

**Maryland General Assembly
Joint Audit Committee
2017 Interim
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MARYLAND GENERAL ASSEMBLY
JOINT AUDIT COMMITTEE

December 5, 2017

The Honorable Thomas V. Mike Miller, Jr., Co-chair
The Honorable Michael E. Busch, Co-chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Audit Committee respectfully submits the report of its activities during the 2017 interim. The committee's work covered the following principal areas of activity:

Review of Selected Legislative Audit and Fraud Hotline Issues

The committee met on September 13 and December 5 to review several legislative audits conducted by the Office of Legislative Audits (OLA) in accordance with the authority granted to the committee by Section 2-1224 of the State Government Article. The committee reviewed the audits listed below:

- Maryland Department of Health
 - Office of the Secretary and Other Units
 - Medical Care Programs Administration
- Department of Human Services
 - Office of the Secretary and Related Units
 - Social Services Administration

At the December 5 meeting, OLA also provided the committee with an update on hotline-related performance and findings. At the instruction of the committee, OLA implemented a statewide fraud hotline in February 2003. Although initially anticipated to receive approximately 200 calls per year, the hotline's actual annual call volume has consistently exceeded expectations. In calendar 2016, the hotline received 515 calls. OLA also provided an update on hotline-related findings as to the following units:

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- Department of Juvenile Services
(Report of November 1, 2017 – questionable procurement activity)
- Baltimore City Community College
(Report of November 14, 2017 – questionable procurement activity)

OLA has referred both of these matters to the Criminal Division of the Office of the Attorney General.

Summary and Follow-up Audit Reports

The audit reports issued by OLA from December 1, 2016, to July 31, 2017, including those proposed for committee monitoring, were reviewed by the committee at the September 13 meeting. The reports issued by OLA from August 1, 2017, to November 30, 2017, also including those proposed for committee monitoring, were reviewed by the committee at the December 5 meeting.

The summary analyses of items in fiscal compliance audits as of June 30, 2017, were reviewed by the committee at the December 5 meeting. Agencies with five or more repeat audit findings are required to provide status reports to OLA on corrective actions taken on all findings within nine months of the related audit reports.

Review of the follow-up audit process from 2006 through June 2017 revealed the following:

- Between 2006 and October 2010, 38 audit reports had five or more repeat audit findings, requiring 30 agencies to submit one or more quarterly status reports.
- Since October 2010, only six audit reports have had five or more repeat findings. Of those six audit reports, the quarterly status report process has concluded for three audits, the report process is ongoing for one audit, and the report process has not yet begun for the two most recent audits.
- The percentage of repeat audit findings in State agencies has decreased from 40% in June 2006, to 23% in June 2017. As of June 2017, 6% of findings were repeated after the second subsequent audit.

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Budget Actions on Repeat Audit Findings

Since 2013, the *Joint Chairmen's Report* (JCR) has annually included budget bill language restricting appropriations for agencies with four or more repeat audit findings until corrective action has been taken. In 2016, the JCR included fund restrictions for two agencies with four or more repeat audit findings. The two agencies collectively addressed two of nine repeat audit findings. The restricted funds for one agency were fully released, and funds for the second agency were not released.

The 2017 JCR also required two agencies to take corrective actions for repeat audit findings, one agency for which funds were not previously released. A portion of the administrative appropriations for fiscal 2018 has been withheld from these agencies until OLA submits a report to the budget committees on the status of corrective actions for repeat audit findings. Both agencies have submitted reports to OLA stating that the findings have been corrected.

OLA will review the agency reports. OLA conclusions regarding the corrective actions taken on the eight repeat audit findings will be reported to the budget committees within 45 days prior to the end of fiscal 2018.

Additional Areas of Committee Study

- *Local School System Audits* – Chapter 261 of 2016 established a voluntary exemption process from the general requirement that OLA, at least once every six years, conduct an audit of each local school system. Although the committee initially approved an exemption request for Charles County and six other counties in December 2016, based on receipt of the required exemption request letters, the committee subsequently received a letter in May 2017 from the Board of County Commissioners of Charles County withdrawing its support for that county's exemption. The committee therefore reconsidered the exemption, and Charles County will now be subject to audit during the current cycle.
- *Department of Information Technology Audit Request* – As outlined in an August 10, 2017 letter from the Department of Legislative Services (DLS) to the Presiding Officers, the Department of Information Technology (DoIT) sought approval from the Board of Public Works (BPW) for \$3.7 million in payments to Periscope Holdings, Inc. (Periscope) for work completed on a voided October 2016 work order with NICUSA, Inc. (NIC). BPW approved the payments by a 2-1 vote, but concerns remain regarding a lack of available information to substantiate the payments and unverified labor charge figures. By letter dated September 13, 2017, the committee requested that OLA review the work order between DoIT and NIC, the labor charges incurred by Periscope, and the work performed by Periscope to determine whether the charges submitted to the State are proper. The

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committee further requested that OLA issue its report on the review's results by the start of the 2018 session of the General Assembly.

The committee extends its appreciation for the assistance and information provided by State and local officials, private citizens, and the staff of DLS during the 2017 interim.

Respectfully submitted,

Senator Craig J. Zucker
Senate Chair

Delegate C. William Frick
House Chair

CJZ:CWF/HED/mag

cc: Ms. Carol L. Swan
Mr. Ryan Bishop
Mr. Thomas J. Barnickel III