

Audit Report

Maryland Department of the Environment

August 2022

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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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

August 3, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, 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 Maryland Department of the Environment (MDE) for the period beginning December 20, 2016 and ending April 30, 2021. MDE is responsible for protecting and restoring the quality of the State's land, air, and water resources, and safeguarding the public from health risks associated with pollution.

Our audit disclosed that MDE did not always use available system reports to ensure that all registered rental units had current lead inspections as required. Our data analysis of MDE's Online Lead Rental Registry (OLRR) compared to MDE's lead inspection certification database disclosed that 973 rental units of the 25,054 registered rental units with changed occupancy did not have a lead inspection recorded in OLRR or in the lead inspection certification database. Consequently, there is no assurance that all required inspections were performed or properly recorded in MDE records. In addition, MDE did not verify the propriety of charges related to technology enterprise services received from the Department of Information Technology valued at \$5.1 million for fiscal years 2020 and 2021.

Significant risks existed within MDE's computer network. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in

the State Finance and Procurement Article, Section 3A-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to MDE as well as those parties responsible for acting on our recommendations.

Finally, our audit also included a review to determine the status of the seven findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that MDE satisfactorily addressed all four findings.

MDE's response to this audit is included as an appendix to this report. We reviewed the response to our findings and recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. In accordance with our policy, we have edited MDE's response to remove any vendor names or products mentioned by MDE in this document. Consistent with the requirements of State law, we have redacted the elements of MDE's response related to cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during the audit by MDE and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA
Legislative Auditor

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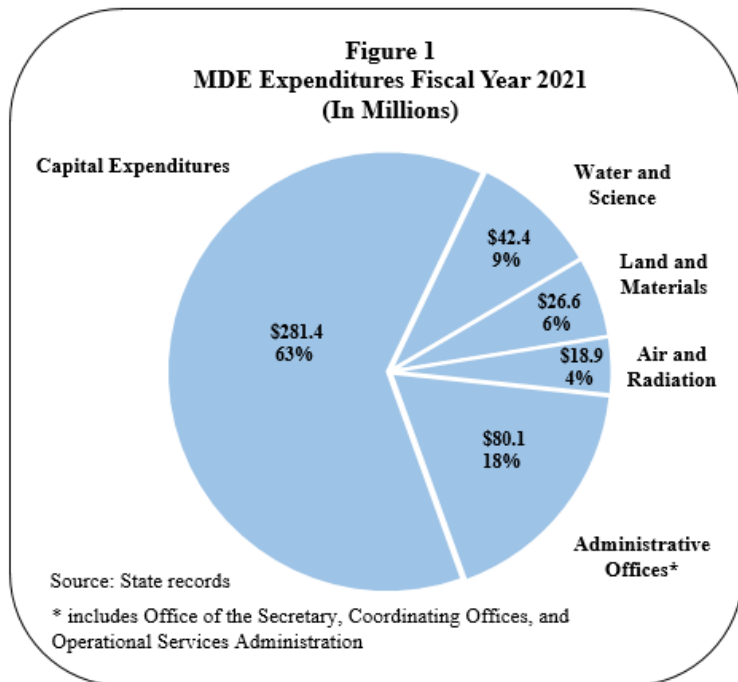
Background Information

Agency Responsibilities

The Maryland Department of the Environment (MDE) is responsible for protecting and restoring the quality of the State's land, air, and water resources, and safeguarding the public from health risks associated with pollution. MDE's duties and responsibilities include enforcing applicable laws and regulations, conducting long-term planning and research, and assisting industries and communities in their efforts to handle pollution, waste disposal, and emergency spills of waste or oil. MDE consists of the following units:

- Office of the Secretary
- Coordinating Offices (including the Maryland Water Quality Financing Administration¹)
- Operational Services Administration
- Water and Science Administration
- Land and Materials Administration
- Air and Radiation Administration

According to the State's records, during fiscal year 2021, MDE's operating and capital expenditures totaled approximately \$449.4 million (See Figure 1). These expenditures were funded by general funds totaling approximately \$33.5 million, special funds totaling approximately \$314.4 million, federal funds totaling approximately \$83.1 million, and reimbursable funds totaling approximately \$18.4 million.



¹ The Maryland Water Quality Financing Administration administers the Water Quality and Drinking Water Revolving Loan Funds and the Bay Restoration Fund.

MDE's capital expenditures primarily related to its Water Quality and Drinking Water Revolving Loan Funds and the Bay Restoration Fund; these capital expenditures totaled approximately \$191.3 million and \$90.0 million, respectively.

Financial Statement Audits and Single Audits – Maryland Water Quality Financing Administration

MDE engaged an independent accounting firm to perform audits of the Maryland Water Quality Financing Administration's financial statements of the Water Quality and Drinking Water Revolving Loan Funds and the Bay Restoration Fund for the fiscal years ended June 30, 2018, 2019, 2020, and 2021. In the related audit reports, the firm stated that the Administration's financial statements for these Funds presented fairly, in all material respects, the financial position of the Administration and its changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

The accounting firm also conducts the Single Audit of the Maryland Water Quality Financing Administration federal grant programs. The Single Audit is intended to provide assurance to the federal government that adequate internal controls are in place, and that the audited entity is generally in compliance with certain program requirements. In the related reports for the fiscal years ended June 30, 2018, 2019, 2020, and 2021, the firm stated that the Administration complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs. According to the financial statements, as of June 30, 2021, the Maryland Water Quality Financing Administration's net position totaled approximately \$1.83 billion.

The Maryland Water Quality Financing Administration provides a combination of federal and State funds for low-interest loans to local jurisdictions and private entities throughout the State for drinking water and water quality capital projects. These projects include upgrades and expansions to wastewater treatment plants and pump stations, and creation of storm water management facilities. Additionally, the Administration provides Bay Restoration Fund grants for enhanced nutrient removal upgrades to existing wastewater facilities, for sewer infrastructure rehabilitation, and for septic system upgrades.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated May 14, 2018. As disclosed in Figure 2, for the non-cybersecurity-related findings, we determined that MDE satisfactorily addressed all four of these findings.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MDE used interagency agreements with a college to augment its staff, allowing it to avoid using competitive procurement processes or budgeted positions. MDE did not ensure the rates for these services were reasonable.	Not repeated
Finding 2	MDE did not establish a sufficient process to ensure that owners of affected lead paint properties had required inspection certificates. We identified 10,832 registered rental units without inspection certificates that MDE had not investigated.	Not repeated
Finding 3	Inspections of certain construction sites were not performed as required by State regulations, and MDE lacked a formal plan for inspecting all sites. Only 1,033 of 5,942 sites were inspected during fiscal year 2016.	Not repeated
Finding 4	MDE did not always retain documentation to support penalties assessed against construction contractors and to evidence supervisory approval.	Not repeated
Finding 5	Eleven contractors had unnecessary network-level access to the entire MDE internal network.	Status Redacted ²
Finding 6	Malware protection was not sufficient to provide MDE with adequate assurance that its computers were properly protected.	Status Redacted
Finding 7	A critical database and numerous servers were running on outdated software.	Status Redacted

² Specific information on cybersecurity findings has been redacted from this publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Lead Inspections

Finding 1

The Maryland Department of the Environment (MDE) did not always use available system reports to ensure that all registered rental units had a current lead inspection certificate as required.

Analysis

MDE did not always use available system reports to ensure that all registered rental units had a current lead inspection certificate as required. We obtained a report from MDE's Online Lead Rental Registration system (OLRR) as of October 29, 2021, for all active registered rental units through April 30, 2021, which we deemed reliable for our purposes. The rental units recorded on this system, should represent the known population of rental units subject to lead inspections, which are recorded by MDE in the system. However, the inspections noted in OLRR are not the official record for MDE lead inspection purposes; as the official record is the separately maintained lead inspection certification database. Our review of the OLRR report identified 25,054 rental units built prior to 1978 that were newly registered during our audit period and that also had a reported change in occupancy after December 2016. We compared this report to a report of certificates recorded in the lead inspection certification database and noted that for 973 of the 25,054 rental units registered during our audit period with a reported change in occupancy there was no inspection certificate recorded in either the OLRR or the lead inspection certification database. Consequently, there is no assurance that all required inspections were performed or properly recorded in MDE's records. We selected 10 of these rental units and determined that MDE did not investigate 4 units to determine whether an inspection was required or had been performed.

While not all registered rental units require an owner to have an inspection certificate (for example, unoccupied properties), MDE should investigate registered rental units with a change in occupancy to determine if an inspection was required. During our prior audit we noted approximately 10,832 units in the OLRR did not have any inspection certificates recorded in the lead inspection certification database. While MDE has significantly reduced the number of missing inspections, given the importance of this potential health-related issue, we believe that additional effort is both appropriate and necessary to ensure all required lead inspections are received.

State law requires that an owner of an affected property (based on year of construction) to have the property inspected at each change in occupancy prior to new tenancy to verify that risk reduction standards have been satisfied. State law further allows for penalties, not to exceed \$500 per day, for violations of these provisions and procedures.

Recommendation 1

We recommend that MDE use available reports to identify missing inspections and take appropriate corrective action.

Disbursements

Finding 2
MDE did not verify the propriety of charges related to technology enterprise services received from the Department of Information Technology (DoIT) during fiscal years 2020 and 2021, which were valued at \$5.1 million.

Analysis

MDE did not verify the propriety of charges related technology enterprise services received from DoIT during fiscal years 2020 and 2021, which were valued at \$2.5 million and \$2.6 million, respectively. At the beginning of fiscal year 2020, DoIT transitioned to a cost allocation model for technology enterprise services provided to State agencies, including MDE. Under this model, DoIT submitted an invoice at the beginning of each fiscal year that included a cost allocation covering the services it planned to provide to MDE during fiscal years 2020 and 2021, which MDE was to pay in four equal quarterly payments. The invoice specified the general categories of work to be performed. For example, the annual invoice for fiscal year 2021 included end user support services totaling \$857,000 for 1,159 devices, \$300,000 for access to the State’s Financial Management Information System (FMIS) for 193 users, and \$72,000 for connection to the State’s fiber network (network Maryland).

Invoices provided to MDE from DoIT lacked supporting documentation to substantiate the services provided. For example, based on our review of DoIT’s user access charge for FMIS, we determined that MDE was unable to readily determine the reasonableness of the amount charged, which had increased from \$95,000 in fiscal year 2020 to \$300,000 in fiscal year 2021 (an increase of \$205,000 or about 216 percent). MDE did not verify the accuracy of the number of devices or users billed for service charges or the extent to which services were provided. MDE also could not determine the reasonableness of other charges,

such as how the \$72,000 cost for connection to the State's fiber network was determined based on connection speed and related equipment.

The aforementioned conditions occurred, in part, because MDE and DoIT did not execute a memorandum of understanding (MOU). A MOU would clarify DoIT's responsibilities over information technology support services performed, remaining technology responsibilities at MDE, and how the cost for these services should be calculated, supported, and invoiced. In our most recent DoIT audit report, dated May 1, 2020, we recommended that DoIT enter into MOUs with State agencies that receive technology enterprise services. DoIT agreed with the recommendation and stated that its staff would work with agencies to execute MOUs. According to MDE management personnel, DoIT provided a final draft MOU in November 2020 for MDE to sign. As of February 2022, MDE advised us that it had not signed the MOU and it was in the process of negotiating the terms of the MOU with DoIT.

Recommendation 2

We recommend that MDE

- a. finalize a MOU with DoIT that clarifies DoIT's responsibilities over information technology support services performed, remaining technology responsibilities at MDE, and how the cost for these services should be calculated, supported, and invoiced;**
- b. ensure all charges invoiced related to technology enterprise services received are proper, including those noted above; and**
- c. recover amounts determined to have been billed inappropriately, if any.**

Information Systems Security and Control

MDE's information technology (IT) operations involved a combination of internal MDE support services with additional separate support provided by DoIT. MDE personnel supported multiple computer applications and databases, including the software for the comprehensive environmental tracking system, all of which operated on DoIT supported computer servers. DoIT also provided the following separate IT support services functions for MDE:

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

DoIT operates a Statewide network for MDE that connects MDE's local offices and the MDE headquarters. The Statewide network provides MDE users access to various information technology services including the aforementioned applications, network services, and internet access.

We determined that Findings 3 through 5 related to "cybersecurity", as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendation(s), along with MDE's responses, have been redacted from this report copy.

Finding 3
Redacted cybersecurity-related finding.

Finding 4
Redacted cybersecurity-related finding.

Finding 5
Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of the Environment (MDE) for the period beginning December 20, 2016 and ending April 30, 2021. 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 MDE'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 certain special funded programs (such as the Bay Restoration Fund Septic System and Wastewater grants); permitting, inspections, and violation assessments; procurements and disbursements; critical information systems; accounts receivable; and payroll. We also determined the status of the findings contained in our preceding audit report.

MDE engaged an independent accounting firm to perform audits of the Maryland Water Quality Financing Administration's financial statements. In related audit reports for the fiscal years ended June 30, 2018, 2019, 2020, and 2021, the firm stated that the Administration's financial statements presented fairly, in all material respects, the financial position of the Administration and its changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America. Furthermore, the accounting firm also conducts the Single Audit of the Maryland Water Quality Financing Administration federal grant programs. The Single Audit is intended to provide assurance to the federal government that adequate internal controls are in place, and the entity is generally in compliance with certain program requirements. In the related reports for the aforementioned fiscal years, the firm stated that the Administration complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs. We have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of the Maryland Water Quality Financing Administration's operations (internal controls and testing for the Water Quality and Drinking Water Revolving Loan Funds

programs). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for the remaining federal financial assistance programs not covered by the aforementioned Single Audit of the Maryland Water Quality Financing Administration and an assessment of MDE's compliance with those laws and regulations. The State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDE.

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 20, 2016 to April 30, 2021, 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 MDE's 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 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). These 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 MDE's permit, registration, and enforcement systems, and from the Statewide Personnel System (SPS) for the purpose of testing certain areas, such as permits, inspections and penalties processes, as well as certain payroll transactions. 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.

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

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as “means processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgement, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to the MDE and those parties responsible for acting on our recommendations in an unredacted audit report.

MDE’s response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDE regarding the results of our review of its response.

APPENDIX



Maryland

Department of the Environment

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor

Horacio Tablada, Secretary
Suzanne E. Dorsey, Deputy Secretary

July 19, 2022

Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook:

Please find enclosed the Maryland Department of the Environment's (MDE) response to the draft legislative audit report dated July 2022. We would like to thank you and your staff for reviewing MDE's business practices and providing constructive recommendations as a result of this audit. The professionalism conducted by your staff was greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read "H. Tablada".

Horacio Tablada
Secretary

Enclosure

Maryland Department of the Environment

Agency Response Form

Lead Inspections

Finding 1

The Maryland Department of the Environment (MDE) did not always use available system reports to ensure that all registered rental units had a current lead inspection certificate as required.

We recommend that MDE use available reports to identify missing inspections and take appropriate corrective action.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments.		
Recommendation 1	Agree	Estimated Completion Date:	10/30/2022
Please provide details of corrective action or explain disagreement.	MDE will review the 973 of 25,054 active rental units (from which OLA selected the above-referenced rental units) that were registered during the audit period to determine compliance status. Following this review, MDE will identify appropriate corrective action(s), which may include making any necessary adjustments to OLRR and LRCA functionality and developing additional procedures for manual compliance status checks.		

Maryland Department of the Environment

Agency Response Form

Disbursements

Finding 2

MDE did not verify the propriety of charges related to technology enterprise services received from the Department of Information Technology (DoIT) during fiscal years 2020 and 2021, which were valued at \$5.1 million.

We recommend that MDE

- a. finalize a MOU with DoIT that clarifies DoIT’s responsibilities over information technology support services performed, remaining technology responsibilities at MDE, and how the cost for these services should be calculated, supported, and invoiced;**
- b. ensure all charges invoiced related to technology enterprise services received are proper, including those noted above; and**
- c. recover amounts determined to have been billed inappropriately, if any.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments.		
Recommendation 2a	Agree	Estimated Completion Date:	Done
Please provide details of corrective action or explain disagreement.	MDE agrees with the recommendation and has returned the MOU signed by MDE to DoIT.		
Recommendation 2b	Agree	Estimated Completion Date:	Done
Please provide details of corrective action or explain disagreement.	MDE agrees with the recommendation and has returned the MOU signed by MDE to DoIT. MDE has contacted DoIT about the discrepancies in billing to ensure all charges invoiced related to technology enterprise services received are proper for each fiscal year.		
Recommendation 2c	Agree	Estimated Completion Date:	Done
Please provide details of corrective action or explain disagreement.	MDE agrees with the recommendation and has returned the MOU signed by MDE to DoIT. MDE will continue to work with DoIT to recover any amount determined to have been inappropriately billed for each fiscal year.		

Maryland Department of the Environment

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that Findings 3 through 5 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the findings, including the analysis, related recommendations, along with MDE’s responses, have been redacted from this report copy, MDE’s responses indicated agreement with the findings and related recommendations.

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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