

Audit Report

Department of Juvenile Services

September 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

September 2, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Juvenile Services (DJS) for the period beginning December 16, 2015 and ending March 31, 2020. DJS is the central administrative agency for juvenile intake, detention authorization, probation, protective supervision, and aftercare services. In addition, DJS provides residential care, diagnosis, training, education, and rehabilitation to juveniles in State facilities, and supervises community facilities operated under contractual agreements.

Our audit disclosed that DJS failed to consolidate procurements which resulted in the circumvention of certain State procurement regulations, such as control agency approvals, thus lessening oversight, control, and transparency. Specifically, instead of procuring goods or services in a single solicitation, DJS made multiple small procurements (under \$15,000), and in some instances continued to pay the vendors after the approved contract amounts were fully expended. Furthermore, DJS did not publish contract awards on *eMaryland Marketplace* as required; and for one vendor, DJS increased the pricing for services after the contract was finalized and without justification.

Our past audits of DJS have identified concerns with its procurement processes. Most recently, in our audit report dated November 1, 2017, we disclosed that DJS circumvented State procurement regulations, which allowed a DJS management employee to process certain questionable procurement and disbursement transactions to a vendor providing services. Consequently, we had referred this matter to the Office of the Attorney General – Criminal Division, and during our

current audit we noted that this individual plead guilty to charges of theft, false statements, and bribery of a public official. Such events underscore the importance of adhering to State procurement regulations, and the related controls and accountability inherent in those regulations.

Our current audit also disclosed that DJS did not have adequate processes to verify the propriety or reasonableness of certain services prior to payment. For example, we noted that DJS paid 33 invoices totaling \$265,700 without verifying the bills' propriety or reasonableness. We also noted that DJS could not justify the rationale for the subsequent payment of certain invoices that were originally rejected for payment for reasons such as, billed services not being provided to DJS.

We found that DJS did not use available automated controls within the State's Financial Management Information System to ensure the propriety of purchasing and disbursement transactions; and DJS did not use the appropriate payment method for certain transactions, bypassing available automated controls. We further noted that DJS' use of intergovernmental agreements with local government entities circumvented State procurement regulations.

DJS did not properly maintain and secure the database for juveniles in its care, have adequate logging and monitoring controls and settings for application passwords and accounts, or maintain materials and supplies inventory in accordance with requirements.

Finally, our audit included a review to determine the status of the 12 findings contained in our preceding DJS audit report. We determined that DJS satisfactorily addressed 10 of these findings. The remaining 2 findings are repeated in this report.

DJS' response to this audit is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations, and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. We have edited DJS' response to remove certain vendor names or products, as allowed by our policy.

We wish to acknowledge the cooperation extended to us during the course of this

audit by DJS and its willingness to address the audit issues and 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 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Department of Juvenile Services (DJS) is the central administrative agency for juvenile intake, detention authorization, probation, protective supervision, and aftercare services. In addition, DJS provides residential care, diagnoses, training, education, and rehabilitation to juveniles in State facilities, and supervises community facilities operated under contractual agreements. DJS' responsibilities also include the collection and disbursement of restitution payments on behalf of individuals or organizations that have sustained damages caused by juvenile offenders. According to State records, during fiscal year 2020 DJS had approximately 2,012 permanent and 130 contractual positions and expenditures totaled approximately \$270.7 million.

DJS has a headquarters office located in Baltimore City and 32 field offices located in 6 regions throughout the State. According to DJS' records, the number of intake cases (including detention programs, committed programs, probation, and aftercare) during fiscal year 2020 totaled 14,913. In addition, the average daily population of youths under its supervision (in both State and contractual facilities) totaled approximately 693 for the same period.

Certain Costs for Residential Rehabilitation Services Could Not be Submitted for Federal Reimbursement

The State's Rate Setting Reform Stakeholders Workgroup, of which DJS is a member, did not revise the rates paid for residential rehabilitation services, as recommended by a 2011 federal audit¹. In response to the federal audit report recommendations, the Maryland Department of Health (MDH), which administers the State's Medicaid program, agreed to pursue changes to the State's methodology for setting per diem rates for residential rehabilitation services and to ensure claims were properly documented in accordance with the new methodology. As of October 2020, the Workgroup is in the process of determining a new rate structure to address this issue, but does not expect this new rate structure to be in effect until fiscal year 2024.

¹ The August 2011 audit by the U.S. Department of Health and Human Services (HHS) concluded that the State's use of a flat per diem rate for Medicaid claims for all residential rehabilitation services from October 1, 2005 through September 30, 2007, regardless of the specific services received by each client, made it unclear whether such services were eligible for Medicaid reimbursement. DJS received \$2.6 million from HHS in fiscal year 2015, for these claims as a result of its residential rehabilitation services being included in the Medicaid State Plan which MDH had with HHS.

DJS continued to use the old per diem rate through fiscal year 2015, at which point it stopped recovering funds until a new rate is developed in order to avoid potential federal penalties. Since the end of fiscal year 2015, the costs associated with these services that could be eligible for reimbursement under the Medical Assistance program (Medicaid) have been funded solely by the State's General Fund.

Prior Audit Finding Results in Conviction of Former DJS Management Employee

A finding in our November 1, 2017 audit report disclosed that DJS circumvented State procurement regulations, which allowed a DJS management employee to process certain questionable procurement and disbursement transactions to a vendor providing maintenance services. We referred the matter to the Office of the Attorney General – Criminal Division. As a result of this referral, the Criminal Division prosecuted a former DJS management employee and a maintenance vendor for their roles in the questionable procurements. The DJS management employee pled guilty to charges of theft, false statements, and bribery and the maintenance vendor pled guilty to charges of bribing a public official.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 12 findings contained in our preceding audit report dated November 1, 2017. As disclosed in Figure 1 on page 7, we determined that DJS satisfactorily addressed 10 of these findings. The remaining 2 findings are repeated in this report.

Figure 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Certain youth care services were procured in a manner that did not provide assurance that these services were obtained at the best value to the State, and DJS did not ensure that the related services were received.	Repeated (Current Finding 4)
Finding 2	Financial examinations of youth care service providers conducted by DJS were not sufficient to ensure funds were spent on allowable costs and excess payments were recovered.	Not repeated
Finding 3	DJS artificially divided procurements for goods and services, circumventing State procurement regulations. Certain of these procurements appeared questionable.	Not repeated
Finding 4	DJS improperly retained approximately \$9.7 million in unspent general fund appropriations at the end of fiscal year 2015.	Not repeated
Finding 5	DJS did not maximize recoveries of available federal funds, resulting in the use of State funds to cover the cost of services that were potentially eligible for federal reimbursement.	Not repeated
Finding 6	DJS did not protect the personally identifiable information and other confidential information of juveniles under its supervision.	Not repeated
Finding 7	DJS had not established sufficient controls over the restitution process to ensure all transactions were properly recorded, disbursements were properly made, and accounts were properly monitored.	Not repeated
Finding 8	The Automated Statewide System of Information Support Tools database was not properly secured and related logging and monitoring controls were not adequate.	Repeated (Current Finding 5)
Finding 9	The Department of Information Technology maintained appliances that provided firewall and intrusion detection prevention system services for DJS but were not configured to adequately secure the DJS network.	Not repeated
Finding 10	Malware protection was not sufficient to provide DJS with adequate assurance that its computers were properly protected.	Not repeated
Finding 11	DJS did not maintain complete and accurate detail records and properly account for its equipment.	Not repeated
Finding 12	Overtime paid to employees was not always preauthorized and approved.	Not repeated

Findings and Recommendations

Procurements and Disbursements

Finding 1

The Department of Juvenile Services (DJS) did not consolidate procurements and publish contract awards to maximize State purchasing power and enhance transparency, oversight, and control; and could not support certain contract modifications.

Analysis

DJS did not consolidate procurements and publish contract awards to maximize State purchasing power and enhance transparency. These conditions also resulted in the circumvention or violation of certain State procurement regulations, thereby lessening oversight and control. Additionally, DJS could not support certain contract modifications.

We tested procurements from 27 vendors for building maintenance or purchase of care (medical, human, social, or educational services) during the period from January 2016 through May 2019, totaling approximately \$152.3 million.

DJS did not consolidate procurements and continued to pay vendors after the related purchase orders were fully expended

During the period from December 16, 2015 through March 31, 2020, DJS issued 132 purchase orders valued at approximately \$1.9 million to 66 vendors (including a number of the 27 vendors selected for testing) in amounts between \$14,000 and \$15,000. As of March 31, 2020, DJS made payments totaling \$1.5 million under these purchase orders and 1,324 additional payments totaling \$5.9 million to 49 of these vendors for work performed during this period that was not associated with any purchase order. Our test of procurements from 6 of the 27 vendors, judgmentally selected as being high risk for split purchases and, with payments totaling approximately \$570,000, disclosed the following conditions.

- DJS did not consolidate multiple procurements made from the same vendors for similar services or goods. Although certain of these procurements were competitively bid, DJS did not maximize State purchasing power by consolidating the procurements. Since these procurements were below certain dollar value thresholds, DJS was able to avoid certain State procurement regulations intended to enhance controls, oversight, and transparency requirements associated with larger procurements, such as the use of a

competitive sealed bidding process, control agency review and approval, and public notification of the contract solicitation and award.

For example, DJS made 11 individual procurements of \$15,000 or less to one vendor for educational and rehabilitation services. Payments to this vendor during this period totaled \$158,800, including \$86,300 in direct payments not associated with any purchase order.² The DJS management employee responsible for these procurements solicited, received and evaluated bids, and ultimately selected the vendor for award. Consequently, we found that although this management employee obtained bids for these services, the bid of the vendor selected by the employee was higher than bids from other vendors for comparable services, and no justification for the vendor selection decision was documented. Furthermore, DJS' procurement management officials were unaware of this situation. Although these procurement decisions were subject to an independent review and approval process after the selection was made by the management employee, not all relevant procurement documents were provided to the employee conducting the independent review.

- DJS continued to pay certain vendors after the related purchase orders' approved values were fully expended. For example, DJS issued eight purchase orders in amounts less than \$15,000 to one vendor totaling approximately \$71,700 for clothing and related goods. DJS ultimately paid this vendor a total of \$153,600 during the period from December 2015 through December 2019, exceeding the total value of the awarded purchase orders by \$81,900. Based on the amount ultimately paid the vendor, we concluded that this situation circumvented public solicitation requirements for purchases valued from \$15,000 to \$50,000 and avoided additional oversight and procurement requirements for purchases over \$50,000, such as approval from the Department of General Services (DGS) and the use of a competitive sealed bidding process.

DJS did not always publish contract awards as required

DJS did not always publish contract awards on *eMM*³ as required by State procurement laws and regulations. Our test of 21 procurements approved during the period from May 2016 through November 2018 and valued at \$152.1 million disclosed that as of August 2020, 17 of these procurements valued as \$144.6

² Payments not associated with purchase orders were made under certain circumstances. For example, if DJS had been using the vendor and was paying with a purchase order which was completely expended. In such cases, DJS would then continue to use that vendor without entering into a new purchase order or increasing the original purchase order's value.

³ *eMM* is an internet-based, interactive procurement system managed by DGS. Effective July 2019, DGS replaced *eMM* with *eMaryland Marketplace Advantage (eMMA)*.

million were not posted to *eMM* as required. Individually, these 17 contracts ranged in value from \$200,000 to \$45.4 million.

Contract modifications could not be supported

DJS allowed one vendor with a \$200,000 contract to increase the pricing of individual services included in the contract, after the contract was finalized, without adequate justification. DJS solicited bids for hair care services for female juveniles under its care, and each bidder provided line item pricing for the services. Our review disclosed that DJS allowed the vendor who was awarded this contract to increase the price of all the line item services to \$55, regardless of service provided (see Figure 2 for examples).

Figure 2
Summary of Post Award Rate Change

Service	Bid Price	Adjustment Allowed
Hair Treatment	\$6.00	\$55.00
Shampoo, Blow dry, Shape-up	8.50	55.00
Shampoo, Blow dry, Trim, Style	22.00	55.00
Relaxer, Shampoo, Blow dry, Cut, Style	55.00	55.00

Source: Vendor's original bid sheet, DJS emails

DJS management advised us that the price increases were authorized after the vendor asserted that it was not able to perform services at the prices bid and accepted by DJS. DJS claimed there was an error in the procurement process which did not allow the vendor to charge reasonable prices but was unable to show where the procurement process included such an error. The increase in price brings into question the validity of the award to this vendor as the vendor would have been the fifth lowest bidder, at the adjusted prices, and consequently would likely have not been selected for contract award based on price consideration alone. During the period from August 2016 through March 2020, DJS had paid the vendor \$115,000.

State procurement regulations generally require a formal written competitive procurement and publication of the solicitation on *eMaryland Marketplace (eMM)* for procurements exceeding \$15,000. State procurement regulations further require procurements valued at more than \$50,000 to be approved by DGS and awarded through a competitive sealed bidding process. In addition, the Department of Information Technology's *Internal Control and Security Policy and Procedures Manual* generally prohibits agencies from making direct payments to vendors without an associated purchase order. Finally, State procurement laws and regulations require awards for contracts greater than

\$50,000 (greater than \$25,000 prior to October 1, 2017) to be published on *eMM* not more than 30 days after the execution and approval of the contract. Publishing awards on *eMM* provides transparency over State procurements, including information about winning bidders and the amount of the related awards.

Recommendation 1

We recommend that DJS

- a. consolidate procurements to maximize State purchasing power and enhance controls and oversight;**
- b. publish contract solicitation and awards as required by State procurement laws and regulations;**
- c. ensure segregation of duties over procurement;**
- d. discontinue the practice of paying a vendor after a contract or purchase order had been fully expended, without an appropriate, approved, modification; and**
- e. ensure contract modifications are adequately supported, justified, and approved.**

Finding 2

DJS did not have a process in place to verify the propriety or reasonableness of certain services prior to payment, and could not justify the subsequent payment of certain invoices that were originally rejected for payment.

Analysis

DJS did not have a process in place to verify the propriety or reasonableness of certain services prior to payment, and could not justify the payment of certain invoices that were previously rejected for payment. Our test of 88 invoices totaling \$3.2 million paid during the period from December 2015 through February 2020, disclosed the following conditions.

- DJS paid 33 invoices totaling \$265,700 without verifying the propriety or reasonableness of the charges billed. For example, DJS paid a \$50,000 invoice for behavioral health services that did not include details such as the hours worked or youth served, and paid seven invoices for barber services totaling \$14,500 without determining which specific haircare services were provided. As a result, DJS could not verify the propriety of the amounts invoiced and there is a lack of assurance that amounts paid were proper.
- DJS did not verify elements contained on 21 invoices tested totaling approximately \$367,500 resulting in overpayments going undetected.

Specifically, DJS did not verify the rates charged on these invoices against the rates in the related contract or did not verify the number of days of service being invoiced. As a result, we identified \$14,500 in overpayments on 11 approved invoices totaling \$280,200 that were not detected by DJS. For the 10 remaining invoices the amount of overpayments could not be readily calculated. We were advised by DJS contract monitors that they did not always receive documentation (such as the contract, bid sheet, solicitation terms, and any modifications) that would allow them to determine whether amounts invoiced were appropriate.

- DJS management authorized payments on six invoices totaling \$15,100 which had been previously denied by contract monitors. The contract monitors rejected these invoices for reasons such as the services were not provided or were specifically excluded by the contract; however, DJS management subsequently authorized the payments to be processed. DJS management did not document the justification for overriding the conclusion of the formal contract monitoring and payment process, and approving these payments. Management override represents a significant internal control weakness and could result in the misuse and abuse of State monies.

Recommendation 2

We recommend that DJS

- a. ensure that invoices and supporting documentation contain sufficient details to enable verification of amounts billed,**
- b. ensure invoices are in accordance with contract terms and reflect services received before they are approved for payment, and**
- c. cease the practice of overriding contract monitor payment rejections unless the override is supported by adequate documented justification.**

Financial Management Information System

Finding 3

DJS did not use available automated controls to ensure the propriety of purchasing and disbursement transactions.

Analysis

DJS did not use available automated controls on the State's Financial Management Information System (FMIS) to ensure the propriety of purchasing and disbursement transactions. According to the State's records, DJS processed disbursements totaling \$71.2 million through FMIS during fiscal year 2019.

DJS did not use available system approval process

Our review disclosed that DJS had not used available FMIS controls to require on-line independent supervisory approval of critical transactions including direct vouchers (payments made without matching a correlating purchase order, invoice, or receiving report), invoice processing, and change orders. For example, 16 employees were able to process direct vouchers without independent online review and approval including 2 employees that could also transmit the transaction to the Comptroller of Maryland for payment. While DJS did have a manual process to review expenditures prior to release for payment; in our opinion, the employee performing this review department-wide was too far removed from the various activities represented. Specifically, since the direct voucher payment process lacks supporting documentation to enable a comparison to, or review of, other independently prepared and approved supporting documents (see above examples), an approval of the direct voucher presumes a knowledge of the transaction related to the payment. In addition, this individual could also unilaterally initiate and approve online payments via direct vouchers without any further third-party review and approval. Consequently, this employee was not sufficiently independent of the payment processing function. During fiscal year 2019, approximately 16,000 direct vouchers totaling \$48.7 million were initiated and approved by the same employee.

DJS did not use the proper payment method for certain transactions

DJS did not use the appropriate payment method for certain disbursement transactions circumventing available system controls. According to the State's accounting records, during the period from July 1, 2015 through January 31, 2020, DJS processed \$218.7 million of its \$340.9 million in disbursement transactions on FMIS using the direct voucher payment method.

Our test of 22 invoices totaling approximately \$1.6 million from fiscal years 2016 through 2020 disclosed that 12 invoices totaling \$525,000, including invoices for mental health services, pharmacy services, and building maintenance, were paid using the direct voucher payment method. The use of direct vouchers for these transactions is not authorized by State policy and resulted in a lack of assurance that the payment was consistent with a purchase order and the related goods were received.

The Department of Information Technology's (DoIT) *Internal Control and Security Policy and Procedures Manual* requires agencies to establish independent approval paths for all critical procurement and disbursement transactions. The *Manual* also restricts the use of direct vouchers to specific types of transactions, such as, utilities, tuition reimbursement, or travel.

Recommendation 3

We recommend that DJS

- a. establish adequate online approval requirements to enhance the independent review and approval of critical procurement documents, or at a minimum, modify the manual review process to ensure that reviews are performed by employees with knowledge of the activities but without the capability to initiate and approve online payments; and**
- b. restrict the use of direct vouchers to transactions authorized by the DoIT *Manual*.**

Intergovernmental Agreements

Finding 4

DJS' use of certain intergovernmental agreements circumvented State procurement regulations. In addition, DJS did not ensure services were provided and related charges were proper.

Analysis

DJS' use of certain intergovernmental agreements (IAs) with local government entities (LGEs) circumvented State procurement regulations. In addition, DJS did not ensure youth care services were provided and related charges were proper. According to DJS' records, DJS entered into 50 IAs with LGEs during fiscal year 2019, and in 23 of these IAs the LGEs subcontracted at least some portion of their services to private providers. We tested 7 significant IAs established during our audit period totaling approximately \$8.5 million, for which some or all services provided were subcontracted by the related LGE to private providers.

- For four of the IAs totaling approximately \$2.4 million, LGE's subcontracted substantially all of the services (\$2.2 million of \$2.4 million with the remainder being administrative fees paid to the LGEs) to private providers. DJS could not justify the use of the LGEs to obtain these services instead of DJS competitively procuring the services directly from private providers. In addition, DJS did not verify that the LGEs competitively procured the services from the private providers and, as a result, there is a lack of assurance that the services were obtained at the best value to the State. Such a direct competitive procurement appears practicable, as we noted that similar services had been competitively procured by DJS directly from certain of these private providers. In addition, we found that DJS had also made payments totaling \$88,000 directly to one of the private providers without a related direct contractual relationship after the provider's agreement with the LGE had expired under the related IA.

- DJS did not ensure that LGEs monitored the private providers to ensure juveniles under its care had received the required youth care services, such as, mental health or substance abuse services. Our review of the aforementioned four agreements disclosed that they did not include specific procedures for the LGE to monitor the private providers or any requirements to report these results to DJS. The four agreements provide for DJS to pay the LGEs a total of approximately \$180,000 in administrative fees intended to be used to monitor private providers.
- DJS did not verify, or require the LGEs to verify, the propriety of payroll costs charged by the private providers for four agreements totaling \$5.8 million. Payroll charges accounted for the majority of the amounts invoiced by the private providers and paid to the LGEs, and under the IAs were to be based on actual salaries paid to the employees who performed services under the IA. Our review disclosed that DJS was unaware of the LGEs' monitoring of payroll costs, and DJS also had not obtained and reviewed private provider payroll documentation such as, timesheets to substantiate the propriety of payroll charges invoiced and paid under the IAs.

Similar conditions were noted in our preceding audit report. In response to our prior report, DJS agreed to consider alternate methodologies when procuring youth care services to provide the best value to the State. Additionally, DJS agreed to review the process for vendor reporting and ensure there was adequate documentation of services provided. IAs are exempt from State procurement laws, including the requirements for competitive procurement, publication of solicitation and awards, and Board of Public Works' approval.

Recommendation 4

We recommend that DJS

- establish a methodology to ensure youth care services are procured in a manner that provides the best value to the State (repeat),**
- ensure that contracts are established when services are provided,**
- exercise oversight to ensure youth care services are provided as required and the related administrative fees for monitoring are proper (repeat),**
and
- obtain and review source documents to substantiate the propriety of payroll charges.**

Information Systems Security and Control

Overview

DJS' information technology (IT) support services are provided by a combination of internal DJS operations and support from the Maryland Department of Information Technology (DoIT). DJS personnel provided IT service desk assistance and end user technical support. DoIT provided IT support services for the following functions:

- physical and virtual server hosting,
- network firewalls and IT security services (such as firewall and intrusion detection prevention systems operations and maintenance),
- workstation management, and
- hardware support and software support (including malware prevention procedures).

DJS utilizes a local and a wide area network, which provides connections to multiple servers used for file and print sharing, application processing, and internet connectivity. DJS' critical applications include a case management system that tracks vital legal, judicial, and demographic information pertaining to the youth who are under DJS' jurisdiction and a Restitution Tracking System which tracks restitution payments received from juvenile offenders and payments to victims of their crimes.

During our audit period, the youth case management application was undergoing a system conversion to operate on a new Department of Human Services maintained platform with completion expected during calendar year 2021.

Finding 5

The youth case management application and database were not properly maintained and secured. In addition, related logging and monitoring controls and settings for application passwords and accounts were not adequate.

Analysis

The youth case management application and database were not properly maintained and secured. In addition, related logging and monitoring controls and settings for application passwords and accounts were not adequate. Our review of security for the application and database disclosed the following conditions.

- The youth case management application database was operating on a software version that was no longer supported by the database software vendor. Our

work as of April 2020 determined that the database software version in use had not been supported by the vendor since July 31, 2019, an eight-month period. In addition, we noted that software updates had not been applied for several critical database software vulnerabilities, which were still available from the vendor during the period when the software was still under support. With the database software vendor no longer issuing patches for newly discovered security vulnerabilities, DJS' continued use of the outdated database software created security risk for the database's operations and related data.

- A default user group on the server hosting the production youth case management database was improperly granted modification access to several critical system and database files. As a result of this condition, approximately 3,000 active accounts were improperly granted this modification access. A similar condition was commented upon in our preceding audit report.
- Database security event logging did not include operations performed by accounts using several critical database privileges, such as changing user designations or updating any table. In addition, the database auditing options were not configured to log changes recorded for two critical database tables. Similar conditions were commented upon in our two preceding audit reports. Finally, certain account and password controls over the application were not in accordance with the State's *Information Security Policy* requirements concerning account lockout and password length, complexity, and history. We were advised that the application was used by approximately 1,350 system users.

Recommendation 5

We recommend that DJS

- a. ensure the youth case management application database, to the extent possible, is fully supported by the database software vendor and kept current for all critical security-related updates;**
- b. restrict access to critical files to only those individuals who need such access to perform their job duties (repeat); and**
- c. enable logging for actions involving use of critical database privileges and for security-related changes to critical database tables (repeat), and establish appropriate account and password controls over the application.**

Materials and Supplies

Finding 6

DJS did not maintain materials and supplies inventory records as required.

Analysis

DJS materials and supplies were not maintained in compliance with certain provisions of the DGS *Inventory Control Manual*. According to State accounting records, DJS materials and supplies expenditures for fiscal year 2020 totaled \$6.2 million, which included purchases of clothes, medicines, office supplies, and recreational supplies.

- DJS did not maintain inventory records of materials and supplies as required by the *Manual*. The *Manual* requires agencies to maintain perpetual inventory records if the average of the last three years expenditures for materials and supplies exceeds \$250,000. Our review of State records for fiscal years 2016 through 2020 indicated that DJS expenditures for materials and supplies exceeded \$6 million annually. DJS management responsible for inventory informed us that no inventory records were maintained because DJS did not believe such records were needed.
- DJS did not perform physical inventories of its material and supplies as required. The *Manual* requires agencies perform a physical inventory within 90 days of fiscal year end. However, as of October 2020 DJS has not conducted a physical inventory for fiscal year 2019 and could not provide documentation of the inventories conducted for fiscal years 2016 through 2018. Due to COVID protocols, we were unable to sight the existing inventory on hand during the audit.
- DJS did not accurately report the value of its materials and supplies to DGS on the *Annual Report of State Property Materials and Supplies* as required. We were advised by staff that DJS always maintained materials and supplies on hand; however, due to a lack of inventory records, DJS filed reports for fiscal years 2017, 2018, and 2019 indicating that it did not have any materials and supplies on hand. Furthermore, the fiscal year 2017 *Report* stated “The average for the last three years of annual expenditures do not exceed \$250,000 for our agency” when in fact DJS’ annual materials and supplies expenditures exceeded \$6 million.

Recommendation 6

We recommend that DJS

- a. ensure perpetual inventory records are established and maintained for materials and supplies in accordance with the *Manual* requirements, and**
- b. perform required physical inventories and submit accurate valuation information to DGS on the *Annual Report of State Property Materials and Supplies*.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Juvenile Services (DJS) for the period beginning December 16, 2015 and ending March 31, 2020. 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 DJS' 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 disbursements, restitution, corporate purchasing cards, payroll, purchase of care, federal funds, information systems security, materials and supplies, and equipment. We also determined the status of the findings included 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 DJS' 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 DJS.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of December 16, 2015 to March 31, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DJS' operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do

not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from various key DJS internal systems, such as the Contract Tracking System, the Restitution Tracking System, and the inventory system for the purpose of testing contract awards, restitution balances, and equipment inventory. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the 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.

DJS' 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DJS, were considered by us during the course of this audit.

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 related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DJS' 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 DJS that did not warrant inclusion in this report.

DJS' 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 DJS regarding the results of our review of its response.

APPENDIX



217 East Redwood Street
Baltimore, MD 21201

Boyd K. Rutherford
Lt. Governor

Larry Hogan
Governor

Sam Abed
Secretary

August 31, 2021

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

Dear Mr. Hook:

Per your request, attached is an electronic copy of our responses to the Draft Audit Report, issued on August 16, 2021, in connection with your fiscal compliance audit of the Department of Juvenile Services for the period beginning December 16, 2015 and ending March 31, 2020.

If you have any questions, or require additional information, please do not hesitate to call me at 410-230-3101.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sam Abed".

Sam Abed
Secretary

Attachments

cc: Wallis Norman, Deputy Secretary of Operations
Lynette Holmes, Deputy Secretary of Support Services
Joseph Cleary, Chief of Staff
Michael DiBattista, Chief Financial Officer
Robin Brady-Slifer, Inspector General
Kelly Massey, Director, Internal Audit



Department of Juvenile Services

Agency Response Form

Procurements and Disbursements

Finding 1

The Department of Juvenile Services (DJS) did not consolidate procurements and publish contract awards to maximize State purchasing power and enhance transparency, oversight, and control; and could not support certain contract modifications.

We recommend that DJS

- a. consolidate procurements to maximize State purchasing power and enhance controls and oversight;
- b. publish contract solicitation and awards as required by State procurement laws and regulations;
- c. ensure segregation of duties over procurement;
- d. discontinue the practice of paying a vendor after a contract or purchase order had been fully expended, without an appropriate, approved, modification; and
- e. ensure contract modifications are adequately supported, justified, and approved.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments		
Recommendation 1a	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	The DJS Office of Procurement (Procurement) is reviewing processes and available options to identify agency needs and actions necessary to address procurement activity proactively. Data collection and spending analysis along with communication with program staff and management will be used to identify the agency needs in order to proceed with procurement actions necessary to meet those needs. Procurement staff will receive updated training on the requirement for generating Purchase Orders (POs) upon contract award and DJS Accounts Payables (A/P) staff will receive updated training in the use of POs in invoice processing.		
Recommendation 1b	Agree	Estimated Completion Date:	7/1/2021

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Please provide details of corrective action or explain disagreement.	DJS practice is to follow State Procurement laws and regulations. The item(s) referenced in the discussion notes were one time only oversights. DJS also believes that during the transition from eMM some data was lost.		
Recommendation 1c	Agree	Estimated Completion Date:	4/1/2022
Please provide details of corrective action or explain disagreement.	DJS has a Small Procurement Review Group in place that reviews Category II Small Procurements (less than \$15,000) for maintenance. This group will be expanded to include reviews of all Category II Small Procurements that fall into this category to ensure that procurement policies and procedure are being followed; that there is proper separation of duties; and that all relevant procurement documentation is maintained in the procurement file.		
Recommendation 1d	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	DJS A/P staff will receive updated training in the use of POs in invoice processing. DJS practice is to use available PO/Blanket Purchase Order (BPO) documents in processing of vendor invoices. A/P training will be provided to all A/P staff on what to look for in processing. Procedures to identify and document the underlying use of Direct Vouchers (DV) for unauthorized transactions will be established.		
Recommendation 1e	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	Documentation for all budget modifications will be reviewed to ensure adequate justification. All reviews will be documented and kept in the procurement file.		

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Finding 2

DJS did not have a process in place to verify the propriety or reasonableness of certain services prior to payment, and could not justify the subsequent payment of certain invoices that were originally rejected for payment.

We recommend that DJS

- a. ensure that invoices and supporting documentation contain sufficient details to enable verification of amounts billed,
- b. ensure invoices are in accordance with contract terms and reflect services received before they are approved for payment, and
- c. cease the practice of overriding contract monitor payment rejections unless the override is supported by adequate documented justification.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments		
Recommendation 2a	Agree	Estimated Completion Date:	4/1/2022
Please provide details of corrective action or explain disagreement.	DJS Contract Monitoring Unit (CMU) is in the process of reviewing current billing documents for contract services to determine reasonableness of supporting documents. DJS CMU has developed standard procedures for contract monitors/invoice approvers. Training of staff will be ongoing.		
Recommendation 2b	Agree	Estimated Completion Date:	4/1/2022
Please provide details of corrective action or explain disagreement.	DJS CMU is in the process of reviewing current billing documents for contract services to determine if they adequately reflect contract terms and related receipt of Goods/Services. Training will be provided to all A/P staff on what to look for in processing.		
Recommendation 2c	Agree	Estimated Completion Date:	7/1/2021
Please provide details of corrective action or explain disagreement.	All requests for withholding and/or adjustment of vendor invoices will continue to be reviewed by management to determine if the underlying reasoning is consistent with the applicable contract terms. The decision of management to accept or reject the requested adjustment will be documented.		

Department of Juvenile Services

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Financial Management Information System

Finding 3

DJS did not use available automated controls to ensure the propriety of purchasing and disbursement transactions.

We recommend that DJS

- a. establish adequate online approval requirements to enhance the independent review and approval of critical procurement documents, or at a minimum, modify the manual review process to ensure that reviews are performed by employees with knowledge of the activities but without the capability to initiate and approve online payments; and**
- b. restrict the use of direct vouchers to transactions authorized by the DoIT *Manual*.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments		
Recommendation 3a	Agree	Estimated Completion Date:	6/30/2021
Please provide details of corrective action or explain disagreement.	DJS does not use ADPICS approval paths in the processing of invoices. DJS has chosen to establish the control in our process in RSTARS. With adequate security established, this methodology is acceptable. To that end, staff with the ability to transmit documents do not have the security to process invoice transactions in ADPICS. The two staff referenced by the auditors were an oversight that resulted from a change in the function of one staff (processor to transmitter) and security established for a new employee. DJS is strengthening its security review procedures to ensure the proper segregation is maintained for all FMIS users.		
Recommendation 3b	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	DJS practice is to use available PO/BPO documents in processing of vendor invoices. A/P training will be provided to all A/P staff on what to look for in processing. Procedures to identify and document the underlying use of DV for unauthorized transactions will be established.		

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Intergovernmental Agreements

Finding 4

DJS' use of certain intergovernmental agreements circumvented State procurement regulations. In addition, DJS did not ensure services were provided and related charges were proper.

We recommend that DJS

- a. establish a methodology to ensure youth care services are procured in a manner that provides the best value to the State (repeat),**
- b. ensure that contracts are established when services are provided,**
- c. exercise oversight to ensure youth care services are provided as required and the related administrative fees for monitoring are proper (repeat), and**
- d. obtain and review source documents to substantiate the propriety of payroll charges.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The use of Intergovernmental Agreements was not an effort by DJS to circumvent State Procurement regulations. Historically DJS has accessed services for youth through agreements with entities, Core Service Agencies and Local Management Boards, established for that purpose.		
Recommendation 4a	Agree	Estimated Completion Date:	7/1/2022
Please provide details of corrective action or explain disagreement.	DJS is in the process of reviewing all Intergovernmental Agreements to determine if/where opportunities to use alternate procurement methods are available to obtain required services for youth. To that end, three of the four agreements referenced in the discussion note have been terminated or procured through alternate procurement methods. The fourth ends 6/30/2021 and will not be continued.		
Recommendation 4b	Agree	Estimated Completion Date:	1/1/2022
Please provide details of corrective action or explain disagreement.	DJS Procurement will distribute guidelines to appropriate staff on the requirements to obtain goods and services in accordance with procurement regulations.		
Recommendation 4c	Agree	Estimated Completion Date:	1/1/2022

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Please provide details of corrective action or explain disagreement.	Intergovernmental Agreements have/will be converted to alternately procured contracts. Review of oversight procedures on all remaining agreements will be conducted and altered as necessary to ensure services are provided and administrative services are appropriate.		
Recommendation 4d	Agree	Estimated Completion Date:	4/1/2022
Please provide details of corrective action or explain disagreement.	DJS CMU is in the process of reviewing current billing documents for contract services to determine reasonableness of supporting documents.		

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Information Systems Security and Control

Finding 5

The youth case management application and database were not properly maintained and secured. In addition, related logging and monitoring controls and settings for application passwords and accounts were not adequate.

We recommend that DJS

- a. ensure the youth case management application database, to the extent possible, is fully supported by the database software vendor and kept current for all critical security-related updates;**
- b. restrict access to critical files to only those individuals who need such access to perform their job duties (repeat); and**
- c. enable logging for actions involving use of critical database privileges and for security-related changes to critical database tables (repeat), and establish appropriate account and password controls over the application.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments		
Recommendation 5a	Agree	Estimated Completion Date:	4/30/2021
Please provide details of corrective action or explain disagreement.	Once the contract issue was resolved, DJS purchased annual software support on 10/20/20. Since then, DJS database specialists have been reviewing the critical security patches and applying the appropriate patches to all environments. There is a process of testing the effect of each patch in non-critical environments, prior to installation in the production environment. This process is to isolate issues to particular patches and develop mitigation strategies.		
Recommendation 5b	Agree	Estimated Completion Date:	2/1/2021
Please provide details of corrective action or explain disagreement.	It is best practice to restrict account locally in the event other security is compromised. DJS will review all servers and remove the granted access from all built in user groups. A custom group was created with the appropriate rights and only essential administrator accounts will be in		

Department of Juvenile Services

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	that group. Additionally, a quarterly review of accounts and groups was implemented with documentation.		
Recommendation 5c	Agree	Estimated Completion Date:	3/1/2021
Please provide details of corrective action or explain disagreement.	The five additional database software system privileges were added to the current privileges being recorded to system logs. These logs are secure from the database administrators and review independently.		

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Materials and Supplies

Finding 6

DJS did not maintain materials and supplies inventory records as required.

We recommend that DJS

- a. ensure perpetual inventory records are established and maintained for materials and supplies in accordance with the *Manual* requirements, and
- b. perform required physical inventories and submit accurate valuation information to DGS on the *Annual Report of State Property Materials and Supplies*.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	While DJS agrees with the aggregate amounts referenced in the auditors discussion note, when expenditures are broken down by sub-object and location, we do not believe that a perpetual inventory is required.		
Recommendation 6a	Agree	Estimated Completion Date:	7/1/2022
Please provide details of corrective action or explain disagreement.	DJS maintains and operates multiple field offices and 13 DJS operated facilities across the entire State. In FY 2020 total spending in Object 09 (Supplies/Materials) totaled \$6.2 million. When spending is aggregated by sub-object and location, the thresholds for requirement for perpetual inventories are not present. DJS is in the process of analyzing spending in all sub-objects and locations. As established in the DGS Inventory Control Manual, DJS will seek exemptions if and where they may be necessary.		
Recommendation 6b	Agree	Estimated Completion Date:	7/1/2022
Please provide details of corrective action or explain disagreement.	DJS will comply with the reporting requirements for the <i>Annual Report of State Property Materials and Supplies</i> .		

AUDIT TEAM

Catherine M. Clarke, CPA, CFE, CIA
Audit Manager

R. Brendan Coffey, CPA, CISA
Edwin L. Paul, CPA, CISA
Information Systems Audit Managers

J. Alexander Twigg
Senior Auditor

Eric Alexander, CPA, CISA
J. Gregory Busch, CISA
Edward O. Kendall, CISA
Information Systems Senior Auditors

Monisha A. Barnes
Patrick J. Cavanaugh, CPA
Lindsey M. Fertig, CPA
Daniel P. Nuccio, CPA, CFE
Benjamin H. Straube
Staff Auditors

Charles O. Price
Information Systems Staff Auditor