Audit Report

Department of Natural Resources

August 2014

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

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

August 18, 2014

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Natural Resources (DNR) for the period beginning March 18, 2010 and ending February 4, 2013. DNR's primary purpose is to oversee the management and use of the State's living and natural resources for the current and future enjoyment of Maryland's citizens and visitors.

Our audit disclosed that DNR had not established sufficient procedures and controls over its web-based licensing and registration system (known as COMPASS). Specifically, DNR did not require that void and gratis transactions processed at numerous retail outlets and DNR locations be documented and approved by supervisory personnel. Furthermore, DNR did not generate system reports to determine whether those transactions were appropriate. Consequently, unauthorized transactions could be processed without detection. Also, DNR did not obtain independent security reviews of COMPASS, which was maintained and hosted by contractors, to ensure that proper controls were in place, including data encryption, malware protection, and password controls. From its inception in April 2012 through December 2012, approximately $10.3 million in revenue was processed through COMPASS.

At certain DNR locations, verification procedures were not sufficient to ensure that all funds received were deposited. In addition, DNR made certain disbursements to non-profit organizations without obtaining documentation that services were performed or costs were incurred. Finally, DNR needs to improve its monitoring of public land leases and curatorships to ensure that tenants are complying with the terms of the related agreements, including properly maintaining the properties.

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An executive summary of our findings can be found on page 5. The DNR response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DNR.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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

Executive Summary

Legislative Audit Report on the Department of Natural Resources (DNR)
August 2014

- **Sufficient procedures and controls over transactions processed through DNR's web-based licensing and registration system (COMPASS) were not established. As a result, certain unauthorized transactions (such as, voids and gratis transactions) could be processed without detection. Also, DNR lacked assurance that this outsourced system was sufficiently protected against operational and security risks. From its inception in April 2012 through December 2012, approximately $10.3 million in revenue was processed through COMPASS (Findings 1 and 2).**

  DNR should take appropriate actions to ensure that transactions processed in COMPASS are appropriate and properly authorized. Also, DNR's contract with the COMPASS contractor should include applicable provisions to protect against security and operational risks.

- **For three of the four locations tested, with collections totaling approximately $14 million for fiscal year 2012, procedures were not sufficient to ensure that all funds received were deposited (Finding 3).**

  DNR should ensure that deposit verifications are performed by individuals independent of the related processing functions using initial receipt records.

- **Certain disbursements were made without obtaining documentation that services were performed or costs were incurred, and State requirements were not complied with for certain procurement transactions (Finding 4).**

  DNR should ensure that appropriate supporting documentation is received prior to making payments and that it complies with all State requirements applicable to procurements and payment processing.

- **Internal control and record keeping deficiencies were noted with respect to monitoring tenant compliance with public land leases and curatorships and accounting for equipment (Findings 5 and 6).**

  DNR should take the recommended actions to improve controls in these areas.

Background Information

Agency Responsibilities

The Department of Natural Resources (DNR) oversees the management and use of the State's living and natural resources for the current and future enjoyment of Maryland's citizens and visitors. These resources include the Chesapeake Bay and its tributaries, state forests and parks, and fisheries and wildlife. DNR maintains a headquarters location in Annapolis and seven Regional Service Centers. According to the State's records, during fiscal year 2012, DNR's capital and operating expenditures totaled $245.9 million.

Organizational Change

Chapter 411, Laws of Maryland 2011, effective July 1, 2011, transferred the Seafood Marketing and Aquaculture Development Program, the Division of Market Development, the Seafood Marketing Fund, and certain other related functions from the Maryland Department of Agriculture (MDA) to DNR. The scope of our audit of DNR includes these programs beginning July 1, 2011. In the past, these programs were included in the scope of our MDA audit.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report on DNR dated April 1, 2011. We determined that DNR satisfactorily addressed three of the findings. The remaining two findings are repeated in this report.

Findings and Recommendations

COMPASS Licensing and Registration System

Background
The Department of Natural Resources (DNR) is responsible for issuing commercial fishing and recreational sports licenses and these licenses can be obtained at one of seven DNR Regional Service Centers (RSCs) and numerous sales agents (such as sporting goods stores) throughout the State. In April 2012, DNR implemented a new web-based licensing and registration system, called COMPASS, for the issuance of recreational licenses, which was expanded in August 2013 to include commercial fishing licenses. These transactions can be processed by customers online, over the phone with call center staff, or in-person with sales agents or RSC staff. To comply with State and Federal laws, COMPASS is used to collect personally identifiable information (PII) such as name, social security number, date-of-birth, driver's license number, address, and other related information about customers. From April 2012 through December 2012, approximately $10.3 million in revenue was processed through COMPASS.

The development, maintenance, and hosting of COMPASS was outsourced to a private contractor (service organization) which subcontracted hosting, backup, disaster recovery and maintenance of servers, firewalls, and other network equipment to two subcontractors. The original contract was for the period of April 2011 through April 2013 and was renewed through April 2014.

Finding 1
Sufficient controls were not established over the processing of certain transactions and the assignment of system users.

Analysis
Sufficient procedures and controls over transactions processed through COMPASS were not established. As a result, certain unauthorized transactions could be processed without detection. Specifically, numerous system users could process voids and gratis sales without supervisory review and approval at the time the transactions were processed. For example, 2,414 users at various retail outlets could initiate and void the same transaction within 30 minutes of initiation and 42 DNR employees could process a gratis transaction (by changing the price of the transaction to zero) without supervisory approval. DNR also did not establish procedures requiring documented supervisory review of supporting documentation and approval of voided and gratis (such as disabled veteran) transactions. Furthermore DNR did not generate output reports to account for all voided and gratis transactions and ensure that the transactions were proper.

Finally, system user accounts were not periodically reviewed for propriety. According to a COMPASS report, as of June 27, 2013 there were 113 generic usernames for which a specific individual user was not identified and another 136 sales agents with duplicate user accounts. Consequently, there was a lack of individual accountability over COMPASS transactions.

Since COMPASS did not generate an output report of voided or gratis transactions, at our request, DNR provided us with a data extraction of all transactions recorded in COMPASS. From this extraction, we reviewed 10 voided and 20 gratis transactions and after comparison to source documents found that for 9 voids and all 20 gratis transactions there was no documented supervisory review. According to this data extraction, during the period from February 2012 to February 2013, 5,542 gratis transactions with an estimated value of approximately $71,500 and 3,928 voided transactions were processed in COMPASS (we were unable to readily determine the value of the voided transactions).

Recommendation 1

We recommend that DNR

a. establish COMPASS reports of voided and gratis transactions and related procedures requiring documented supervisory review and approval of those transactions,

b. investigate the feasibility of modifying COMPASS to provide for online supervisory review and approval of voided and gratis transactions at the time the transactions are processed, and

c. periodically review user access for propriety and ensure that users have a unique identification on the system and remove duplicate user accounts.

Finding 2

DNR lacked assurance that COMPASS was sufficiently protected against operational and security risks.

Analysis

DNR lacked assurance that operational and security risks related to COMPASS were identified and corrected as necessary. As of October 2013, DNR had neither performed security reviews of the primary contractor's and one subcontractor's operations nor obtained any reports from these two vendors of independent reviews conducted of COMPASS.[1] Furthermore, the agreement between DNR and the primary contractor did not require that comprehensive, independent

[1] A second subcontractor had such a review performed and DNR had obtained a copy.

reviews be performed of the primary contractor or subcontractors performing material services for COMPASS. Consequently, there was no assurance that the contractors had established controls to secure DNR data, including PII. Appropriate controls would ensure that:

- data in transit, data at rest, and backed-up data are encrypted;
- intrusion detection, malware prevention, vulnerability scanning, and patch management have been implemented;
- reports of privileged user access activities, authorized and unauthorized access attempts, and other security and audit events are reviewed on a regular basis;
- policies and procedures for user account and password controls are in accordance with the State of Maryland Department of Information Technology's Information Security Policy;
- documented policies and procedures exist and have been implemented for business continuity and/or disaster recovery; and
- COMPASS data is backed up, stored offsite in an appropriate facility, and that such backup and storage procedures are tested regularly.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service organizations. Based on this guidance, service organizations (like the aforementioned contractor and subcontractors) may contract for an independent review of controls and resultant independent auditor's report referred to as a Service Organization Controls (SOC) report. There are several types of SOC reports, with varying scope and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, processing integrity, confidentiality, and privacy. Due to the nature and sensitivity of the information contained in COMPASS, we believe a SOC 2 Type 2 report would be appropriate.

Recommendation 2
We recommend that DNR

a. seek to amend the existing agreement and ensure that future agreements with contractors maintaining COMPASS include provisions requiring the contractors to regularly obtain SOC 2 Type 2 reviews pertaining to their COMPASS operations, and

b. obtain and review copies of these SOC 2 Type 2 reports from the contractors and ensure that the related independent reviews adequately address the aforementioned security concerns over COMPASS and further ensure that the contractors implement all critical recommendations made in the reports.

Cash Receipts

Finding 3
Procedures did not ensure that certain collections were deposited.

Analysis
DNR had not established adequate procedures and internal controls over cash receipts at certain locations to provide assurance that all collections were deposited intact. Our review of three units at the headquarters location in Annapolis and one Licensing and Registration Regional Service Center (RSC), with total collections of approximately $14 million during fiscal year 2012 according to DNR records, disclosed the following conditions:

- For one unit at headquarters with collections totaling approximately $7.4 million during fiscal year 2012, the employee who performed the deposit verification did not compare the validated deposit slip to the initial record of related collections. Rather, the validated deposit slip was compared to a summary document of receipts to be deposited, which was prepared during the deposit process. For another unit with collections totaling $261,000 during fiscal year 2012, deposit verifications were not performed.

- At the RSC with collections of approximately $6.4 million during fiscal year 2012, the supervisory employees responsible for the deposit verification also performed cashiering duties, had access to the cash receipts in the safe, and also had the capability to void receipts without independent approval. Furthermore, amounts deposited per the validated deposit slips were not agreed to the initial collection records (such as, the cashier closeout reports).

Recommendation 3
We recommend that all collections be verified to deposit by employees independent of the cash receipts functions, and that the initial receipt record be used during the verification process. We advised DNR on accomplishing the necessary separation of duties using existing personnel.

Purchases and Disbursements

Finding 4
Certain disbursements were made without obtaining documentation that services were performed or related costs were incurred, and DNR did not ensure certain procurement activities were in compliance with State regulations.

Analysis
DNR had not established proper internal controls to ensure that certain grantees and vendors had submitted required documentation prior to DNR making payment. Furthermore, DNR did not comply with certain State procurement requirements.

- DNR made disbursements to non-profit organizations under certain partnership and grant agreements without sufficient documentation. Our review of two partnership agreements disclosed the agreements did not include language requiring the organizations to submit documentation evidencing that the required services were provided prior to DNR payment. Our review of five payments totaling approximately $651,000 related to the two agreements disclosed four DNR disbursements totaling $556,000 were made without evidence that the related services were provided (such as the seeding of oyster beds). According to State records, DNR made payments totaling approximately $12 million during fiscal years 2010 to 2013 (through January 4, 2013) related to these two agreements. We also noted that, for one grant to a non-profit organization for the installation of a storm water management system, DNR made two payments totaling $528,700 without obtaining evidence that the related costs were incurred. For example, DNR paid $341,700 in September 2013 to the grantee even though the supporting documentation indicated that the related invoices had not been paid by the grantee. The related grant agreement stipulated that DNR payments would be reimbursements of actual expenditures incurred by the grantee. The award to the grantee for the project totaled approximately $1.9 million.

- For the payments related to the State park reservation system contract, DNR did not verify that the reported number of days reserved per the invoice agreed to actual park reservations and that the billed fees agreed with the contract terms. On January 1, 2010, DNR entered into a six-year contract valued at $5.7 million for a contractor to provide State park reservation services, with payments to be based in part on the number of reservations processed. Payments to the contractor for fiscal year 2012 totaled approximately $860,000 according to State records.

- DNR did not always comply with publication requirements for contract awards. For example, our review disclosed a contract award totaling approximately $1.1 million had not been published on *eMaryland Marketplace* (eMM). We were advised by DNR management that it was unable to post awards to eMM after February 2012; however, DNR did not pursue the issue with the Department of General Services, which is responsible for eMM. Our comparison of DNR contract records with eMM records, confirmed a general lack of posting, as 75 of 76 DNR contracts with bid opening dates of January 25, 2012 to February 4, 2013 were not published on eMM, as of May 29, 2013. State procurement regulations require that contract awards greater than $25,000 be published on eMM within 30 days of the contract award.

- During fiscal year 2012, using corporate purchasing cards, DNR spent approximately $300,000 for the purchase of unleaded gasoline from two vendors, instead of obtaining the gasoline from vendors included under the Statewide fuel contract. Furthermore, our test of 20 purchasing card purchases totaling approximately $45,000 disclosed that 5 purchases totaling $13,391 were intentionally split into smaller purchases to avoid individual transaction spending limits, which also resulted in competitive procurements not being performed. We noted 11 additional purchases totaling $22,526 from the same vendors similar to these split transactions. State procurement regulations generally require the use of Statewide commodity contracts when available and provide that procurements may not be divided to avoid the use of competitive procurement processes. Furthermore, the Comptroller of Maryland's *Corporate Purchasing Card Policies and Procedures Manual* prohibits artificially splitting purchases to circumvent corporate card spending limits.

Recommendation 4
We recommend DNR
a. **ensure that agreements contain terms requiring the submission of appropriate supporting documentation for payment requests and that such documentation be reviewed for propriety prior to making disbursements;**
b. **comply with State procurement regulations by using existing statewide contracts, conducting competitive procurements when appropriate, and publishing contract awards on *eMaryland Marketplace*; and**
c. **comply with the *Corporate Purchasing Card Policy and Procedures Manual*.**

Public Land Leases and Curatorships

Finding 5
Certain public land leases and curatorships were not adequately monitored to ensure compliance with contractual terms.

Analysis
Certain public land leases and curatorships were not adequately monitored to ensure compliance with contractual terms. According to DNR records, as of June 5, 2013, there were 418 properties leased to employees, other governmental entities, non-profit entities, private companies, and individuals. Related collections for these public land leases totaled approximately $3.3 million during fiscal year 2012. In addition, there were 42 curatorships, which offer occupancy in a historic property in exchange for restoring and maintaining it. Our review of four public land leases and three curatorship agreements disclosed the following conditions:

- For the four leases, DNR did not ensure that the tenants complied with the contractual requirements and did not always take corrective action when deficiencies were noted. Although DNR maintained a generic inspection checklist, it did not include key provisions unique to each agreement and property, and there was no indication how the provisions were verified. For example, one long-term lease for a bed and breakfast requires the tenant to pay DNR four percent of gross receipts. However, DNR did not obtain the appropriate documentation from the tenant to verify that it received the proper amount.

- Annual accounting worksheets which summarize the work completed on the individual properties were not submitted by the curators to DNR for the three curatorships reviewed. As a result, there was a lack of assurance that the required work was being performed. As previously noted, these agreements required the tenant to perform certain renovation tasks, in lieu of rent. Specifically, the total original estimate to renovate these three properties was $456,455 and the renovation work was required to be completed within five years of entering into the agreements, which were signed in 1997, 2000, and 2007. According to OLA's analysis of DNR records, only 22 percent of this amount (or $98,766) had been expended and the related work was not completed for any property as of June 2013.

A similar condition related to a lack of monitoring of renovation work and formal DNR inspections has been commented upon in our two preceding audit reports.

Recommendation 5
We recommend that DNR implement a comprehensive approach for monitoring leases and curatorships to ensure that tenants are complying with contractual terms (repeat).

Equipment

Finding 6
DNR inventory records were not reconciled with the physical inventory counts and the State's records, and record keeping was deficient.

Analysis
DNR did not sufficiently control and account for its equipment in accordance with the Department of General Services' *Inventory Control Manual*. The equipment balance reported to DGS as of June 30, 2012 totaled approximately $77.2 million.

- A physical inventory conducted in June 2012 was not reconciled with the existing detail records, as of September 9, 2013. As a result, DNR lacked assurance that all items have been accounted for.

- DNR did not formally reconcile its equipment records with the State's accounting records for equipment items with a cost of $50,000 or greater. In this regard, as of June 15, 2012, the balance per the State's records ($18,653,164) exceeded the balance per the DNR records ($16,302,571) by $2,350,593. Although DNR identified conditions explaining the majority of the differences between the records, it could not fully explain the aforementioned difference and did not make the necessary adjustments to the records, as required. A similar condition was commented upon in our preceding audit report.

- Equipment acquisitions were not always properly recorded in the detail records. Our test of 10 equipment acquisitions totaling approximately $686,000, disclosed that 2 items purchased in August and September 2012 totaling approximately $306,000 were not recorded in the detail equipment records, as of July 2013. Subsequent to our inquiry, the items were recorded in the detail equipment records. In addition, 110 inert shotguns purchased in January 2011 for hunter firearm training costing $58,630 were not recorded in the detail records as of June 4, 2013. A similar condition regarding the failure to record equipment acquisitions has been commented upon in our two preceding audit reports.

DGS' *Inventory Control Manual* requires that the results of physical inventories be reconciled with the related detail records and that detailed records be maintained on a current basis. The *Manual* also requires any equipment items with a procurement cost of $500 must be recorded in the detail records. The Comptroller of Maryland's *Accounting Procedures Manual* requires that agencies record equipment items costing $50,000 or more in the State's fixed assets recordkeeping system and that agency records be periodically reconciled to those State records.

Recommendation 6
We recommend that DNR comply with the *Inventory Control Manual* (repeat) and *Accounting Procedures Manual*.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Natural Resources (DNR) for the period beginning March 18, 2010 and ending February 4, 2013. 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 DNR'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 significance and risk. The areas addressed by the audit included procurements and disbursements, cash receipts, equipment, special funds, federal funds, and critical information technology systems. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DNR's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DNR's COMPASS for the purpose of testing licensing transactions and system access. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of DNR'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 DNR.

DNR'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 DNR'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 DNR that did not warrant inclusion in this report.

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

MARYLAND
DEPARTMENT OF
NATURAL RESOURCES

Martin O'Malley, *Governor*
Anthony G. Brown, *Lt. Governor*
Joseph P. Gill, *Secretary*
Frank W. Dawson III, *Deputy Secretary*

August 15, 2014

Mr. Thomas J. Barnickel, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Barnickel,

Thank you for your report and the effort that went into creating it. The report and the underlying discussion notes will be used for the purposes intended, as a means to improve our efficiency and effectiveness in serving the citizens of the State of Maryland.

Should you need additional information or clarification of our response, please do not hesitate to contact Mark Hoffman at 410-260-8117 or Gregory Cunningham at 410-260-8384.

Sincerely,

Joseph P. Gill

Joseph P. Gill
Secretary

cc: Frank Dawson, Deputy Secretary
Mark L. Hoffman, Assistant Secretary, Mission Support
Greg Cunningham, Director, Audit and Management Review
Kim Knussman, Director, Fiscal and Administrative Services

Department of Natural Resources
Response to OLA Audit Report - 2014

Finding 1
Sufficient controls were not established over the processing of certain transactions and the assignment of system users.

Recommendation 1
We recommend that DNR

a. **establish COMPASS reports of voided and gratis transactions and related procedures requiring documented supervisory review and approval of those transactions,**
b. **investigate the feasibility of modifying COMPASS to provide for online supervisory review and approval of voided and gratis transactions at the time the transactions are processed, and**
c. **periodically review user access for propriety and ensure that users have a unique identification on the system and remove duplicate user accounts.**

The Department agrees with the finding and related recommendations.

DNR has developed a report of voided and gratis transactions and related procedures for supervisory review and approval; we have taken measures to tighten the controls in place over the gratis and voided transactions; and we will investigate the feasibility of being able to review the transactions online in real time. Additionally, we are in the process of developing procedures for ensuring user access is restricted to those individuals needing access; the users with access have unique identifiers; and, duplicate user accounts are removed from the system.

Finding 2
DNR lacked assurance that COMPASS was sufficiently protected against operational and security risks.

Recommendation 2
We recommend that DNR

a. **seek to amend the existing agreement and ensure that future agreements with contractors maintaining COMPASS include provisions requiring the contractors to regularly obtain SOC 2 Type 2 reviews pertaining to their COMPASS operations, and**
b. **obtain and review copies of these SOC 2 Type 2 reports from the contractors and ensure that the related independent reviews adequately address the aforementioned security concerns over COMPASS and further ensure that the contractors implement all critical recommendations made in the reports.**

The Department agrees with the finding and the related recommendations.

DNR is in the process of re-issuing the Operation and Maintenance contract and has as a provision in the new contract the requirement for a SOC II Type 2 report. Further, the

Department will obtain copies of the reports to ensure they address the aforementioned security concerns over COMPASS and the contractor implements all critical recommendations made in the reports.

Finding 3
Procedures did not ensure that certain collections were deposited.

Recommendation 3
We recommend that all collections be verified to deposit by employees independent of the cash receipts functions, and that the initial receipt record be used during the verification process. We advised DNR on accomplishing the necessary separation of duties using existing personnel

The Department agrees with the finding and related recommendations.

The Department's current cash receipts policy requires all checks to be restrictively endorsed; collections be secured prior to subsequent processing and deposit; and, deposit verifications be performed by an employee independent of the cash receipts functions, using initial receipt records. DNR will take the appropriate measures to ensure compliance with the cash receipts policy.

Finding 4
Certain disbursements were made without obtaining documentation that services were performed or related costs were incurred, and DNR did not ensure certain procurement activities were in compliance with State regulations.

Recommendation 4
We recommend DNR

a. **ensure that agreements contain terms requiring the submission of appropriate supporting documentation for payment requests and that such documentation be reviewed for propriety prior to making disbursements;**
b. **comply with State procurement regulations by using existing statewide contracts, conducting competitive procurements when appropriate, and publishing contract awards on *eMaryland Marketplace*; and**
c. **comply with the *Corporate Purchasing Card Policy and Procedures Manual*.**

The Department agrees with the finding and related recommendations.

The Department will implement procedures to verify the contract manager has obtained and reviewed the appropriate supporting documentation for payment requests.

The Department will use existing statewide contracts, conducting competitive procurements when appropriate, and publishing contract awards on *eMaryland Marketplace*. The Department of General Services has already added enhancements to the *eMaryland Market* place system which now allows DNR to access the post contract awards module that the Department was previously unable to access.

Lastly, related to CPC transactions, DNR will address the exceptions referenced in the audit discussion notes with the individuals and programs involved and take appropriate action to ensure those identified comply with the audit recommendation. DNR will also continue to monitor its corporate purchasing card agreements for propriety, including the required signatures.

Finding 5
Certain public land leases and curatorships were not adequately monitored to ensure that tenants complied with lease terms.

Recommendation 5
We recommend that DNR implement a comprehensive approach for monitoring leases and curatorships to ensure that tenants are complying with contractual terms

The Department agrees with the audit finding and related recommendation.

In response to a prior audit report finding the Department aggressively pursued implementing procedures to ensure all land use agreements and curatorships are properly monitored and the lease provision enforced as evidenced by the inspection form introduced subsequent to the 2010 audit. The Department will continue to make improvements to enhance its ability to monitor curatorships and their compliance with agreements; and, take other corrective measures to comply with the recommendation. For example a database for tracking program elements is being implemented and DNR staff will meet with the Office of the Attorney General to determine what, if any, penalties for noncompliance can be assessed and act accordingly.

Finding 6
DNR inventory records were not reconciled with the physical inventory counts and the State's records and the record keeping was deficient.

Recommendation 6
We recommend that DNR comply with the *Inventory Control Manual* (repeat) and *Accounting Procedures Manual*.

The Department agrees with the finding and related recommendation.

The Department has taken measures to ensure continued improvements are made to our inventory management, by altering record keeping duties and responsibilities. More specifically, we have assigned additional personnel from the Mission Support unit (Information Technology and Internal Audit) to assist the Department's Property Officer with rectifying the inventory exception. DNR has also re-assigned several of the Property Officer's former job duties to allow greater focus on this recommendation.

AUDIT TEAM

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