Legislative Audit Bulletin

Publication for Members of the Maryland General Assembly

Uninsured Employers' Fund (UEF)

UEF did not conduct independent reviews of accounts receivable transactions. Verifications to ensure the accuracy of Workers' Compensation Commission awards entered in UEF's automated accounts receivable system were not performed. Our test of 10 awards disclosed that, because UEF entered the award amounts incorrectly in its accounts receivable records, the assessments for the awards were improperly calculated, resulting in over-billings and under-billings totaling $54,800. In addition, three employees responsible for processing adjustments to the accounts receivable records could do so without independent review and approval.

UEF did not adequately monitor and pursue collection of delinquent accounts. UEF's automated accounts receivable system did not generate dunning notices and UEF did not refer delinquent accounts to the State's Central Collection Unit in accordance with the related requirements. As of January 2017, accounts totaling $5.2 million should have been referred. In addition, the account aging reports produced by UEF's system were not accurate and reliable for use in monitoring its accounts receivable.

UEF's accountability and compliance level was unsatisfactory primarily due to the significance and number of repeat audit findings.

UEF did not conduct independent supervisory reviews of indemnity payments, and each medical provider was paid based solely on the amounts reflected on a summary report submitted by UEF's medical bill verification vendor without obtaining any documentation to support the claims. During the period from January 2014 to April 2017, indemnity payments and medical provider payments totaled $12.1 million and $13.5 million, respectively.

UEF violated State procurement regulations to obtain claims processing and related services from 11 vendors, did not have written agreements with the vendors, and did not adequately monitor the vendors' services and verify their billings. During the period from January 2014 to April 2017, UEF paid these vendors approximately $3.5 million.

We determined that UEF's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. The primary factors contributing to the unsatisfactory rating were the significance of the audit findings and the number of repeat findings. We subsequently conducted a follow-up review of the actions taken by UEF to address five of the eight findings in our original report. Our review concluded that one of the five findings was corrected, while corrective actions for the remaining four findings were in progress.

State Department of Assessments and Taxation (DAT)

Supervisory reviews of property reassessments by local office supervisors were not always performed and documented as required by DAT's quality assurance procedures at two local offices we reviewed that accounted for 25 percent of the State's assessable properties. These offices also lacked documentation that the local office supervisors had reviewed properties owned by employees in the local office to ensure they did not modify their own accounts.

Inside this issue:

DAT did not ensure that real property data recorded in the Assessment and Administration Valuation System were complete and accurate, and did not document supervisory reviews of assessment appeals and real property exemptions. DAT relies on real property deeds and permit data received from the local governments to obtain updated property information, which is critical to ensuring accurate property valuations.

DAT did not ensure that recorded property data were complete and accurate.

DAT did not use available information from the Comptroller of Maryland to identify entities doing business in Maryland that failed to register or file a personal property return, and did not review and approve exemptions from personal property assessments that were granted by DAT employees. In addition, DAT did not have comprehensive procedures to ensure the propriety of homestead property and homeowners' tax credits.

Maryland Department of Health – Prevention and Health Promotion Administration (PHPA), Office of Population Health Improvement, Office of Preparedness and Response

The audit identified certain issues related primarily to three programs administered by PHPA: the Maryland AIDS Drug Assistance Program (MADAP), the Maryland AIDS Drug Assistance Program – Plus (MADAP-Plus), and the Breast and Cervical Cancer Diagnosis and Treatment Program (BCCDTP). MADAP (including MADAP-Plus) and BCCDTP had FY 2016 expenditures totaling approximately $46.3 million and $13.2 million, respectively.

PHPA was underpaid by as much as $2 million for 20 drugs dispensed to MADAP clients for one quarter in 2016.

PHPA did not ensure that all rebates from approximately 170 prescription drug manufacturers for drugs dispensed to clients under MADAP were received and were accurate. As of March 2017, PHPA had not recognized that one of ten manufacturers we selected for review had not paid rebates for a six-month period ended June 2016. Subsequently, this manufacturer remitted the $49,300 rebate to PHPA. Furthermore, we estimated that PHPA was underpaid by as much as $2 million for 20 drugs dispensed to MADAP clients for one quarter in 2016. According to PHPA records, drug rebates received during FY 2016 totaled approximately $52.4 million.

PHPA did not have adequate procedures and controls over applicant eligibility for MADAP and BCCDTP. For example, for most of our audit period, PHPA did not use an available independent source to help verify applicant income, which is considered when determining an applicant's eligibility for both programs.

Numerous PHPA employees had unnecessary access to confidential patient information.

PHPA did not adequately restrict user access to critical personal information of individuals on the system that was used by pharmacies to check the MADAP eligibility of individuals requesting medications as well as to initiate payment for the related claims. PHPA did not adequately review system overrides of rejected MADAP pharmacy claims and of MADAP-Plus insurance premium payments that were manually processed and entered into the MADAP system, to ensure that only valid payments were made. Finally, numerous PHPA employees had unnecessary access to confidential information of certain patients.

Maryland Department of the Environment (MDE)

MDE used interagency agreements with a public college to augment its staff, rather than using a competitive procurement process for required services or budgeted positions. For four such agreements, one MDE unit spent $3.1 million between July 2013 and February 2018, including an estimated $996,000 in administrative fees. For example, at various times between June 2014 and October 2017, this unit obtained and directed the services of 40 college employees through interagency agreements. Eleven of the 40 college employees were hired for administrative or clerical positions, such as office secretaries and administrative assistants. Furthermore, MDE did not verify the reasonableness of the rates charged by the college, including administrative fees.

MDE had not investigated 10,832 registered rental units without required lead paint inspection certificates.

MDE did not establish a sufficient process to ensure that owners of affected lead paint properties had obtained required inspection certificates. We identified 10,832 registered rental units without inspection certificates that MDE had not investigated. While not all registered rental units require an owner to have an inspection certificate (for example, unoccupied properties), MDE's certificate database did not designate which properties required a certificate. Therefore, MDE should investigate all registered owners without a certificate to determine if one should be obtained.

Finally, MDE had not performed all required inspections of certain construction sites for compliance with approved erosion and sediment control plans, and MDE's determinations of any monetary penalties assessed against construction contractors for noncompliance detected during inspections that were performed were not always documented or approved.

Department of Information Technology (DoIT) and Selected State Agencies – Telecommunication Resource Sharing Agreements (RSA) – Performance Audit

Our audit disclosed that DoIT had not established comprehensive policies to guide State agencies on the proper execution, control, and monitoring of RSAs. RSAs are contractual agreements with private companies for the non-exclusive, long-term use of State rights-of-way, communications infrastructure, and real estate. In exchange, the companies provide the State with monetary compensation, equipment, or services. The scope of the audit was limited to RSAs with 11 of the 21 State agencies under DoIT's authority, valued at $264.1 million. DoIT and five other State agencies, which had 100 RSAs valued at $179.9 million, did not maintain comprehensive records of RSAs to assist in the monitoring of compensation and renewal terms. We also identified 79 RSAs valued at $50.3 million that lacked required approvals from DoIT, the Legislative Policy Committee, and/or the Board of Public Works.

Five State agencies improperly retained compensation totaling $7.3 million.

Some State agencies did not treat certain agreements as RSAs even though the agreements were consistent with the description in law, potentially resulting in the failure to receive or maximize compensation. Additionally, certain State agencies did not ensure that all monetary compensation was received in accordance with the RSAs. We identified uncollected compensation totaling $6 million.

DoIT did not monitor State agencies to ensure resource sharing monetary compensation was deposited into the Major Information Technology Development Fund as required by State law. Our test disclosed five State agencies improperly retained compensation totaling $7.3 million.

Finally, DoIT did not have a strategic plan to market RSA opportunities to generate revenues and to help achieve Statewide telecommunication infrastructure goals (such as expanding rural broadband).

Maryland Department of Transportation – Maryland Transit Administration (MTA)

MTA used existing contracts to obtain unrelated services. For example, $319,000 was paid for an individual to perform accounting-related services under two existing architectural and engineering contracts. These payments included administrative fees paid to the subcontractors that procured the services at MTA's direction. Additional contract procurement and monitoring deficiencies and certain questionable activities were identified as a result of other referrals to our fraud, waste, and abuse hotline. The results of a separate review of those allegations were reported upon in a subsequent special report.

MTA did not pursue recovery of approximately $725,000 in questionable payments.

MTA used interagency agreements with institutions of higher education to circumvent State procurement regulations that require competitive bidding. MTA directed two institutions to enter into agreements with a private vendor to provide services that were outside the scope of the agreements. Related expenditures, which dated back to 2012, totaled $1.8 million and included $529,000 in administrative fees paid to the institutions. Associated task orders were not sufficiently detailed to allow MTA to ensure the required work was performed. MTA also did not pursue recovery of approximately $725,000 in questionable payments made under one agreement identified by its Office of Audits.

MTA lacked sufficient evidence to support certain sole source procurements, required bid documentation was not maintained for two large procurements, and MTA repeatedly procured services from two vendors using a corporate purchasing card without soliciting competitive bids. MTA also paid $6.1 million to a vendor to clean its light rail vehicles without ensuring the required work was performed.

Selected Audit Report Findings and Other Issues

Maryland-National Capital Park and Planning Commission (M-NCPPC) Prince George's County – Performance Audit

Due to the lack of complete project documentation, we were unable to determine the extent to which M-NCPPC – Prince George's County Department of Parks and Recreation (DPR) capital projects, on an overall basis, have experienced completion delays or cost increases, which was the objective of the audit. The lack of formal project records necessary to document the status of individual capital projects, coupled with DPR not fully using the capabilities of its project management software system, resulted in the incomplete information about project timelines and activities. Nevertheless, our audit found lengthy timeframes (up to 12 years) between project initiation and completion for five projects tested in detail for which costs totaled $39 million. Ultimately, four of these projects were completed within their financial budgets, and the fifth was in progress.

State Employee Performance Evaluation Program – Performance Audit

Our audit found that many employees of the agencies under the Department of Budget and Management's (DBM) authority did not receive required evaluations. According to the Annual Personnel Reports for FYs 2012 through 2016, State agencies reported that from 83.9 to 90.8 percent of their State employees received performance evaluations. On average, about 5,600 employees had not received annual performance evaluations during those years. In addition, DBM lacked a comprehensive strategy to improve agency compliance with the evaluation requirements in State law. For example, there was no documentation that DBM had taken formal efforts to improve the compliance of one agency which reported that 69 percent of its 9,500 employees received an evaluation as of June 30, 2016. In addition, neither DBM nor the agencies selected for our review had processes in place to ensure the content of employee evaluations met applicable State requirements or policies.

Department of Human Services (DHS) – Baltimore City Department of Social Services (BCDSS) – Special Review

A former BCDSS management employee directed a nonprofit organization to invoice, and authorized BCDSS to pay, $500,000 for a cancelled project on which no work had been performed. The actions raised serious questions about the intended use of the funds. We brought this matter to the attention of DHS management personnel in November 2017 and DHS recovered the funds in December 2017.

The former BCDSS management employee also circumvented State procurement regulations by directing a nonprofit organization to contract with and pay an out-of-state vendor for work unrelated to BCDSS's agreements with the nonprofit organization. Some of the related payments appeared questionable, such as electronic equipment purchases that appeared to have been for the personal use of the former BCDSS management employee or were given by this employee to others as gifts.

Management Training – Department of Budget and Management's (DBM) Oversight of Training Offered to Management Employees – Performance Audit

DBM had not established a formal training program for the approximately 3,200 employees in management positions in agencies under the State's Personnel Management System (SPMS). A formal management training program could help further develop their skills and abilities and train them to perform their duties as efficiently as possible.

Although DBM offered certain training to personnel administrators in SPMS as well as on-line courses on various topics that are available to management employees, neither the training nor the courses focused on all eight core subjects (as determined by OLA) necessary for a comprehensive management training program. These eight subjects are leadership, ethics, communication, coaching and motivation, delegation, critical thinking, conflict resolution, and planning.

Maryland Health Benefit Exchange (MHBE)

MHBE relied solely on the Maryland Automated Benefits System (MABS), without using federal tax information, to verify the income of certain applicants even though MABS excluded many types of income (such as interest, dividends, alimony, rental income, and wages from exempt employers such as federal agencies). MABS is a database maintained by the Department of Labor, Licensing and Regulation (DLLR) that contains employer reported wages for most Maryland workers and unemployment insurance benefits paid. Using MABS data exclusively for income verification purposes has inherent limitations that restricts its effectiveness. Since MABS data does not include all types of income, the verification process may not identify applicants who omit or underreport their income.

In addition, MHBE did not obtain MABS unemployment compensation data from DLLR to use in its verification process and, as a result, the verification would not identify underreported or omitted unemployment compensation. Our audit scope was limited with respect to MHBE's Medicaid eligibility determination and redetermination processes because of restrictions imposed by the federal Internal Revenue Code on access to federal tax information as well as MHBE's application of the restrictions to applicant data.

Department of Labor, Licensing and Regulation – Division of Labor and Industry (DLI)

DLI did not have a process to ensure the consistent issuance of citations or assessment of penalties on entities which failed to obtain and pass the required safety inspections and thus were operating boilers, pressure vessels, or elevators without a valid certificate of inspection. The citations serve as notification to entities with expired certificates, and direct the entities to obtain the required inspection and submit the required inspection documentation to DLI. According to agency records, which we tested and found reliable, as of April 3, 2018, 1,731 boilers and pressure vessels had been operating for more than 60 days without a valid certificate of inspection. In addition, as of March 30, 2018, 3,131 elevators had been operating for more than 60 days without a valid certificate of inspection.

DLI was not effectively monitoring and enforcing contractor compliance with the State's prevailing wage rates requirements. DLI's prevailing wage system was not flagging all questionable contractor-submitted payroll reports, for investigative review, when the reports evidenced possible non-compliance with the prevailing wage requirements. As of May 7, 2018, the system had flagged for review only 8 of the 99,005 certified payroll reports submitted since August 20, 2017. By comparison, during FY 2017, the system flagged 17,538 reports for review. DLI did not consistently assess fines for late submissions of reports. According to information obtained from DUI's prevailing wage systems, we calculated that approximately $7 million in late submission fines were due for FY 2017, but DUI only collected $40,000.

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The Office of Legislative Audits

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The Legislative Audit Bulletin is periodically issued by the Office of Legislative Audits (OLA) to inform the General Assembly of audits or reviews completed and to provide a summary of significant findings from selected reports. Generally, the agencies agreed with the audit findings and recommendations, although some follow-up of the report response may have been necessary. In those infrequent cases of disagreement, we believe that satisfactory resolution has been obtained through subsequent communication between OLA and the applicable agency. Copies of individual reports can be obtained from the OLA website or by contacting either OLA or the Department of Legislative Services, 90 State Circle, Annapolis, Maryland 21401, 410-946-5400 - 301-970-5400. For further details about any report or finding, please contact OLA at the listed numbers.

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