**Response to a:**

The OIG audits revealed that many of the LDSSs failed to timely and accurately reconcile bank accounts. This resulted in the over- or understatement of account balances. Of particular note was the failure to void checks that remained outstanding for over 180 days. The explanations ranged from too few employees to carry out these functions to an admitted failure to utilize account logs to record reconciliation activities.

Each LDSS subject to this finding has committed to assigning its Finance Officer, or appropriate designee, to ensure that the reconciliations are performed on a timely basis in accordance with State policy. The LDSSs have been instructed to contact the Central Office of Budget and Finance to review their account balances and to cancel all checks outstanding for over 180 days. Since staff availability is critical to the successful implementation of the corrective action for this finding, the OIG has been tasked with increasing the frequency of its compliance monitoring in this area.

The audit revealed two additional issues with regard to bank accounts. First, there were instances in a few LDSSs where former employees retained authorization to sign checks. In each case, the former employees were identified at the time of the audit and their authorization cards, which were on file at the respective banks, were removed and replaced with current authorizations. The authorizations were removed prior to the issuance of the draft audit reports in 2008 and 2010. The OIG has confirmed the identity of authorized signers with banks as a routine part of the audit since 2010.

The second issue involved the physical security of blank check inventories. A few LDSSs allowed their blank check inventory procedures to lapse, largely to due staffing shortages. These LDSSs have reinstated or developed new check inventory procedures. However, since corrective action for this finding is also dependent upon staff availability, the OIG has been tasked with increasing the frequency of monitoring compliance in this area as well. The review of the security over blank check inventories formally became part of the OIG audit program in May 2010.

**Response to b:**

OIG audits from 2008 and 2010 included findings that corporate purchasing card (CPC) activity logs were not signed. During the audits, the OIG reinforced the Comptroller of Maryland policy that the users and their supervisors must review and sign all CPC activity log sheets. The Central Office of Budget and Finance continues to reiterate the policy during individual and group meetings with LDSS Assistant Directors and Finance Officers.

**Response to c:**

The OIG audit from at least eight LDSSs included a finding that the internal controls for prepaid gift cards were inadequate. Whether the gift cards were issued by a vendor or by LDSS staff, there were cases in which there was no documentation to verify that LDSS customers received the cards. There was also inadequate documentation to verify the gift card inventory.

The OIG worked with each of the LDSSs subject to this finding to develop policies and procedures regarding gift card use. In each case the Local Director, or appropriate designee, submitted corrective actions plans within 30 days after receiving their draft audit reports. The majority of the LDSSs reinstated the use of inventory control logs immediately as part of their corrective action. A few LDSSs did not reinstate use of the logs in a timely manner. In those cases, the OIG monitored their gift card controls until the logs were reintroduced. Corrective action with respect to this finding as completed between 2008 and 2011.

**Response to d:**

More than half of the LDSSs were found to have made payments to vendors during the audit period without written contracts. In most of these cases, the LDSSs made payments of amounts that were within their delegated authority of \$25,000 using direct vouchers or the CPC. Each LDSS subject to this finding was informed that the failure to execute written contracts for its vendors under the circumstances circumvented the State's procurement regulations. In implementing the corrective action plan for this finding, the OIG worked with the LDSSs to develop appropriate approval paths for small sole source procurements. Over the past two years, the Central Office of Budget and Finance (Procurement Division) and the Office of the Attorney General have provided training to all DHR LDSSs on procurement regulations as part of the annual meeting of the Local Government Affiliates (the administrative component of the Maryland Association of Social Service Directors). The most recent training was provided at the April 19, 2012 Procurement Advisory Committee meeting (a subcommittee of the Local Government Affiliates). In addition, the DHR Procurement Manual, which is posted on the Department's intranet site (the DHR Knowledge Base), provides guidance on how to execute these small procurements.

**Response to e:**

The cash receipt controls for a few of the LDSSs were inadequate. Specifically, the OIG audit revealed that cash register receipts, logs, or other methods designed to record cash receipts were not consistently used. More importantly, these cash receipts were not always validated against deposits.

The core feature of an effective cash management process is to ensure that controls over access, distribution and deposits are clearly defined. In the few cases where cash receipt controls were inadequate, each LDSS implemented procedures that required staff to deposit cash receipts promptly (usually within one working day) with the Finance Unit. The Department's cash collection procedures are standardized. The DHR Local Department Fiscal Administrative Manual contains a section on internal control over cash receipts. The manual was issued by the central office of Budget and Finance, and was last updated in June 2010. A copy of the manual is located in the DHR Knowledge Base.

The Department is committed to enhancing accountability by local departments. OIG auditors visit local departments annually to review corrective actions. To complement OIG monitoring, central office Budget and Finance managers will review local department corrective action plans

and separately verify implementation. When controls remain ignored in the identified areas after reasonable efforts to allow for corrective action, the Department will take appropriate action, including: rescinding procurement delegated authority, canceling corporate purchasing cards, closing bank accounts and/or seizing gift cards.

#### **Finding 5**

**Users' access to certain key computer systems was not properly restricted or monitored.**

#### **Recommendation 5**

We recommend that DHR establish appropriate accountability and control over information system access. Specifically, DHR should ensure that the LDSSs

- a. maintain a properly completed and approved authorization form for all user accesses granted, and assign access capabilities appropriate to an employee's job duties; and
- b. perform formal, periodic monitoring of employee system access and promptly delete the access of former employees.

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

The Secretary's Office issued a directive on May 11, 2012 emphasizing the importance of internal control over system access. The directive reiterates DHR's current policy of requiring the completion and retention of approved user authorization forms to support the granting of system access(es) appropriate to the employee's job duties. Additionally, the directive restates the policy requirement that periodic monitoring reviews of employees' system accesses must be conducted & documented.

On-going corrective action monitoring visits will be conducted on an annual basis to ensure compliance.

#### **Finding 6**

**Medicaid eligibility determinations for long-term care recipients were not always proper.**

#### **Recommendation 6**

We recommend that DHR ensure that LDSSs properly perform Medicaid eligibility determinations (repeat).

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

DHR, in coordination with DHMH, has made some significant changes to the way we process applications for assistance in the Central Long Term Care Bureau. Changes have included:

- The addition of 10 medical assistance co-pay positions to the complement of staff in the bureau. These are extra hands - funded by non-state sources –help us to move the work more quickly;
- The use of “helper” jurisdictions to process backlogged applications and redeterminations from the central long-term care bureau; and.
- Reviews of processing procedures from senior staff in other jurisdictions to improve document management processes and processing times.

In addition, the Department has implemented new risk scoring software to review every application for completeness and to verify information about assets, income and other factors against third party databases. The basic idea behind this approach is to distinguish between “low risk” (also known as “green”), “medium risk” (or “yellow”), and “high risk” (or “red”) applications so that they can be triaged appropriately and processed more efficiently.

For example, “low risk” applications that include all needed information are marked for expedited processing without any more involvement on the part of the customer. Applications with missing or unverified information – such as the value of a previously undeclared asset – are flagged for specific follow up. The risk assessment software also allows us to identify complicated situations and refer them to caseworkers who have the most experience or other expertise handling specific types of cases.

To complement these changes, we have also begun improving our training techniques. Eligibility for long term care is, by far, the most complicated of all eligibility determinations and helping ensure that our caseworkers are well versed in how to make these determinations is a key part of achieving our goals. To that end, we have recently launched an internal training website that provides information on the most frequently made errors to our caseworkers and requires that our caseworkers take a “quiz” on a regular basis that tests their mastery of these policies. Supervisors can see which caseworkers got the questions right and which did not and make sure that they follow up until the material is mastered.

DHR uses real property searches to the fullest extent possible. The Department is working with the Social Security Administration as a potential partner in their national property search pilot for SSI recipients. We will base our determination to move forward on the cost effectiveness of the pilot.

AUDIT TEAM

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