

Audit Report

**Comptroller of Maryland
General Accounting Division**

September 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

September 14, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Comptroller of Maryland – General Accounting Division (GAD) for the period beginning March 16, 2006 and ending February 1, 2009. GAD is responsible for maintaining the State's accounting records, processing vendor invoice payments, and distributing checks prepared by the State Treasurer's Office.

Our audit disclosed that GAD had not established adequate controls over certain changes made to the State's files of vendor names and addresses. Consequently, vendor checks could be diverted to improper recipients without timely detection. In addition, access and monitoring controls over critical information systems files and programs were inadequate.

We wish to acknowledge the cooperation extended to us by GAD during the course of this audit.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The General Accounting Division (GAD), which is a unit of the Comptroller of Maryland, is primarily responsible for maintaining the State's accounting records, centrally processing vendor invoice payments, and distributing checks prepared by the State Treasurer's Office. GAD administers the State's corporate purchasing card system, and is also responsible for annually preparing the State's general-purpose financial statements. According to the State's accounting records, GAD's expenditures totaled approximately \$5.2 million during fiscal year 2008.

Audit of the State's General Purpose Financial Statements

An independent accounting firm is engaged by the Comptroller of Maryland for the purpose of expressing an opinion on the State's annual general-purpose financial statements. In the related audit reports for fiscal years ended June 30, 2008, 2007, and 2006, the firm stated that the State's general purpose financial statements presented fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated August 30, 2006. We determined that GAD satisfactorily addressed that finding.

Findings and Recommendations

Vendor Payments

Finding 1

The General Accounting Division (GAD) had not established adequate internal controls over the State's vendor files.

Analysis

Adequate controls had not been established over the State's vendor files. Specifically, our review disclosed that changes to the State's vendor files made by one employee, such as modifications to vendor names and addresses, were not independently verified to source documentation by supervisory personnel. Consequently, vendor checks could be diverted to improper recipients without timely detection. According to GAD records, 8,279 changes to vendor information were processed by GAD during fiscal year 2008, of which 196 changes were processed by this employee.

According to GAD's records, during the period from July 2008 to April 2009, check payments made to vendors totaled approximately \$5.7 billion.

Recommendation 1

We recommend that GAD supervisory personnel verify changes made to the State's vendor files, document these verifications, and retain this documentation for future reference.

Information System Security and Control

Background

GAD maintains the State's accounting records, and processes vendor invoice payments and corporate purchasing card system applications on the Comptroller of Maryland's Annapolis Data Center (ADC) mainframe computer. The ADC's computer system contains a security software system to control access to data and program files and individual online transactions.

Finding 2

Adequate access and monitoring controls were not established over critical mainframe production files and programs.

Analysis

Access and monitoring controls over critical mainframe production files and programs were inadequate. Specifically, we noted the following conditions:

- Several individuals had unnecessary but logged modification access to critical corporate purchasing card (CPC) production data files. In addition, several other individuals had unnecessary read access (some logged and some unlogged) to critical CPC production data files. Due to the sensitivity of the information in these files (credit card data), all such access should be strictly controlled and logged.
- The report that identified new users and changes to existing users of the security software—which controls access to all of GAD’s mainframe production data files and programs—was not reviewed. Security event reporting and review is integral to an organization’s information systems control environment. Security event reporting and review that is not properly performed can impair effective system security controls.

Recommendation 2

We recommend that GAD

- a. restrict access to corporate purchasing card production data files to only those individuals who need such access and that all such accesses be logged; and**
- b. perform a daily documented review of the report of new users and changes to existing users of the security software, follow up on any questionable events on the report, and retain documentation of these reviews and follow-ups for audit verification.**

Audit Scope, Objectives, and Methodology

We have audited the Comptroller of Maryland – General Accounting Division (GAD) for the period beginning March 16, 2006 and ending February 1, 2009. 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 GAD's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included vendor invoice processing and check distribution, vendor table maintenance, the corporate purchasing card program, and cash receipts. We also determined the status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of GAD's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to GAD by the Comptroller of Maryland – Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller. Our audit also did not include certain support services provided to GAD by the Comptroller of Maryland – Information Technology Division related to the procurement and monitoring of information technology equipment and services. These support services are included in the scope of our audits of the Information Technology Division.

GAD'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 that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect GAD's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report did not include any conditions regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to GAD that did not warrant inclusion in this report.

The Office of the Comptroller's response, on behalf of GAD, 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 Office regarding the results of our review of its response.

APPENDIX



Peter Franchot
Comptroller

September 9, 2009

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
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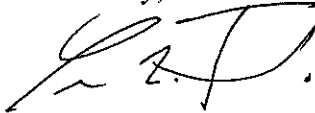
Dear Mr. Myers:

Thank you for the opportunity to respond to the audit report on the Comptroller of the Treasury - General Accounting Division for the period from March 16, 2006 to February 11, 2009. We would like to commend your staff for the professional way in which they conducted the examination.

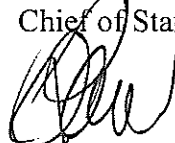
We accept the findings referenced in your report concerning lack of adequate internal controls over the State's vendor files and mainframe production files and programs. We have implemented the changes recommended by the Legislative Auditor by having supervisory personnel review State vendor file changes, restricting access to purchasing card data files, and performing a daily review of security software user changes. These items are further discussed in our response to your audit.

If you have any further questions, please do not hesitate to contact us. Thank you.

Sincerely,



Len N. Foxwell
Chief of Staff



Roland Unger
Director, General Accounting Division

LNF/RLU:ja

Vendor Payments

Finding 1

The General Accounting Division (GAD) had not established adequate internal controls over the State's vendor files.

Recommendation 1

We recommend that GAD supervisory personnel verify changes made to the State's vendor files, document these verifications, and retain this documentation for future reference.

Response 1:

The General Accounting Division supervisory personnel will review all changes made to State's vendor files and maintain documentation (GAD Form 710 & DAFR6220) supporting the changes to the vendor files. A supervisor will review all changes made by the individual who is normally assigned the review process. Documentation will be retained for future reference. A General Accounting Division employee has reviewed and approved the 196 changes made to vendor information that were not independently reviewed at the time the changes were made and found no irregularity.

Information System Security and Control

Finding 2

Adequate access and monitoring controls were not established over critical mainframe production files and programs.

Recommendation 2

We recommend that GAD

- a. restrict access to corporate purchasing card production data files to only those individuals who need such access and that all such accesses be logged; and**
- b. perform a daily documented review of the report of new users and changes to existing users of the security software, follow up on any questionable events on the report, and retain documentation of these reviews and follow-ups for audit verification.**

Response 2:

GAD agrees with the Legislative Auditor, and has restricted access to only those individuals who need to access the files. All accesses are logged.

GAD performs a daily review of the reports of new users and changes to existing users of the security software pertaining to GAD's area of responsibility, i.e., A30 files, programs and users. All questionable events reported will be reviewed and followed-up. Documentation of the reviews and follow-ups will be retained for audit verification.

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