Audit Report

Executive Department

Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing

September 2015

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

September 4, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the following units of the Executive Department for the period beginning January 1, 2012 and ending January 20, 2015.

Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing

The Department provides oversight, guidance, and coordination to units within the Executive Department and to other budgetary units within the Executive Branch of the State government.

Our audit disclosed internal control deficiencies relating to cash receipts. For example, independent verifications were not performed at the Governor's Finance Office to ensure that all collections were deposited. In addition, backup files for critical information system servers were not stored at an offsite location and a comprehensive information technology disaster recovery plan did not exist.

The Executive Department's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by the Executive Department.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

301 West Preston Street · Room 1202 · Baltimore, Maryland 21201
410-946-5900/301-970-5900 · Fax 410-946-5999/301-970-5999
Toll Free in Maryland 877-486-9964 · Fraud Hotline 877-FRAUD-11

Background Information

Agency Responsibilities

The Executive Department – Office of the Governor provides oversight, guidance, and coordination to units within the Executive Department and to other budgetary units within the Executive Branch of the State government. The Department also provides the public with information about the Governor's policies and goals, and about the functions of State government. According to the State's accounting records, the Office of the Governor's expenditures were approximately $10.7 million for fiscal year 2014.

The Boards, Commissions, and Offices unit consists of various entities, including the Governor's Office of Community Initiatives and the Governor's Office of Crime Control and Prevention, which were created by statute or executive order to provide planning and coordination for Executive Branch functions. According to the State's accounting records, these entities' expenditures were approximately $127.9 million during fiscal year 2014.

The Governor's Office for Children promotes the State's vision for a stable, safe, and healthy environment for children and families and, according to the State's accounting records, this Office's expenditures were approximately $1.5 million during fiscal year 2014.

The Office of the Deaf and Hard of Hearing advocates for and promotes the general welfare of individuals who are deaf or hard of hearing, and provides, advocates for, and coordinates the adoption of public policies, regulations, and programs that will benefit deaf and hard of hearing individuals. According to the State's accounting records, this Office's expenditures were approximately $348,000 during fiscal year 2014.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated August 13, 2012. We determined that the Department satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1
Internal controls were not sufficient to ensure that all collections were deposited.

Analysis
Internal controls were not sufficient to ensure that all collections received by the Office of the Governor's Finance Office (GFO) were deposited. Collections were initially received by the various units of the Executive Department and were forwarded to the GFO. The GFO was responsible for depositing these receipts into the State's bank account and for recording them in the State's accounting records.

Our review disclosed, however, that the individual at the GFO who performed the verification of collections to deposit was not independent since the employee also had cash handling and recordation duties. This employee also did not use the initial record of collections received directly from the preparer for verification purposes but, instead, used a document received from another employee who was responsible for preparing the deposit. Finally, this employee did not document the deposit verification performed, such as with the employee's initials or signature. The lack of an independent and adequately documented deposit verification was also commented upon in our preceding audit report. According to the Department's records, the GFO processed cash receipts totaling $767,800 during fiscal year 2014.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including an independent verification of collections to deposit using proper documentation.

Recommendation 1
We recommend that the Department

a. ensure that employees without access to collections use the initial record of collections, received directly from the employee who prepared it, to verify that all recorded collections were deposited (repeat); and
b. ensure that deposit verifications are adequately documented (repeat).

We advised the Department on accomplishing the necessary separation of duties using existing personnel.

Information Systems Security and Control

Background

The Department of Information Technology (DoIT) provides information technology (IT) support services to most of the Executive Department's Offices and Commissions. These DoIT IT support services include providing access to the Executive Department – Office of the Governor's internal network and the Internet. DoIT also maintains certain Executive Department legacy and commercial applications including the Governor's website. According to DoIT's records, as of February 2015 there were 22 DoIT maintained servers in use supporting Executive Department operations. These servers were in numerous locations.

Finding 2
Backup files for critical servers were not stored offsite and a comprehensive disaster recovery plan did not exist.

Analysis

Backup files for critical servers were not stored offsite and a comprehensive disaster recovery plan did not exist.

- Backup files for numerous critical servers were located in the same data centers as the original servers and were not taken offsite. Accordingly, if the facilities which currently house both the original servers and the related backup files were destroyed, it is uncertain if all critical information could be recreated. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*, state that backup media should be stored offsite in a secure, environmentally controlled location.

- Neither DoIT nor the Executive Department had prepared an information technology disaster recovery plan (DRP) for recovering from disaster scenarios (for example, a fire) for the Executive Department. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* state that such a plan should address many significant elements including required hardware and software components and prioritization of applications for recovery. In addition, such a plan should be periodically tested. Without a complete DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.

Recommendation 2
We recommend that the Executive Department

a. ensure that backup files for all critical servers are stored at an offsite, secure, environmentally controlled location; and

b. in conjunction with DoIT, develop and implement a DRP that, at a minimum, addresses the basic elements (including plan testing) needed for a complete and comprehensive disaster recovery plan.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Executive Department for the period beginning January 1, 2012 and ending January 20, 2015.

Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Department'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 cash receipts, equipment, disbursements, grants, federal funds, information systems, and payroll. Our audit included various support services (such as payroll and processing vendor payment transmittals) provided by the Executive Department – Office of the Governor on a centralized basis to certain units and agencies within the Executive and Administrative Control area of State Government (such as the Maryland Energy Administration, Department of Disabilities, and Secretary of State). As previously requested by the Governor's Office, our audit also included activities related to the operation

and maintenance of Government House (for example, inventory record keeping), although the Department of General Services receives an appropriation for and performs these activities. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of the Department'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 the Department.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Department's 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) and the State's Central Payroll Bureau (payroll 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 these various sources 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The Department'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 the Department'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 the Department that did not warrant inclusion in this report.

The Department's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX

STATE OF MARYLAND
OFFICE OF THE GOVERNOR

LARRY HOGAN
GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

TTY USERS CALL VIA MD RELAY

September 1, 2015

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Attached please find our responses, prepared by the appropriate Executive Department staff, to the draft report dated August 2015 of the audit of the Executive Department- Office of the Governor; Boards, Commissions and Offices; Governor's Office for Children; and the Office of the Deaf and Hard of Hearing. The responses are in the same order as presented in the draft report.

Thank you for the opportunity to respond to the draft audit report. If you or your staff has any questions concerning the responses, please do not hesitate to contact the Deputy Director of Financial Administration, Mona Vaidya.

Sincerely,

Craig A. Williams

Craig A. Williams
Chief of Staff

encl.
cc: Mona A. Vaidya, Deputy Director of Financial Administration

Recommendation 1

We recommend that the Department

a. **ensure that employees without access to collections use the initial record of collections, received directly from the employee who prepared it, to verify that all recorded collections were deposited (repeat); and**
b. **ensure that deposit verifications are adequately documented (repeat).**

We advised the Department on accomplishing the necessary separation of duties using existing personnel.

AGENCY RESPONSE: We concur with the recommendation. The Governor's Office of Financial Administration has developed, documented and implemented the recommended revisions to cash collection procedures to address each of the specific deficiencies mentioned in this report. The Governor's Office of Financial Administration will monitor adherence to these modified procedures.

Recommendation 2

We recommend that the Executive Department

a. **ensure that backup files for all critical servers are stored at an offsite, secure, environmentally controlled location; and**
b. **in conjunction with DoIT, develop and implement a DRP that, at a minimum, addresses the basic elements (including plan testing) needed for a complete and comprehensive disaster recovery plan.**

AGENCY RESPONSE: We concur with the recommendation. The Department of Information Technology is currently in the process of migrating Executive Department servers to our College Park data center. We currently create backups at the data center (for ease of restoration) as well as backup copies at our hosted data center in Baltimore (in the event of disaster). All servers currently not hosted at College Park have backups being created and all backups are stored offsite in secure, environmentally controlled locations.

A draft Disaster Recovery Plan has been developed and is in the final review stages. We expect the plan to be finalized by end of the calendar year. The plan, which addresses all Department of Information Technology supported entities including the Executive Department, addresses the intervals for testing and follows the guidance as prescribed in the Maryland Information Technology Disaster Recovery Guidelines.

AUDIT TEAM

Mark S. Hagenbuch, CPA
Audit Manager

Stephen P. Jersey, CPA, CISA
Information Systems Audit Manager

Menachem Katz, CPA
Senior Auditor

J. Gregory Busch
Information Systems Senior Auditor

Charnelle S. Brown
Kimberly J. Wagner
Staff Auditors