

Audit Report

**Department of Human Services
Local Department Operations**

June 2019



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MARYLAND GENERAL ASSEMBLY

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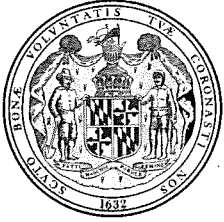
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

June 7, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, House 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 Human Services (DHS) – Local Department Operations (LDO) for the period beginning December 15, 2014 and ending March 12, 2018. LDO is a separate budgetary unit consisting of the funds appropriated to operate the State's 24 local departments of social services (LDSS) and to support the various assistance activities they administer (including the Supplemental Nutrition Assistance Program and Temporary Cash Assistance). The executive director of each LDSS reports to the DHS Secretary.

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

Our review of the most recent audit reports for each of the 24 LDSSs prepared by DHS' OIG during our audit period disclosed that the reports collectively included 259 audit findings, including 73 deemed by the OIG to be repeat findings. The OIG audit findings were related to deficiencies in controls over certain critical areas of LDSS operations, such as fiscal management activities. For example, these audits disclosed deficiencies with respect to bank accounts, procurements, prepaid gift cards, and employee access to critical information systems. In addition, the OIG reported upon deficiencies in the administration of certain public assistance and social service programs, such as the supervisory review of

certain public assistance case files, controls over electronic benefits transfer (EBT) cards, and the timely completion of child and adult protective services investigations.

Our audit also disclosed that the OIG did not routinely include comprehensive reviews of certain critical procurement and disbursement processes in the scope of its audits of the LDSSs, including a review of contract monitoring procedures to ensure the receipt of deliverables. Therefore, we conducted an on-site review of certain procurement and disbursement processes at two LDSSs, and our review disclosed monitoring deficiencies and instances of non-compliance with certain procurement requirements at one of these LDSSs. Specifically, this LDSS did not effectively monitor a \$15.3 million contract for medical case management for children in out-of-home placements, did not prepare adequate sole source justifications for a number of procurements tested, and intentionally split two procurements into smaller amounts to avoid review and approval by the central DHS Contract Processing Unit.

Additionally, we identified 30 instances of possible criminal or unethical employee conduct that the OIG had investigated, but had not referred to the appropriate State authorities, as required by Executive Order.

Finally, our audit included a review to determine the status of the eight findings contained in our preceding audit report. We determined that DHS satisfactorily addressed four of these findings. The remaining four findings are repeated in this report.

DHS' response to this audit, on behalf of LDO, is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while DHS generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor comments" within DHS' response to explain our position. We will advise the Joint Audit Committee of any outstanding issues we cannot resolve with DHS.

We wish to acknowledge the cooperation extended to us during the audit by DHS and OIG, and DHS' willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized initial 'G'.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

Local Department Operations (LDO) is one of seven budgetary units of the Department of Human Services (DHS). It consists of the funds appropriated for operating the State's 24 local departments of social services (LDSS) and supporting the various assistance activities they administer. These activities primarily involve the various DHS public assistance programs, such as the Supplemental Nutrition Assistance Program and Temporary Cash Assistance, which are administered by the LDSSs under policies promulgated by other units within DHS. According to the State's records, the LDO's fiscal year 2018 expenditures totaled approximately \$1.9 billion, which included \$1.4 billion in assistance program expenditures and \$500 million in operating expenditures (primarily employee salaries and benefits).

The remaining units of DHS are audited and reported upon separately by our office. The units of Child Support Administration, Family Investment Administration, and Social Services Administration are audited separately. The Office of the Secretary, the Office of Technology for Human Services, and the Operations Office are consolidated in one audit. Generally, these six units direct or support the activities (including public assistance programs) that are administered statewide by the 24 LDSSs. The executive director of each LDSS reports to the DHS Secretary.

Audit Approach

Section 3-602 of the Human Services Article of the Annotated Code of Maryland requires DHS 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 the DHS 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 DHS' OIG to accomplish our audit objectives. Our audit procedures were generally limited to obtaining a sufficient basis for that reliance. Specifically, 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 generally provided a sufficient basis for reliance on its work. However, as commented upon elsewhere in this report, we noted that the OIG audits did not fully address certain critical procurement and disbursement processes performed

by the LDSSs. Consequently, our audit procedures included conducting a review of these processes at two selected LDSSs.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the eight findings contained in our preceding audit report dated July 24, 2015. As disclosed in the following table, we determined that four of these findings were satisfactorily addressed. The remaining four findings are repeated in this report in that similar conditions still existed with respect to certain operations of the LDSSs as noted in the OIG audit reports.

Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	The most recent OIG audits of the Local Departments of Social Services (LDSS) contained a significant number of reportable conditions and repeat findings.	Not repeated
Finding 2	OIG's corrective action monitoring process for LDSS audits was not effectively followed.	Not repeated
Finding 3	OIG audit reports of the LDSSs were not distributed to all appropriate parties.	Not repeated
Finding 4	Controls were insufficient over bank accounts, procurements, and gift cards.	Repeated (Current Finding 1)
Finding 5	Numerous LDSS deficiencies existed related to critical Family Investment Administration policies.	Repeated (Current Finding 2)
Finding 6	Numerous LDSS deficiencies existed related to critical Social Services Administration policies.	Repeated (Current Finding 3)
Finding 7	Users' access to certain key computer systems was not properly restricted and monitored.	Repeated (Current Finding 4)
Finding 8	Medicaid eligibility determinations for long-term care recipients were not always proper.	Not repeated

Findings and Recommendations

Local Departments of Social Services OIG Audit Findings

The Department of Human Services (DHS) Office of the Inspector General (OIG) classifies the findings from its audits of the 24 local departments of social services (LDSS) into several functional areas, referred to by the OIG as “critical areas.” These areas generally equate to each LDSS’s major operational responsibilities, which include implementing policies established by the Family Investment Administration (FIA) and the Social Services Administration (SSA), and adhering to fiscal and information system regulations and controls. A summary of all OIG audit findings for the most recent audit of each LDSS can be found in Exhibit 1 in this report. Using the results of the OIG’s audits of the 24 LDSSs, we summarized some of the more significant findings in certain critical areas as they appeared in selected reports.

Finding 1

The OIG reported numerous instances in which LDSS controls over fiscal management activities were inadequate, including bank accounts, procurements, and gift cards.

Analysis

Controls and procedures were insufficient over certain LDSS fiscal management activities. Specifically, our reviews of the most recent OIG audit report for each of the 24 LDSSs disclosed 74 findings for 20 LDSSs related to fiscal areas (Exhibit 1) such as bank accounts, procurements, and gift cards. Our review of these OIG audit reports disclosed the following selected findings related to fiscal operations:

- LDSSs frequently lacked adequate controls over bank accounts, which were maintained to pay certain administrative and program-related expenditures. For example, the OIG reports disclosed instances in which there was a lack of accounting and control over returned checks, and in which former employees had remained as authorized check signers. Consequently, there is the potential that unauthorized payments could be processed without prompt detection.
- State procurement regulations were not always followed. For example, bid documentation was not always retained, and certain purchases were split to avoid further required approvals. Consequently, assurance was lacking that the related procurements were in the best interest of the State.

- Accountability for prepaid gift cards was not established. For example, physical inventories of prepaid gift cards were not documented or were not performed by independent employees. Gift cards were provided to certain public assistance recipients in urgent need of support, such as to cover the cost of a meal. A lack of accountability could result in the misuse of the prepaid cards.

Similar LDSS deficiencies were commented upon in our preceding audit report.

Recommendation 1

We recommend that DHS establish appropriate accountability and control over fiscal operations. For example, DHS should ensure that the LDSSs

- a. establish adequate controls over bank accounts, including controls over returned checks and check-signing authority (repeat);**
- b. comply with State procurement regulations (repeat); and**
- c. establish proper accountability over prepaid gift cards (repeat).**

Finding 2

The OIG reported numerous LDSS deficiencies related to critical FIA policies, such as those intended to ensure the propriety of recipient eligibility for public assistance and food benefits.

Analysis

Numerous LDSS deficiencies existed regarding the lack of compliance with critical policies promulgated by FIA. Specifically, our reviews of the most recent OIG audit report for each of the 24 LDSSs disclosed 51 findings from 18 LDSSs related to FIA policies for public assistance programs (Exhibit 1), including the Temporary Cash Assistance (TCA) program and the federal Supplemental Nutrition Assistance Program (SNAP).

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 SNAP helps low-income households purchase food. Recipients access TCA and SNAP benefits through the Electronic Benefits Transfer (EBT) system; the associated EBT card functions as a debit card. Our review of these OIG audit reports disclosed the following selected findings related to FIA programs:

- Controls over EBT cards were not sufficient. For example, the LDSSs did not always perform monthly physical inventory counts of EBT cards on hand. Furthermore, when physical counts were performed, the LDSSs did not

always reconcile the results with the related inventory control records. As a result, missing cards could be improperly activated and used without prompt detection. Effective controls are needed to ensure that EBT cards are only issued to and used by the intended recipients.

- The required number of public assistance case files was not subject to supervisory review, in accordance with FIA quality assurance policies. The reviews were to be performed to help ensure the accuracy and propriety of assistance payments and to help reduce and eliminate program errors.
- Required recipient eligibility documentation for Welfare Avoidance Grant (WAG) program participants was not always available. The purpose of the WAG program was to provide funds to meet a family's immediate and compelling needs and, accordingly, to help the family avoid the need for TCA.
- All potential payment or recipient eligibility errors disclosed by periodic FIA computer matches either were not pursued or were not pursued timely. The lack of timely computer match follow-up could result in improper assistance payments not being detected timely.

Similar LDSS deficiencies were commented upon in our preceding audit report. In addition, deficiencies regarding FIA follow-up when LDSSs failed to conduct the required number of quality assurance reviews and failed to conduct timely and appropriate follow-up on the results of computer matches were commented upon during our most recent audit report on FIA dated March 21, 2019.

According to DHS records, during fiscal year 2018, SNAP disbursements, which are entirely federally funded, totaled approximately \$931 million, and TCA disbursements, which are funded by both State and federal funds, totaled \$163 million.

Recommendation 2

We recommend that DHS ensure that the LDSSs comply with all FIA program requirements. For example, DHS should ensure that the LDSSs

- a. establish appropriate controls over the EBT card inventories (repeat),**
- b. perform supervisory reviews on the required number of case files (repeat),**
- c. obtain and retain required recipient eligibility documentation for the WAG program, and**
- d. perform timely follow-up on all potential payment or eligibility errors identified through computer matches (repeat).**

Finding 3

The OIG reported numerous LDSS deficiencies related to critical SSA policies, including child and adult protective services, and the out-of-home placement program.

Analysis

Numerous LDSS deficiencies existed regarding the lack of compliance, accountability, and control over critical activities subject to SSA oversight. Specifically, the most recent OIG audit reports disclosed 84 findings for all 24 LDSSs related to SSA activities (Exhibit 1), including child and adult protective services, and the out-of-home placement program.

SSA's Child Protective Services unit provides services to assist children believed to be neglected or abused by parents or other adults with parental responsibilities. Adult protective services is a program to assist vulnerable adults who are subject to abuse, neglect, exploitation, or self-neglect. The out-of-home placement program is a temporary service that provides short-term care and support services to children who are unable to live at home because of child abuse or neglect. Generally, these children are temporarily placed in either kinship care (with a relative) or a foster care setting (a fee-based individual foster home or group care environment). Our review of these OIG audit reports disclosed the following selected findings related to SSA programs:

- Child and adult protective services investigations were frequently not completed in accordance with State regulations that require completion within 60 and 30 days of receipt of the allegations, respectively. In addition, the LDSSs did not always notify appropriate law enforcement, as required. These investigations help protect the welfare of children and vulnerable adults.
- Out-of-home placement case files did not always contain documentation that a caseworker had conducted a monthly visit with the child, as required by State regulations. Furthermore, caseworkers frequently did not record their visits with children in DHS records on a timely basis. Consequently, there was a lack of assurance that children in out-of-home placements were receiving vital services necessary for their emotional, physical, and educational well-being.
- Foster care trust accounts were not appropriately maintained. For example, instances were noted in which trust accounts remained open for former foster care children, accounts had negative balances, and accounts were not established when children had the necessary funds. Therefore, there was an increased risk that children may be deprived of personal funds for their benefit and care.

Similar LDSS deficiencies were commented upon in our preceding audit report. In addition, deficiencies regarding a lack of compliance with requirements of the Child Protective Services program, and missing documentation of compliance with certain critical requirements for children in out-of-home placements were commented upon during our most recent audit report on SSA dated November 20, 2017.

According to DHS records, there were 4,798 children in the out-of-home placement program as of June 30, 2018. The related fiscal year 2018 expenditures totaled approximately \$267 million. In addition, 13,488 and 8,400 child and adult protective services investigations, respectively, were completed during the year ending June 30, 2018.

Recommendation 3

We recommend that DHS ensure that the LDSSs comply with all SSA program requirements. For example, DHS should ensure that the LDSSs

- a. complete child and adult protective service investigations timely (repeat) and notify appropriate law enforcement, as required;**
- b. document all monthly visits between the caseworker and the out-of-home placement child (repeat), and record these visits in DHS records in a timely manner; and**
- c. adequately maintain foster care trust accounts (repeat).**

Finding 4

The OIG reported numerous LDSS deficiencies related to user access to critical computer systems.

Analysis

Numerous LDSS deficiencies existed related to critical information system security controls, including unnecessary employee access to key systems. Specifically, our review of the most recent OIG audit report for each of the 24 LDSSs disclosed 38 findings for 18 LDSSs related to computer security (Exhibit 1). These findings related to critical computer applications, such as the Clients' Automated Resource and Eligibility System (CARES), which is used to record, authorize, and disburse TCA and SNAP benefits. Our review of these OIG audit reports disclosed the following selected findings related to computer access and controls:

- Controls over the granting of user access to critical systems were inadequate. For example, documents authorizing certain employee access were missing or were not completed, and some employees were granted access capabilities

that were not required for their job duties.

- Employees' assigned access capabilities were not properly monitored. For example, the logon IDs of certain former employees were not removed timely and employee access was not periodically reviewed for continued appropriateness.

Based on these conditions, assurance was lacking that employee access was necessary and appropriate. Depending on the nature of the unnecessary system access, such conditions could potentially result in unauthorized changes to critical data without detection. Similar LDSS deficiencies were commented upon in our preceding audit report.

Recommendation 4

We recommend that DHS establish appropriate accountability and control over information system access. For example, DHS 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 each employee's job duties (repeat); and**
- b. perform formal, periodic monitoring of employee system access and promptly delete the access of former employees (repeat).**

Office of the Inspector General Audit Coverage

Finding 5

The scope of the LDSS audits conducted by the OIG did not routinely include reviews of certain critical procurement and disbursement processes.

Analysis

LDSS audits conducted by the OIG did not routinely include an examination of certain critical procurement and disbursement processes performed by the LDSSs. Specifically, while the LDSS audit scope appropriately included reviewing competitive procurements, the use of written contracts, and proper approvals, it did not include reviewing the propriety of the use of the sole source procurement method; contract monitoring procedures; and procedures for ensuring the receipt of services and other deliverables. The OIG audits also did not include comprehensive reviews of the disbursement approval processes at the LDSSs. According to State records, during fiscal year 2018, LDSS non-payroll expenditures totaled approximately \$118 million, including \$71 million for contractual services (\$63 million) and grants (\$8 million).

Although the aforementioned procurement and disbursement processes were not routinely examined during the LDSS audits, these processes and functions were included within the scope of LDSS audits under certain circumstances. For example, the OIG conducted a review of contract monitoring and payment procedures at one LDSS because of certain allegations it received. The OIG's report on this LDSS identified several deficiencies, such as failure to follow State procurement regulations, and a lack of supporting documentation that contractual services were received prior to processing related payments.

Similarly, we issued a Special Review report, dated July 11, 2018, based on our examination of an allegation received through our fraud, waste, and abuse hotline regarding payments made by the Baltimore City Department of Social Services (BCDSS) to a nonprofit organization. The report included a number of significant findings. For example, the report noted that BCDSS paid \$500,000 to the organization for a cancelled project on which no work had been performed, and directed the organization to contract with an out-of-state vendor for unrelated work. The report also stated that BCDSS lacked sufficient procedures and accountability over the execution, use, and monitoring of agreements valued at \$9.6 million. In its response to that report, DHS concurred with all recommendations, including those to improve procedures and accountability with respect to BCDSS procurement and disbursement processing.

During this LDO audit, based in part on consideration of the results of our aforementioned Special Review, we examined procurement and disbursement procedures at two LDSSs (Baltimore City and Prince George's County) with significant contract and grant activity. Our review of those procedures found additional deficiencies at the BCDSS, which are commented upon in findings 6 and 7 in this report.

In our opinion, the significant collective value of non-payroll expenditures at the LDSSs and the aforementioned examples of discrepancies and deficiencies noted justify the expansion of the OIG's audit scope in procurement and disbursement processing. Specifically, the formal OIG audit scope should be expanded to include the routine examination of the propriety of the use of the sole source procurement method, contract and grant monitoring, and procedures for ensuring the receipt of all services and other deliverables prior to payment.

Recommendation 5

We recommend that the OIG routinely include in its audits of LDSSs an examination of the propriety of the use of the sole source procurement method, contract monitoring, and procedures to ensure the receipt of all services and other contract deliverables prior to payment.

OLA Findings at Local Departments of Social Services Reviewed

As noted in Finding 5 of this audit report, the OIG audits did not fully address certain critical procurement and disbursement processes and functions performed by the LDSSs. Consequently, based on the significance of disbursements, and in consideration of the nature of certain findings from our July 2018 Special Review report, we conducted a review of these procedures and processes at the two largest LDSSs - Baltimore City LDSS (BCDSS) and Prince George’s County LDSS (PGDSS) - as indicated below:

Fiscal Year 2017 LDSS Contract and Grant Disbursements	
LDSS	Expenditures
Baltimore City	\$21.2 million
Prince George’s County	\$ 8.5 million
All Others	\$28.4 million
TOTAL	\$58.1 million

Source: State records (cash basis)

Specifically, at both LDSSs, we reviewed the procurement and invoice approval processes, tested contract awards, and reviewed selected payments for the awards tested. At the BCDSS, our testing also included sole source procurements and certain invoice payments. Our review disclosed several control deficiencies over contract monitoring, compliance with certain State procurement regulations and policies, and the approval of disbursement transactions.

Finding 6

DHS did not have a process in place to ensure that BCDSS contracts were adequately monitored, and that it complied with certain DHS and State procurement policies and regulations. Our review disclosed contract monitoring deficiencies and instances of non-compliance with certain procurement requirements.

Analysis

DHS did not ensure that BCDSS contracts were adequately monitored, and that the local department complied with certain DHS and State procurement policies and regulations. Our review of three contracts, valued at approximately \$25.4 million including renewal options, disclosed contract monitoring deficiencies with one contract for \$15.3 million. In addition, we judgmentally tested 10 unrelated procurements totaling \$234,531 (ranging from \$19,220 to \$24,999), which

included 9 designated by BCDSS as sole source procurements. Our test, based on available BCDSS documentation, revealed that certain procurements were intentionally split to avoid DHS requirements for larger procurements and that certain sole source transactions were not adequately justified.

Effective Contract and Payment Monitoring Was Not Established

BCDSS did not obtain and review adequate documentation to effectively monitor a \$15.3 million contract for medical case management and oversight services for children in out-of-home placement, such as foster care. The five-year contract, which began in July 2015, required the vendor to coordinate and oversee health care for these children, including ensuring that medical care required by State laws and regulations was received by each child. According to State records, BCDSS paid the vendor approximately \$6 million during fiscal years 2016 and 2017.

Required monthly reports of the health care status of each child were received from the vendor; however, BCDSS did not review the reports and obtain explanations when the reports showed that required health care had not been provided. For example, the June 2018 report identified 335 foster children under 18 years of age who had not received an annual medical exam in the preceding year as required, including 92 children who had never received a medical exam despite being placed in foster care from 1 to 18 years prior to the report date. BCDSS personnel advised us that they had not reviewed the report nor investigated the lack of health care exams. After our inquiries regarding this matter, BCDSS contacted the vendor and the vendor subsequently advised us and BCDSS that the report may have been incomplete or inaccurate. At the time of our audit, BCDSS had not investigated the reliability of the vendor's original reports nor obtained revised, corrected reports.

Furthermore, the contract required the vendor to provide certain types and quantities of positions, such as up to 21 medical case managers, and required that those positions be filled by specific individuals at salaries specified in the contract. In accordance with the contract, the vendor was paid based on the budgeted salaries for these required positions. However, BCDSS did not obtain any documentation, such as available timesheets, to verify that the vendor provided the staffing in accordance with the contract. In addition, BCDSS did not verify the rates billed by the vendor agreed with the contract rates. Our limited testing did not disclose any significant discrepancies between invoices and the contract rates.

BCDSS Circumvented DHS Procurement Policy

We noted two BCDSS procurements, each exceeding \$25,000, that were not submitted to the DHS Contract Processing Unit for approval as required by the DHS procurement policy for all LDSS contracts exceeding \$25,000. Specifically, we sighted documentation on file indicating that these procurements were split to keep the transactions below the \$25,000 threshold, based on instructions from management personnel as described below.

One procurement for employee training was split into two consecutive payments – one for \$23,110 in June 2016 and one for \$23,000 in July 2016 – as directed by management personnel. The other procurement was made in March 2016 for the purchase of software to be used to assist in foster care placements. The initial implementation fee was \$23,878 and the agreement required BCDSS to pay a monthly subscription fee of \$3,106, which it did for 15 months (\$46,590), bringing the total value of the procurement to \$70,468. Management personnel instructed BCDSS procurement personnel to exclude the monthly fees from the contract cost, thereby keeping the recorded cost below the \$25,000 threshold.

Sole Source Justifications Were Not Adequate

BCDSS did not prepare an adequate sole source justification for seven procurements tested, totaling approximately \$161,000, for which the sole source procurement method was used. As of the time of our review, BCDSS had paid approximately \$136,000 to these vendors for services such as media advertising and contractual staffing. Specifically, for two procurements no justifications were on file and for the remaining five procurements, the justifications on file did not adequately document that no other vendors were available to provide the particular services. State procurement regulations stipulate that the sole source procurement method can only be used when no other source for the item is acceptable or suitable, and its use must be supported with a written justification approved by the agency head. Based on our review, the nature of these seven procurements suggests that other vendors were likely available to supply these services.

Recommendation 6

We recommend that DHS ensure that LDSS contracts, including the aforementioned BCDSS contract, are adequately monitored, and that procurements comply with DHS procurement policies and State procurement regulations. Specifically, we recommend that DHS

- a. ensure that the LDSSs obtain and review adequate documentation supporting vendor compliance with all contract requirements and the propriety of vendor billings;**

- b. refrain from artificially splitting purchases and enforce the DHS procurement policy regarding required DHS approval of contracts exceeding \$25,000; and**
- c. ensure that LDSSs use the sole source procurement method only when there is adequate documentation of the steps taken to conclude that no other vendors were available to provide the related goods or services, as required by State regulations.**

Finding 7

BCDSS did not establish adequate controls to ensure all disbursement transactions were independently approved.

Analysis

BCDSS did not use the available security features of the State's Financial Management Information System (FMIS) to restrict user access over certain transactions to prevent unauthorized disbursement transactions. For example, we identified two BCDSS employees who unilaterally processed (that is, initiated and approved the related payment transactions) disbursements totaling approximately \$67 million that were not subject to online approval during our audit period. BCDSS advised us that it relied on manual reviews of each invoice before releasing disbursements to the Comptroller of Maryland – General Accounting Division (GAD) for payment. However, our test of eight disbursements made by these two employees during our audit period, totaling approximately \$1 million, disclosed no documentation of the invoices having been manually approved. As a result, unauthorized disbursement transactions could be processed without detection.

Recommendation 7

We recommend that DHS ensure that adequate controls are established over LDSS disbursement transactions, including BCDSS disbursement transactions, to provide for their independent approval prior to submission to GAD for payment.

Reporting of Possible Criminal or Unethical Employee Conduct

Finding 8

The OIG did not refer all instances of possible criminal or unethical employee conduct to the appropriate State authorities as required.

Analysis

The OIG did not refer all instances of possible criminal or unethical employee conduct to the appropriate State authorities as required. According to its records, OIG investigated and determined that there were 30 instances of possible criminal or unethical employee conduct received during the audit period. The Governor's Executive Order, *Standards of Conduct for Executive Branch Employees*, requires all State departments and agencies to immediately report any instance of possible criminal or unethical conduct by an employee of the State (1) to the Principal or Deputy Counsel of the agency or to the Office of Attorney General - Criminal Division (OAG-CD), and (2) to immediately advise the Chief Legal Counsel to the Governor of such referrals. Our audit disclosed the following about these 30 instances:

- The OIG had not referred 20 instances to either DHS Legal Counsel or to OAG-CD as required. We were advised by an OIG management employee that these 20 instances were not referred because the OIG concluded that there was no obvious criminal act that could be charged. Therefore, these instances were addressed internally, such as through employee suspension, resignation, or termination. For example, some of these instances related to employee unauthorized personal use of State computers and employees processing benefit applications for family or friends. The Chief Legal Counsel to the Governor was also not advised of these 20 instances. Although none of these 20 instances were directly referred as required, the employees related to 5 of these 20 instances had been terminated, and another 5 employees had resigned according to OIG records. In this regard, OIG advised us that DHS Legal Counsel may have been notified of the aforementioned 5 terminated employees through the employee termination process.
- The OIG formally referred 10 instances to the OAG-CD or to DHS Legal Counsel, but the OIG did not have documentation that it had advised the Chief Legal Counsel to the Governor of these referrals as required. For example, one instance was that an employee was involved in benefit assistance fraud totaling approximately \$60,000. According to OIG records, the related employees were terminated for 6 of these 10 instances.

We confirmed with the Governor's Office of Legal Counsel that the Executive Order does not give agencies the discretion to decide which cases to refer to their Office. Therefore, all 30 instances should have been referred to the Governor's Chief Legal Counsel as specified in the Executive Order.

Recommendation 8

We recommend that the DHS

- a. ensure that the aforementioned 20 instances are referred to the DHS Principal or Deputy Counsel or to the OAG-CD and advise the Chief Legal Counsel to the Governor of all of these referrals, and**
- b. ensure that all such future instances are immediately reported as required by the Executive Order.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Human Services (DHS) – Local Department Operations (LDO) for the period beginning December 15, 2014 and ending March 12, 2018. 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 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.

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 DHS Office of Inspector General (OIG) audits, and certain procurement and disbursement activity at two local departments of social services. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to LDO by the DHS 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 DHS Office of the Secretary. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs (such as the Supplemental Nutrition Assistance Program) and an assessment of LDO's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including LDO.

Section 3-602 of the Human Services Article of the Annotated Code of Maryland requires DHS 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 OIG. To avoid duplication of work, we performed audit procedures necessary to determine whether we could rely on the audit work of DHS' OIG to accomplish our audit objectives pertaining to LDO's major financial-related areas of operations based on significance and risk. These areas addressed by the OIG

audits included the LDSS responsibilities to implement various DHS assistance programs as well as their financial processes. Our audit procedures were generally limited to obtaining a sufficient basis for that reliance.

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 generally provided a sufficient basis for reliance on its work, except with respect to certain critical procurement and disbursement processes performed by the LDSSs. While we did not conduct audits of the LDSSs, our audit procedures did include reviewing these critical procurement and disbursement processes at two selected LDSSs. Consequently, the findings in this report, while primarily based on the results reported by the OIG for the 24 LDSSs it audited during our audit period, also include the results of audit procedures we performed at the two selected LDSSs.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of LDO operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). 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 this source were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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 findings relating to 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 findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to LDO that did not warrant inclusion in this report.

The response from DHS, on behalf of LDO, 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 DHS regarding the results of our review of its response.

EXHIBIT 1
Summary of All Audit Findings
Reported by DHS Office of the Inspector General (OIG)
Most Recent Audit of Each of the 24 Local Departments of Social Services as of July 2018

Local Department of Social Services (LDSS)	Number of OIG Reportable Findings by Area					Total OIG Findings	Number of Repeat OIG Findings	Percentage of Repeat OIG Findings	Fiscal Year 2018 Expenditures
	Social Services Admin.	Fiscal Management	Family Investment Admin.	Computer System Security	Other				
Allegany County	1	1	1	n/a	n/a	3	0	0%	\$38,504,162
Anne Arundel County	3	6	3	2	n/a	14	7	50%	97,513,831
Baltimore City	11	6	5	4	n/a	26	10	38%	614,122,461
Baltimore County	4	2	4	3	n/a	13	4	31%	236,071,247
Calvert County	3	3	2	1	1	10	1	10%	18,753,167
Caroline County	3	1	n/a	3	n/a	7	1	14%	18,028,845
Carroll County	3	2	4	2	1	12	1	8%	28,361,155
Cecil County	3	n/a	n/a	1	1	5	1	20%	41,399,676
Charles County	8	8	5	1	2	24	8	33%	39,382,623
Dorchester County	3	2	2	2	1	10	2	20%	21,638,891
Frederick County	3	3	1	n/a	n/a	7	0	0%	47,581,533
Garrett County	5	1	2	2	1	11	0	0%	12,499,065
Harford County	4	4	1	3	1	13	2	15%	59,620,257
Howard County	4	5	5	4	2	20	8	40%	42,011,037
Kent County	1	n/a	1	n/a	n/a	2	0	0%	8,925,136
Montgomery County	9	5	6	4	n/a	24	12	50%	150,435,104
Prince George's County	5	6	4	2	n/a	17	11	65%	219,969,903
Queen Anne's County	1	n/a	n/a	n/a	n/a	1	0	0%	10,815,946
Somerset County	3	n/a	n/a	1	n/a	4	0	0%	17,550,675
St. Mary's County	2	4	2	1	n/a	9	2	22%	34,231,520
Talbot County	1	5	n/a	1	1	8	1	13%	13,160,218
Washington County	2	2	n/a	n/a	n/a	4	0	0%	64,741,592
Wicomico County	1	7	2	1	1	12	2	17%	43,459,788
Worcester County	1	1	1	n/a	n/a	3	0	0%	17,392,516
TOTAL	84	74	51	38	12	259	73	29%	\$1,896,170,349

Source: DHS - OIG Audit Reports and DHS financial records

N/A – Not applicable; no findings in this area.

May 10, 2019

Mr. Gregory A. Hook
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Hook,

Please find enclosed the Department of Human Services' (DHS) response to the draft Legislative Audit Report of the Department of Human Services – Local Department Operation (LDO) for the period beginning December 15, 2014 and ending March 12, 2018.

If you have any questions regarding the responses, please contact Inspector General Kevin Carson at 443-378-4060 or at kevin.carson@maryland.gov.

Sincerely,



Lourdes R. Padilla
Secretary

Enclosures

cc:

Gregory James, Deputy Secretary, Operations
Randi Walters, Deputy Secretary, Programs
David Lee, Assistant Deputy Secretary, Programs
Craig Eichler, Chief of Staff
Kenyatta Powers, Chief, Office of Technology for Human Services
Stafford Chipungu, Chief Financial Officer
Kevin J. Carson, Inspector General, OIG
Netsanet Kibret, Executive Director, FIA
Rebecca Jones-Gaston, Executive Director, SSA
Samantha Blizzard, Special Assistant, Office of the Secretary



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Local Departments of Social Services OIG Audit Findings

Finding 1
The OIG reported numerous instances in which LDSS controls over fiscal management activities were inadequate, including bank accounts, procurements, and gift cards.

We recommend that DHS establish appropriate accountability and control over fiscal operations. For example, DHS should ensure that the LDSSs

- a. establish adequate controls over bank accounts, including controls over returned checks and check-signing authority (repeat);
- b. comply with State procurement regulations (repeat); and
- c. establish proper accountability over prepaid gift cards (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 1a	Agree	Estimated Completion Date:	May 2019
Please provide details of corrective action or explain disagreement.	<p>The Department concurs with the finding. Beginning in February and through May 2019, a department-wide system for local bank account activities is being implemented. The new system provides control over user access and separation of duties. In addition, the new system will enhance the ability to view the local department working fund disbursements and receipts in detail. As a result of the implementation of the new system, the Central Office of Budget and Finance can provide better oversight of, and support to, the operations of the local departments.</p> <p>In addition to monitoring working fund activities, Budget and Finance will review the local department returned check logs and check signatories regularly, to ensure internal controls are not circumvented.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	The Department concurs with the finding. Compliance with State procurement regulations will be emphasized through Department-wide on-line training and bi-monthly Procurement Advisory Committee meetings.		

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Recommendation 1c	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	The Department concurs with the finding. Budget and Finance will review local gift card inventory regularly to ensure internal controls are not circumvented.		

Finding 2
The OIG reported numerous LDSS deficiencies related to critical FIA policies, such as those intended to ensure the propriety of recipient eligibility for public assistance and food benefits.

We recommend that DHS ensure that the LDSSs comply with all FIA program requirements. For example, DHS should ensure that the LDSSs

- a. establish appropriate controls over the EBT card inventories (repeat),
- b. perform supervisory reviews on the required number of case files (repeat),
- c. obtain and retain required recipient eligibility documentation for the WAG program, and
- d. perform timely follow-up on all potential payment or eligibility errors identified through computer matches (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 2a	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	<p>The Family Investment Administration (FIA) has been working to take steps to improve our processes through Standard Operating Procedures (SOPs) and enhanced oversight to help mitigate audit findings.</p> <p>The Electronic Benefits Transfer (EBT) Project Office reissued a copy of the EBT Card Inventory Procedures to all custodians. The Card Inventory Procedures state the proper way of the handling, storage, issuance, and reconciliation of EBT cards. Quarterly physical checks by the custodians' supervisor will be performed to ensure procedures are</p>		

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	<p>being followed properly.</p> <p>Federally mandated Food Supplement Management Evaluations (FSME) are completed annually by the Bureau of Program Evaluation (BPE) that includes a review module for EBT.</p>		
Recommendation 2b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>FIA's BPE reviews Temporary Cash Assistance (TCA) cases selected in the monthly Federal Work Participation Rate (WPR) sample to ensure that work eligible individuals continue to meet their work activity requirements. As of February 2019, BPE has enhanced its TCA monitoring oversight to include payment accuracy. BPE uses a random sample of new WPR and active TCA cases to aggregate a monthly review sample. The questions for the sample are parallel to the Recipient Integrity module of the FSME review. In the event an underpayment or overpayment is discovered, the case is referred to the assigned Local Department of Social Services (LDSS) office for further investigation. The Bureau of Quality Control (QC) reviews 30 randomly selected TCA cases monthly. The TCA payment accuracy review process is outlined in BPE's SOP.</p> <p>As of 2017, the review of Food Supplement (FS) payment accuracy is conducted monthly within FIA's web based Pre-Review Direct system. Accordingly, the local departments have not since received any audit findings in this area. In addition, BPE's Pre-Review SOP outlines the requirements and BPE monitoring guidelines.</p>		
Recommendation 2c	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>As of November 2017, BPE completes a review of Welfare Avoidance Grants (WAGs) monthly. Accordingly, the local departments have not since received any audit findings in this area. The review includes validation of recipient eligibility documentation. The review process is outlined in BPE's WAGs & Emergency Assistance to Families with Children (EAFC) SOP.</p>		
Recommendation 2d	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>The LDSS's are responsible for identifying and determining the months of overpayments and updating the Client Automated Resource Eligibility System (CARES) to establish the overpayment. Since 2016, BPE tracks and monitors the status of overpayment Benefit Error Groups (BEGs) for processing within six months. Accordingly, only 1 local department has since received an audit finding in this area. When appropriate, BPE follows up with LDSSs for BEGs generated that are related to these alerts. The BPE SOP on BEGs provides a detailed description of FIA oversight in this area.</p>		

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	<p>BPE engaged in a statewide alerts dispositioning project between the months of August 2016 through December 2016. The project involved the LDSS's and FIA Central staff working to disposition overdue alerts. While some audits contained issues in this area, most showed significant improvements in the number of overdue alerts.</p> <p>BPE continues to complete a monthly review of a system generated report for overdue alerts and communicates results in a memorandum to each impacted LDSS. BPE monitors the completion of all outstanding PARIS alerts using shared files between the LDSS's and FIA Central. BPE conducts a third layer of monitoring by sampling cases within the monthly overdue alerts tracking sheet submitted to LDSS offices. This review is designed to ensure alerts are dispositioned in CARES.</p> <p>In addition, BPE continues to conduct federally mandated Management Evaluations, which captures the review of a sample month of cases on new hire computer matching alerts. BPE's SOP provides an outline of oversight conducted for computer matches.</p>
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Finding 3

The OIG reported numerous LDSS deficiencies related to critical SSA policies, including child and adult protective services, and the out-of-home placement program.

We recommend that DHS ensure that the LDSSs comply with all SSA program requirements. For example, DHS should ensure that the LDSSs

- a. complete child and adult protective service investigations timely (repeat) and notify appropriate law enforcement, as required;**
- b. document all monthly visits between the caseworker and the out-of-home placement child (repeat), and record these visits in DHS records in a timely manner; and**
- c. adequately maintain foster care trust accounts (repeat).**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 3a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>Effective October 1, 2017, the investigation period for Adult Protective Services (APS) was extended to 60 days to ensure time for a more complete assessment to assist vulnerable adults who are subject to abuse, neglect, exploitation or self-neglect. SSA is in the beginning stages of implementing a monthly monitoring process to ensure compliance with the new law.</p> <p>Specific to Child Protective Services (CPS), SSA implemented processes to monitor the timeliness of investigations and provide technical assistance and support to the local departments who are not completing investigations in accordance with State regulations. In addition, SSA has implemented an onsite review process, required by the federal government that assesses the quality of the services provided by the local departments. Included in this review is the assessment of the timeliness of investigations. For any local department that has not met the measurement standard, a continuous improvement plan is developed and monitored quarterly to assess their progress. Based on the review of five jurisdictions (28 cases), 89.3% of the cases were in compliance with this requirement.</p> <p>SSA is developing a local Quality Assurance (QA) process to ensure</p>		

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	local compliance with a number of critical SSA policies and State regulations to include notification to law enforcement.		
Recommendation 3b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>SSA has implemented monthly reporting to notify local departments of their status and documentation of caseworker visits. SSA is utilizing the data to strengthen our ability to provide technical assistance and support to the local departments who are not completing and documenting caseworker visits in accordance with State regulations.</p> <p>In addition, SSA is developing a local QA process to ensure local compliance with a number of critical SSA policies and State regulations to include caseworker visits.</p>		
Recommendation 3c	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	<p>SSA issued policy in November 2018 regarding foster youth trust funds. The policy explains in detail, requirements and procedures for the conservation of funds held on behalf of foster children. Prior to the issuance of the policy in November a webinar was conducted in October 2018 to orient staff to the new policy regarding foster youth trust funds. Furthermore, two statewide trainings were conducted in March 2019 for all program and fiscal staff.</p> <p>SSA is monitoring child Social Security SSI benefits being conserved, and is assisting the local departments with establishing Special Needs Trusts for these children.</p>		

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Finding 4

The OIG reported numerous LDSS deficiencies related to user access to critical computer systems.

We recommend that DHS establish appropriate accountability and control over information system access. For example, DHS 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 each employee’s job duties (repeat); and
- b. perform formal, periodic monitoring of employee system access and promptly delete the access of former employees (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 4a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	OTHS offers approximately 6 Security Monitor training classes each year. Training is required for all new security monitors and must be attended again at least once every 2 years. Additional training classes were held during April 2019. The training includes reminders regarding password use, entitlement review, former employee off-boarding, and other topics. Security Monitors who fail to attend the mandatory trainings risk having their security monitor status revoked.		
Recommendation 4b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	An off-boarding process was developed by HRDT and is used by OTHS. This process was enhanced on January 1, 2017. OTHS compares monthly separation reports from HRDT with off-boarding notifications to identify any users who were not properly off-boarded including transfers to other Local Departments. The off-boarding process and periodic monitoring of employee system access are discussed at length during the mandatory security monitor training.		

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Office of the Inspector General Audit Coverage

Finding 5
The scope of the LDSS audits conducted by the OIG did not routinely include reviews of certain critical procurement and disbursement processes.

We recommend that the OIG routinely include in its audits of LDSSs an examination of the propriety of the use of the sole source procurement method, contract monitoring, and procedures to ensure the receipt of all services and other contract deliverables prior to payment.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 5	Agree	Estimated Completion Date:	May 2019
Please provide details of corrective action or explain disagreement.	DHS – OIG concurs with the recommendation. While OIG routinely examines procurement and disbursement processes at LDSSs based on risk, materiality and significance; we will ensure that audit coverage and consideration of the following areas are justified and documented: <ul style="list-style-type: none"> a) propriety of sole source procurements, b) contract monitoring procedures to include the receipt of services and other deliverables, and c) disbursement approvals. 		

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OLA Findings at Local Departments of Social Services Reviewed

Finding 6
DHS did not have a process in place to ensure that BCDSS contracts were adequately monitored, and that it complied with certain DHS and State procurement policies and regulations. Our review disclosed contract monitoring deficiencies and instances of non-compliance with certain procurement requirements.

We recommend that DHS ensure that LDSS contracts, including the aforementioned BCDSS contract, are adequately monitored, and that procurements comply with DHS procurement policies and State procurement regulations. Specifically, we recommend that DHS

- a. ensure that the LDSSs obtain and review adequate documentation supporting vendor compliance with all contract requirements and the propriety of vendor billings;**
- b. refrain from artificially splitting purchases and enforce the DHS procurement policy regarding required DHS approval of contracts exceeding \$25,000; and**
- c. ensure that LDSSs use the sole source procurement method only when there is adequate documentation of the steps taken to conclude that no other vendors were available to provide the related goods or services, as required by State regulations.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	No concerns.		
Recommendation 6a	Agree	Estimated Completion Date:	October 2018
Please provide details of corrective action or explain disagreement.	Upon receipt of the July 2018 Office of Legislative Audits (OLA) Special Review, we developed a mitigation plan and executed an internal special review of all procured agreements over \$100,000. The internal special review included receipt and review of adequate documentation supporting vendor compliance with all contract requirements and the propriety of vendor billings. We documented our findings and submitted to DHS a comprehensive report in August and October of 2018 which was also shared with OLA.		
Recommendation 6b	Agree	Estimated Completion Date:	August 2018

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Please provide details of corrective action or explain disagreement.	As mentioned in the response above, this was also a finding in the July 2018 OLA Special Review. We have mitigated the issues.		
Recommendation 6c	Agree	Estimated Completion Date:	August 2018
Please provide details of corrective action or explain disagreement.	As mentioned in the response above, this was also a finding in the July 2018 OLA Special Review. We have mitigated the issues.		

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Finding 7
BCDSS did not establish adequate controls to ensure all disbursement transactions were independently approved.

We recommend that DHS ensure that adequate controls are established over LDSS disbursement transactions, including BCDSS disbursement transactions, to provide for their independent approval prior to submission to GAD for payment.

Agency Response			
Analysis	Not Factually Accurate		
Please provide additional comments as deemed necessary.	<p>Our analysis reflects this finding to be inaccurate. Our Accounts Payable Manger has verified that the employees mentioned in the findings have the appropriate security levels access which allows them to enter data into FMIS for payment. Neither of these specific employees can initiate or approve an invoice for payment. Both the Accounts Payable Manager and supervisor can transmit batched invoices in FMIS, however, neither can initiate, enter or approve an invoice for payment. All batched and transmitted invoices are reviewed and initialed by the staff who transmitted the batch.</p> <p>In addition, invoices submitted for payment must have a program or designated manager's signature (prior to payment), indicating services have been completed and the specific invoice billed correctly and therefore is payable. This process will be documented.</p> <p>Finally, staff outside of Accounts Payable (excluding Procurement Staff) have limited specified security level access in FMIS, none of which can initiate or submit an invoice in FMIS for payment.</p>		
Recommendation 7	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	BCDSS established adequate controls for disbursement transactions to provide for their independent approval prior to submission to the General Accounting Division for payment.		

Auditor's Comment: DHS' response states that the finding's analysis is inaccurate and that neither of the BCDSS employees mentioned in the finding can initiate or approve an invoice for payment. DHS' position demonstrates a continued misunderstanding of the finding in spite of our numerous discussions with DHS personnel. As a result of these discussions, we believed that we had reached consensus as to the finding's accuracy.

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DHS' position also clearly contradicts the details we provided in the finding's analysis that noted that the disbursements we tested, in fact, had been unilaterally processed by these two employees.

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Reporting of Possible Criminal or Unethical Employee Conduct

Finding 8
The OIG did not refer all instances of possible criminal or unethical employee conduct to the appropriate State authorities as required.

We recommend that the DHS

- a. ensure that the aforementioned 20 instances are referred to the DHS Principal or Deputy Counsel or to the OAG-CD and advise the Chief Legal Counsel to the Governor of all of these referrals, and**
- b. ensure that all such future instances are immediately reported as required by the Executive Order.**

Agency Response	
Analysis	Not Factually Accurate
<p>Please provide additional comments as deemed necessary.</p>	<p>The OIG agrees with the intent of each recommendation and will take actions necessary to ensure that substantiated instances of criminal or unethical conduct by DHS employees or contractors are referred to the proper authorities in accordance with the Executive Order. While the executive order states that any instance of “possible” criminal or unethical conduct be referred, it would be unethical for an OIG to refer all instances whether unfounded or not. It would also be unfair to refer the name of any employee named in such an instance to higher authorities if the instance could not be substantiated through an impartial investigation of the facts.</p> <p>With respect to the 20 “instances” the OLA refers to as not being referred, 10 of the employees either were terminated or resigned from State employment. The DHS Legal Counsel is often consulted with regards to any employee termination. The remaining 10 instances not referred were unsubstantiated criminal cases. As stated earlier, it would be not only completely unethical, but also unfair to refer any employees named in any unsubstantiated instances outside the OIG.</p> <p>Finally, OLA’s conclusion that the “Executive Order does not give agencies the discretion to decide which cases to refer” and therefore “all 30 instances should have been referred clearly lacks any context to the environment in which an OIG and large state agency operates. This issue of referral to the Governors Chief Legal Counsel of all cases involving criminal or unethical conduct has been discussed with DHS Executive Management. The OIG has been informed that the</p>

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	Governor’s representatives do not want to be notified of every single investigation of employee misconduct but only of those instances where a high profile appointee or case whose potential impact may cause damage or harm to the State. As such, we will selectively forward to the appropriate authorities only those cases that meet the profile relayed to us from the Governor’s office.		
Recommendation 8a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	The OIG already is in compliance with the Executive Order as intended and will continue to properly notify all appropriate authorities of substantiated instances of criminal or unethical conduct.		
Recommendation 8b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	The OIG already is in compliance with the Executive Order as intended and will continue to properly notify all appropriate authorities of substantiated instances of criminal or unethical conduct.		

Auditor’s Comment: DHS’ response raises several objections to our analysis that are not supported by facts. DHS’ first objection states that it would be unethical for OIG to referral “all instances whether unfounded or not.” Our test was limited to instances where DHS determined the allegation to be credible. In its response, DHS states that 10 instances were not referred as they were unsubstantiated criminal cases; however, this arbitrary distinction ignores the fact that these cases were typically violations of State policies that were possible instances of unethical employee conduct and therefore subject to reporting as required by the Executive Order.

In addition, DHS asserts that the Governor’s Executive Order does not require that all instances of possible criminal or unethical employee conduct be referred and that the Governor’s representatives do not wish to be notified of every instance of employee misconduct but, rather, only of high profile allegations or those with potential harm to the State. DHS’ response to the recommendation indicates that it agrees only to report to the appropriate authorities substantiated cases of criminal or unethical employee conduct, which we therefore interpret to include only high profile allegations or those with potential harm. This response is contrary to the Executive Order, which does not give agencies this discretion, a position that we confirmed with the Governor’s Office of Legal Counsel during the audit.

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