Summary of Reports Issued and Recommended Committee Action

July 1, 2016 to November 30, 2016

Presentation to Joint Audit Committee

Thomas J. Barnickel III, CPA
Legislative Auditor

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Reports Issued July 1, 2016 to November 30, 2016

Summary

Total Reports Issued	27
Reports Recommended for Action	4

	Agency	Recommended Action
1.	Department of Information Technology	JAC Letter of Concern
2.	Comptroller of Maryland – Revenue Administration Division	JAC Hearing
3.	Department of Information Technology – Department of State Police – Department of Natural Resources – Resource Sharing Lease Agreements (Special Review)	JAC Hearing
4.	Department of Health and Mental Hygiene – Developmental Disabilities Administration	JAC Hearing

Summary of Recommended Action

Joint Audit Committee (JAC) Hearing	3
JAC Letter of Concern	1
Total	4

REPORTS ISSUED
JULY 1, 2016 TO NOVEMBER 30, 2016

Agency	Report Date	Number of Pages
Comptroller of Maryland – General Accounting Division	7/11/16	8
Department of Health and Mental Hygiene – Vital Statistics Administration	7/12/16	8
Board of Liquor License Commissioners for Baltimore City (Performance)	7/13/16	49
Calvert County Public Schools (Financial Management Practices Audit)	7/20/16	32
Garrett County – Office of the Register of Wills	8/08/16	5
Garrett County – Office of the Clerk of Circuit Court	8/16/16	5
St. Mary's College of Maryland	8/17/16	13
Judiciary – Judicial Information Systems	8/18/16	12
Office of the State Treasurer	9/09/16	13
Property Tax Assessment Appeals Boards	9/12/16	6
Department of Information Technology	9/12/16	22
Allegany County – Office of the Clerk of Circuit Court	9/16/16	5
Comptroller of Maryland – Revenue Administration Division	9/16/16	24
Review of Local Government Audit Reports – Fiscal Year Ending June 30, 2015 (Special)	9/21/16	17
University System of Maryland – University of Maryland, Baltimore	9/22/16	18
Review of Community College Audit Reports – Fiscal Year Ending June 30, 2015 (Special)	10/04/16	6
Department of Transportation – Maryland Aviation Administration	10/07/16	12
Canal Place Preservation and Development Authority	10/12/16	5
Allegany County – Office of the Register of Wills	10/17/16	5
Howard County Public School System (Financial Management Practices Audit)	10/17/16	30
Video Lottery Operation Licensees – Minority Business Participation (Performance)	10/19/16	13
University System of Maryland – Towson University	11/01/16	18
Caroline County Public Schools (Financial Management Practices Audit)	11/02/16	38
University System of Maryland – University of Maryland, Baltimore County – Questionable Maintenance Procurement Practices (Special)	11/09/16	12
Department of Information Technology – Department of State Police – Department of Natural Resources – Resource Sharing Lease Agreements (Special)	11/18/16	30
Department of Health and Mental Hygiene – Developmental Disabilities Administration	11/18/16	26
Garrett County Public Schools (Financial Management Practices Audit)	11/18/16	31

Total Number of Reports Issued: **27**

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2016 to November 30, 2016

1) Department of Information Technology (DoIT) (9/12/16 – 22 pages – 7 Findings)

- Certain deficiencies were noted with DoIT's processes for overseeing the State's 33 major information technology development projects (MITDPs) valued at $850 million that existed as of June 2015. DoIT lacked sufficient documentation to support that it effectively monitored MITDPs through its review of annual status reports and quarterly portfolio review meetings. Our test of 20 quarterly portfolio reviews, pertaining to 5 MITDP projects, disclosed that DoIT could not provide any documentation that the meetings occurred for 3 reviews. For 10 other reviews, DoIT did not document the matters discussed, nor did it document whether significant corrective actions were required and, if so, what these actions entailed.

- DoIT had not established a process to independently evaluate project managers (OPMs) hired through a vendor to oversee the 33 MITDPs, nor had DoIT developed specific project monitoring documentation and reporting requirements for their project management activities. In addition, DoIT had not established a means to ensure that the vendor assigned sufficient OPM resources to monitor MITDPs on its behalf.

- Comprehensive policies were lacking to guide decisions and define recordkeeping requirements pertaining to changes in project scope, schedule, and costs (referred to as rebaselining). Since a rebaselining policy had not been established, records were not maintained to identify the reasons and impact for any of the 12 changes made on projects during fiscal year 2014. Furthermore, a policy was not established to govern the use of Independent Verification and Validation assessments (IV&V) of MITDPs as an independent means to assess their health and to identify areas that need improvement to help the projects be successful. DoIT had only initiated an IV&V for one of the MITDPs as of November 2015.

- Certain security control deficiencies were noted relating to the networks and computer resources under DoIT's responsibility. For example, certain contractors had been provided unnecessary network level access to workstations and servers, and numerous workstations were not appropriately protected from malware.

Recommended Committee Action – Letter of Concern

2) Comptroller of Maryland – Revenue Administration Division (RAD) (9/16/16 – 24 pages – 8 Findings)

- RAD had not determined the underlying cause(s) for erroneous subdivision codes recorded in its automated tax records for numerous taxpayers in one county, which affected distributions of local income taxes. The Comptroller of Maryland conducted a review that disclosed that addresses for more than 14,000 taxpayers in Montgomery County were not properly coded in the State's automated tax system, resulting in $8.7 million in local income taxes being incorrectly distributed to certain special taxing areas within Montgomery County and the County at large for tax years 2010 to 2014. Certain steps had been taken to correct the distribution errors, which resulted in 15 taxing areas receiving a net under-distribution ranging from $10,000 to $6.1 million and 8 taxing areas receiving a net over-distribution ranging from $5,000 to $4.9 million. RAD had not conducted a detailed analysis to determine what caused the subdivision coding errors, making it uncertain if other jurisdictions in the State also experienced this problem, and the actions needed to resolve the matter.

- RAD lacked sufficient policies and procedures to ensure that the proper subdivision codes were assigned to taxpayers in the automated tax system. For example, comprehensive written guidance was not provided to employees who were responsible for identifying the proper subdivision codes (based on tax return addresses) when automated processes were unsuccessful. In addition, RAD did not ensure the sources of information used by these employees were always current and complete.

- Required documentation was not always on file to support out-of-state tax credits claimed on paper tax returns filed by individual taxpayers. Our examination of 20 tax returns submitted for tax year 2013 that claimed out-of-state tax credits totaling $35 million disclosed 6 returns for which credits totaling $27.2 million were allowed by RAD, even though the required documentation was not on file. According to RAD records, out-of-state tax credits totaling $111.9 million were 15 claimed by taxpayers on approximately 14,300 paper tax returns for tax year 2013.

- Significant financial adjustments to corporate taxpayer accounts processed by one RAD unit were not always reviewed by supervisory personnel. For example, there was no documented supervisory review for 3 of 10 adjustments tested that reduced corporate taxpayer liabilities by $23.4 million.

- Nonfinancial adjustments to critical taxpayer account information, such as a change to a taxpayer's address or identification number, were not adequately controlled. A review of procedures in place at three units responsible for processing adjustments disclosed that none of the units had adequate procedures in place to ensure the propriety of the adjustments.

Recommended Committee Action – Hearing

3) Department of Information Technology (DoIT) – Department of State Police (DSP) – Department of Natural Resources (DNR) – Resource Sharing Lease Agreements (Special Review) (11/18/16 – 30 pages – 8 Findings)

We conducted a review of an allegation we received related to resource sharing lease agreements (RSA) between two telecommunications companies and DoIT, DSP, or DNR. The RSAs provide compensation to the State from the telecom companies, which are allowed to use the State's communications infrastructure, such as towers, to install, operate, and maintain communications systems. We reviewed 10 RSAs and related renewals dating back to 1996 with related compensation (including renewal periods) valued at $5.9 million as of June 2016.

- As the oversight agency, DoIT did not maintain comprehensive records of the RSAs, nor effectively oversee the RSAs and related renewals. Beginning in 2001, lease payments from the two companies for these RSAs were being deposited into escrow accounts maintained outside of the State's control by a law firm, and DSP and DNR did not establish effective oversight of the accounts' activity. As of June 2016, deposits into and withdrawals from the accounts totaled $4.4 million and $3.8 million, respectively, and the balances in the accounts totaled $536,700.

- DoIT became aware of, and questioned, these RSAs in April 2011, but took no substantive action until 2015. In July 2015, the law firm was directed to cease making any payments from the escrow accounts and DNR undertook an internal audit of the funds. The resulting January 2016 DNR report concluded the escrow accounts effectively created an "off-budget" pool of funds that could be spent without regard to the State budget or procurement requirements.

- DoIT, DSP, and DNR did not maintain a complete list of their own RSAs, obtain appropriate approvals (when required), maintain inventories of telecom equipment on their towers, or ensure that all compensation due under the RSAs was collected. For the 10 RSAs reviewed, we identified uncollected compensation totaling an estimated $917,000.

- Escrow account financial transactions were not accounted for on State records and the law firm retained related interest earnings totaling $90,900.

- One DSP and one DNR employee unilaterally directed the firm to make purchases of telecom equipment and services from the escrow accounts. We identified certain questionable activities by one of these individuals, related to a tower installation and a unique arrangement with one telecom company, which we referred to the Office of the Attorney General.

Recommended Committee Action – Hearing

4) Department of Health and Mental Hygiene – Development Disabilities Administration (DDA) (11/18 /16 – 26 pages – 10 Findings)

In our preceding audit report, we reported that DDA's accountability and compliance level was unsatisfactory in accordance with the rating system that we established in conformity with State law. Based on the results of our current audit, we have concluded that DDA has made some improvement in its fiscal and compliance operations and, accordingly, DDA's accountability and compliance level is no longer unsatisfactory.

- Prior to fiscal year 2015, DDA directed providers to collect certain copayments from consumers, referred to as contribution to care (CTC), for services that should have been paid for with State and federal funds. In fiscal year 2014, DDA determined that it was incorrectly directing providers to collect CTC from virtually all Medicaid-eligible consumers residing in residential habitation facilities. The amount improperly collected could have been $4.2 million annually. DDA's legal counsel concluded that DDA had no legal obligation to return these funds.

- DDA did not adequately monitor the 18 contractors that provided resource/service coordinators who were responsible for planning, coordinating, and monitoring all services delivered to approximately 25,000 DDA consumers with service expenditures totaling $876 million in fiscal year 2015. Specifically, DDA did not determine whether the coordinators were ensuring that consumers received the required medical, habilitative, or rehabilitative services from providers, as stipulated in the consumers' individual service plans, and that Medicaid eligibility reassessments were conducted timely.

- DDA did not negotiate the contract rates for the professional positions contained in two services contracts with a vendor to assist in the financial restructuring of DDA operations for which it paid $8.1 million. The contract rates for four vendor employees ranged from $195 to $416 per hour, for annualized costs of $378,300 and $665,496, respectively.

- DDA lacked an effective means to ensure payments for the financial restructuring contracts were commensurate with the completion of contract deliverables. Also, DDA did not effectively monitor the contracts and the related payments. Certain deliverables were not received, vendor status reports were not always obtained or reviewed to determine the propriety of invoices, and DDA authorized the vendor to perform work outside the scope of the contracts.

- DDA did not verify critical adjustments that were processed in its Provider Consumer Information System, resulting in errors, such as overpayments to providers, going undetected, including one totaling $330,000. DDA also inappropriately stored certain sensitive personally identifiable information in the System database without adequate safeguards. Fiscal year 2015 expenditures processed through the system totaled approximately $915 million.

Recommended Committee Action – Hearing