



**Department of Legislative Services  
Office of Legislative Audits**

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**Department of Human Services  
(DHS) – Office of the Secretary and  
Related Units**

Report dated September 12, 2017

Presentation to the Joint Audit Committee

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### Audit Overview

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- The Department of Human Services (DHS) provides intervention services to stabilize families and vulnerable adults, encourages financial independence by providing temporary support and transition services, and provides for the welfare of children at risk.
- To deliver these services, DHS is organized into 7 budgetary units. This audit included the:
  - Office of the Secretary, which provides overall direction and coordination for DHS programs;
  - Operations office, which provides core administrative services to DHS units; and
  - Office of Technology, which is responsible for the management and direction of DHS information systems.

The other units of DHS are audited and reported upon separately.

- The report has 13 findings, with 4 repeat findings (4, 5, 10, & 12) from the preceding audit report.
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### Key Findings

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- DHS did not effectively administer Information Technology (IT) contract terms and task order activity to ensure the reasonableness of vendor proposed services and costs.
  - Due to improper project planning and administration, DHS cancelled an IT project after paying \$10.1 million, including \$4.8 million that was paid unnecessarily.
  - DHS could not explain why guaranteed minimum compensation was offered to some legal firms while others were compensated on a per-case fee basis. The guaranteed compensation resulted in higher payments (\$616,000) than what would have been paid using the per-case fee basis.
  - DHS did not have adequate procedures to ensure that payments to legal firms were proper and did not follow up on problems that were identified.
  - DHS information systems were not properly secured, which included sensitive personal information.
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### IT Contract (Findings 1 and 2)

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#### Background

DHS contracted with a vendor for the period June 2010 through December 2015 at a cost of approximately \$125.4 million to provide computer application services to existing DHS information technology (IT) systems and programs. The contract was renewed until December 2017 at an additional cost of \$51.5 million.

The contract included 2 levels of services referred to as Level 1 and 2. The Level 2 services were for projects expected to take more than 500 hours and \$10 million was authorized per year. For these services, DHS solicited a technical proposal from the vendor for each task order, including the number of anticipated hours and cost to complete each task. Payments for Level 2 services during the audit period were \$30 million.



## IT Contract (Findings 1 and 2 – cont.)

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- DHS did not effectively administer contract terms and task order activity associated with Level 2 services, resulting in a lack of assurance that services and costs proposed by the vendor were reasonable (Finding 1).
    - DHS did not have formal procedures to verify the reasonableness of task order hours and costs. For example, the vendor proposed a task order in May 2014 estimating 12,840 hours at a cost of \$1.55 million. DHS asserted that it reviewed the task order, but could not document its review or explain its methodology.
    - In 2012, DHS changed the billing process for level 2 services from a deliverables basis to a fixed-price installment basis, which was inconsistent with the contract terms. That is, the total task order price was divided into equal monthly payments for the task order term, which were paid without regard to deliverables received.
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### IT Contract (Findings 1 and 2 – cont.)

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- DHS did not monitor task orders resulting in FY 2015 payments of \$8.4 million for task orders beyond the annual authorized contract amount of \$10 million.
  - No contract modification was prepared or submitted to the Board of Public Works.
  - The resulting expenditures exceeded DHS available FY 2015 appropriation by \$4.5 million, including \$1.7 million in general funds.



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### IT Contract (Findings 1 and 2 – cont.)

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- DHS did not properly plan and administer task order projects, resulting in payments totaling \$10.1 million toward a \$27.6 million project that was cancelled (**Finding 2**).
  - In December 2011, DHS issued two task orders to modernize one of its computer systems, which were cancelled in October 2012.
  - DHS cited the enactment of the federal Affordable Care Act (ACA) as the reason for the cancellation. The decision to initiate the project is questionable since ACA was enacted in March 2010, well before the issuance of the task orders.
  - DHS paid \$10.1 million on the installment basis, which was \$4 million more than if DHS had paid, in accordance with the contract, based on the value of deliverables received of \$6.1 million.



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### IT Contract (Findings 1 and 2 – cont.)

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- Although cancelled in October 2012, the contractor was not formally notified until January 2013, resulting in additional unnecessary payments of \$781,000.
- There is no evidence any of the deliverables received will provide any future benefits. Costs for the task orders were generally shared equally between the State and the federal government.



## Legal Services (Findings 3 and 4)

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### Background

DHS' Maryland Legal Services Program (MLSP) was created to provide legal representation to children who are victims of abuse or neglect and adults involved in adult guardianship proceedings. DHS entered into emergency contracts with 8 incumbent legal firms valued at \$24.5 million from September 2013 through August 2015.

- DHS executed guaranteed minimum compensation contracts with 2 of the 8 firms, but did not attempt to maximize the cases assigned to those firms. DHS assigned cases on a rotating basis to all firms.

Based on our analysis, under these circumstances, DHS paid these 2 firms approximately \$616,000 more than if they had been reimbursed on a per case fee, as the other 6 firms.

DHS could not explain why some firms were offered minimum compensation agreements but others were not (**Finding 3**).

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## Legal Services (Findings 3 and 4 – cont.)

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- DHS did not have adequate procedures to ensure that payments to legal firms were proper and did not follow-up on the deficiencies with the services identified during annual site visits (Finding 4).
    - DHS did not always obtain and review appropriate documents to verify its responsibility to provide legal services for invoiced individuals. Our test of 10 invoices totaling \$2.2 million disclosed that for 3 invoices totaling approximately \$329,000, the verifications were not signed and dated, and DHS did not document that it sighted the verification records for all of the individuals on the invoice.
    - DHS did not follow up on deficiencies noted during annual site visits to assess whether contractual requirements were met. Follow-up was not conducted for three firms that did not respond to DHS' request for supporting documentation of services provided, including one firm for which DHS has “significant concerns/issues” regarding client visits.
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## Information Systems Security

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- Sensitive customer information was stored in several databases in clear text. For example, we noted that a table in one of these databases contained the full names, social security numbers, and dates of birth for 1.6 million unique individuals in clear text (**Finding 9**).
  - Monitoring controls over several critical DHS databases were insufficient, as modifications to numerous database tables and certain security events were not recorded or logged for subsequent review (**Finding 10**).
  - DHS' computers and network were not properly protected. For example, DHS did not ensure, on an ongoing basis, that malware protection software was installed, up-to-date, and operational on all its computers. The malware protection for almost 1,700 computers were not being centrally monitored (**Finding 11**).
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## Other Selected Findings

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### Finding 5 – Grants Management

DHS lacked sufficient procedures and accountability over grants to a network of community and faith-based organizations and governmental departments and agencies. FY 2015 grants totaled \$17.9 million.

### Finding 7 – Purchasing and Disbursements

In August 2015, DHS paid a State university \$300,000 for a power upgrade system at the university building used as an emergency shelter; as of March 2017 the upgrades had not been performed.

### Finding 8 – Federal Funds

State funds were used to cover the cost of residential rehabilitation services that are potentially eligible for federal reimbursement.

### Finding 12 – Electronic Benefits Transfer System

DHS lacked assurance that the System service provider was properly secured against operational and security risks.

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## Conclusion

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DHS should

- establish appropriate procedures and controls to ensure vendor accountability in accordance with all contract and task order terms and conditions;
- eliminate the use of guaranteed minimum contracts for legal services and ensure that all payments are supported by necessary documentation;
- Implement necessary IT system controls over customer data and DHS databases and computers or networks; and
- implement the recommended actions to improve controls over grants, purchasing and disbursements; federal funds, and the electronic benefits transfer system.