

Audit Report

**Maryland Department of Health
Office of the Secretary and Other Units**

October 2023

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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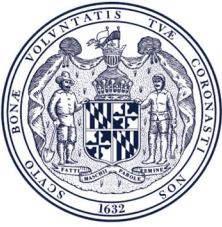
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

October 19, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 Office of the Secretary and other units of the Maryland Department of Health (MDH) for the period beginning February 12, 2019 and ending June 30, 2022. MDH is responsible for promoting the health of the public and for strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland.

Our audit disclosed deficiencies in MDH's procedures to account for federal fund activity, including an inability to determine whether federal funds were recovered for all State-funded expenditures. Specifically, MDH did not ensure that all provider payments were properly recorded in its automated system to enable recovery of federal funds to offset State-funded expenditures. We also found that for approximately three years MDH was not performing a critical quarterly reconciliation to ensure that all available federal funds had been recovered, resulting in the failure to recover approximately \$973.3 million in federal funds until we brought the matter to MDH's attention in August 2022. Although MDH subsequently recovered the funds, the untimely recovery resulted in lost interest to the State of \$6.4 million. MDH also did not have a procedure to verify that all federal fund reimbursement requests for three federal grants that collectively accounted for \$10.2 billion (96 percent) of MDH's \$10.6 billion in federal fund expenditures during fiscal year 2022 were subsequently received.

Our audit also disclosed that MDH lacked assurance that the balances of the revenue and expenditure accounts related to federal fund activity were accurate. For example, we identified numerous accounts with questionable balances as of June 30, 2022, including a \$1.1 billion deficit in the clearing account where federal fund revenues were initially recorded, and balances (both positive and

negative) in multiple accounts dating back to fiscal year 2015. We also found that MDH recorded accrued revenue entries at fiscal year-end to eliminate the account balances without regard to the collectability of those revenues.

MDH did not always comply with State procurement regulations. Specifically, our review of one emergency contract originally procured for consulting services related to the State's COVID-19 Vaccination Program in January 2021 disclosed that MDH modified the contract to include unrelated services without justification and did not sufficiently document that the services were received. As a result, we were unable to determine the propriety of the payments MDH made to the vendor, which totaled \$62.1 million between April 2021 and October 2022. In addition, MDH did not justify the noncompetitive procurement of three contracts totaling \$946,000, did not notify the Board of Public Works of one emergency procurement, did not document that it conducted price negotiations of two sole source contracts valued at approximately \$11 million, and did not always publish contract solicitations and awards as required.

We noted a number of deficiencies with MDH's security and control over its information systems. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the 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 3.5-301(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 those parties responsible for acting on our recommendations.

At the time of our review MDH was eight months behind on billing third parties for certain services rendered at MDH inpatient facilities, which we estimated could total \$45.4 million. We also found that MDH had not established adequate controls to ensure the propriety of biweekly payroll payments, leave balances, and timesheets. For example, adjustments to employee pay and leave balances were not reviewed for propriety. In addition, MDH did not have procedures to ensure that employees who were terminated or left State service were promptly removed from the payroll, resulting in improper payments to at least 45 former employees totaling \$151,000. Our audit also disclosed that MDH did not sufficiently control collections, which totaled approximately \$164.1 million during fiscal year 2022. Finally, MDH did not ensure that corrective actions were implemented to address findings from our Office's fiscal compliance audits of other MDH units.

Our audit also included a review to determine the status of the six findings contained in our preceding audit report. For the non-cybersecurity related findings we determined that MDH satisfactorily addressed two of those four findings. The remaining two findings are repeated in this report. Finally, our audit included a review to determine the status of four of the five findings contained in our special review of questionable grants awarded by the Opioid Operational Command Center (dated February 7, 2020). We determined that MDH satisfactorily addressed those four findings.

We determined that MDH's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. The primary factors contributing to the unsatisfactory rating were the number and significance of the audit findings contained in this report.

MDH's 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. Subsequent to the response receipt, but prior to the issuance of the final report, we contacted MDH staff and obtained verbal clarification that satisfactorily resolved certain outstanding questions and issues regarding Finding 7. In addition, there are other aspects of MDH's response which will require further clarification and we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. Finally, in accordance with our policy, we have redacted any vendor names or products mentioned by MDH in this document and consistent with State law, we have redacted the elements of MDH's response related to the cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during the course of this audit by MDH. We also wish to acknowledge MDH's 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 Health (MDH) is responsible for promoting the health of the public and for strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland. This audit report includes seven budgetary units associated with the MDH Secretary and four Deputy Secretaries.¹ According to the State's records, during fiscal year 2022, expenditures for these units totaled approximately \$255.9 million² (see Figure 1). This amount includes costs associated with the executive leadership and its staff responsible for overseeing the other units in MDH and does not include the programmatic expenditures for the underlying units (such as Medicaid disbursements).

¹ Specifically, the Deputy Secretaries for Public Health Services; Behavioral Health; Health Care Financing and Medicaid; and Operations are included within the scope of this audit.

² This amount reflects certain one-time expenditures related to the ransomware security incident described on the next page, and the COVID-19 pandemic.

Figure 1
MDH Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2022		
	Positions	Percent
Filled	493	86.9%
Vacant	74	13.1%
Total	567	
Fiscal Year 2022 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 61,072,557	23.9%
Technical and Special Fees	6,941,492	2.7%
Operating Expenses	187,888,506	73.4%
Total	\$255,902,555	
Fiscal Year 2022 Funding Sources		
	Funding	Percent
General Fund	\$ 77,460,732	30.3%
Special Fund	42,745,341	16.7%
Federal Fund	115,177,601	45.0%
Reimbursable Fund	20,518,881	8.0%
Total	\$255,902,555	

Source: State financial and personnel records

The MDH Secretary and five Deputy Secretaries provide administrative infrastructure and oversight to MDH and health providers throughout the State. In addition, they are responsible for policy formulation and program implementation and provide executive oversight to the MDH administrations (see **Exhibit 1** for Organizational Chart). The various programs administered by these units are audited separately in one of the 19 other MDH audits performed by the Office of Legislative Audits (OLA) (see **Exhibit 2** for a listing of OLA audits of MDH and findings from the most recent audit report for each program/administration).

Organizational Change

Effective July 1, 2022, Chapter 325, Laws of Maryland 2021 created the Maryland Office of the Inspector General for Health (OIGH) and established it as an independent unit of the State. Certain funding and staff from the then existing MDH Office of the Inspector General (OIG) transferred to the new office. The remaining OIG staff were reorganized into the MDH Office of Internal Controls,

Audit Compliance, and Information Security which is intended to function as an internal audit unit and is answerable to the MDH Secretary. The activities of OIGH, beginning July 1, 2022, will be included in a separate audit of OIGH.

Ransomware Security Incident and Expanded Audit Period

Our audit fieldwork originally commenced in October 2021. In December 2021, MDH experienced a broad security incident resulting from a ransomware attack.³ This incident affected the entire MDH computer network and disrupted information technology operations for all MDH servers and end user computers, resulting in substantial impact on all MDH business operations. MDH notified the Department of Information Technology's (DoIT) Office of Security Management, which initiated incident response measures. Various other parties were informed of this incident or engaged for recovery efforts. DoIT concluded that no evidence existed indicating that sensitive or regulated information had been improperly acquired. In June 2022, MDH received \$40.4 million from the State Reserve Fund to cover the costs of its remediation, recovery, and security modernization efforts related to the incident. The State of Maryland and MDH filed separate cybersecurity insurance claims on this matter which together totaled approximately \$8.45 million.

The incident also resulted in a significant number of MDH records that we deemed critical to satisfying our audit objectives and related conclusions being temporarily inaccessible. In consultation with MDH officials, we suspended our audit fieldwork for approximately seven months. Consequently, we also expanded our original audit period from February 12, 2019 through October 31, 2021 to February 12, 2019 through June 30, 2022. Our audit included a review of the aforementioned incident and related controls.

Additional details related to the ransomware attack are presented in the Information Systems Security and Control section. However, the cybersecurity-related information and audit findings will be redacted from our publicly available report.

³ As defined by the Federal Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, ransomware is an ever-evolving form of malware designed to encrypt files on a device, rendering any files and the systems that rely on them unusable. Malicious actors then demand ransom in exchange for decryption.

Other Office of Legislative Audits Reviews

During the expanded audit period, OLA conducted several reviews of MDH activities in addition to our mandated fiscal compliance audits. These reviews were initiated based on concerns received by OLA and focused on specific activities involving MDH, certain of which are included, at least in part, in the findings contained in this report.

Questionable Grants Awarded by the Opioid Operational Command Center

Based on an allegation received through our fraud, waste, and abuse hotline, we conducted a special review of the Opioid Operational Command Center's (OCCC) grant procedures and tested 18 grant awards totaling \$6.1 million (including the grant referenced in the allegation) and issued the related report on February 7, 2020. In that report, we concluded that OCCC did not have written policies and procedures for the selection of grantees, amounts awarded, and the monitoring of grantees. Our report also identified numerous deficiencies with OCCC's grant process, including specific instances of questionable grant awards and payments.

The fiscal year 2021 budget bill enacted by the Maryland General Assembly transferred OCCC from the Military Department to the MDH Office of the Secretary, effective July 1, 2020. Consequently, our current audit included a follow up on the findings in the February 2020 report and the activities of OCCC since the transfer to MDH.

Review of Procurement of Certain COVID Tests

In June 2020, the chairs of the Senate Education, Health, and Environmental Affairs and the House Health and Government Operations Committees requested OLA to review two emergency procurements (for COVID tests and medical supplies) related to the State of Maryland's COVID-19 response and the termination of two employees associated with the procurement of the COVID tests. We subsequently received an allegation through our fraud, waste, and abuse hotline raising concerns with the accuracy of the COVID tests obtained from one of these procurements.

In response to these concerns, on March 31, 2021 we issued a special report on the results of our review of the COVID tests procurement, in which we concluded that the procurement was not in accordance with State procurement regulations. We also concluded that available documentation did not support the basis of the aforementioned employee terminations. We were unable to obtain access to test results from the laboratories that used the COVID tests in time for inclusion in this report. We ultimately obtained and analyzed these results during our

subsequent Expanded Review of COVID-19 Emergency Procurements (see below). Our March 2021 report did not include recommendations and therefore, we did not determine the current status of the findings as part of our current audit.

Expanded Review of COVID-19 Emergency Procurements

Due to the concerns identified in our March 2021 report, we conducted an expanded review of statewide COVID procurements and followed up on the aforementioned concerns with the COVID test results. During the course of our review, we identified 99 emergency procurements totaling \$371.4 million made by MDH, of which we reviewed two procurements totaling \$79.8 million. On December 13, 2021, we issued a report on the results of our review which disclosed an overall lack of compliance with State regulations for emergency procurements and ineffective monitoring of the related payments. The report also generally corroborated the concerns with the reliability of the COVID tests, but we could not determine if the issues with the test results were due to deficiencies with the procured tests or other factors.

This December 2021 report did not include recommendations, so we did not follow up on the report during our current audit. However, MDH subsequently processed several modifications to one of these procurements that significantly increased the cost and scope of the contract which was subject to review during this audit (see Finding 6).

Statewide Review of Budget Closeout Transactions for Fiscal Year 2022

In our January 26, 2023 special report on our review of budget closeout transactions for the fiscal year ended June 30, 2022 we noted that MDH could not support the propriety of accrued federal fund revenue, totaling approximately \$3.5 billion, and did not identify and recover \$862.5 million in federal fund revenue until we brought the matter to its attention. Our current audit included an expanded review of the fiscal year-end transactions (see Finding 4).

Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of the six findings contained in the MDH audit report dated July 14, 2020; and four of the five findings in our February 7, 2020 special review of OOCC. As disclosed in Figure 2 on the following page, for the non-cybersecurity-related findings, we determined that MDH satisfactorily addressed six of these findings. The two remaining findings are repeated in this report.

**Figure 2
Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
MDH – Office of the Secretary and Other Units		
Finding 1	MDH did not provide adequate oversight over interagency agreements. As a result, certain interagency agreements were used to augment MDH staff beyond budgeted positions, had administrative rates that appeared excessive, were not properly approved, and were not properly monitored.	Not Repeated
Finding 2	MDH did not always comply with State procurement requirements related to sole source and emergency procurements and did not always publish contract awards, as required.	Repeated (Current Finding 7)
Finding 3	The Office of the Inspector General did not always conduct a comprehensive review of contracts, payroll, and user access to MDH’s automated systems during its audits of local health departments.	Not repeated
Finding 4	MDH had not established adequate controls to ensure the propriety of biweekly payroll payments, leave balances, and timesheets.	Repeated (Current Finding 14)
Finding 5	Intrusion detection prevention system coverage for the MDH network was not adequate for blocking malicious traffic.	Status Redacted ⁴
Finding 6	Information technology contractors had unnecessary network-level access to the MDH network	Status Redacted ⁴
OOC – Allegations Related to a Questionable Grant Awarded to a Nonprofit Organization		
Finding 1	OOC did not have written policies and procedures for the selection of grantees, amounts awarded, and the monitoring of grantees. We noted numerous deficiencies with the grant process that raised questions about the overall integrity of grant awards and related payments.	Not repeated

⁴ Specific information on the current status of this cybersecurity-related finding has been redacted from the publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Preceding Finding	Finding Description	Implementation Status
Finding 2	OOCC did not have adequate justification for a \$750,000 grant awarded to a nonprofit organization for the purchase of a former country club and golf course.	Not repeated
Finding 3	OOCC awarded a \$100,000 grant to an out-of-state nonprofit organization that transferred almost all the funds to a for-profit company owned by senior management of the nonprofit; neither of which were registered to conduct business in the State of Maryland. In addition, the payment rate paid to the nonprofit was higher than the rate included in the grant proposal and more than half of the required services were not provided.	Not repeated
Finding 4	OOCC awarded a \$40,959 grant to a nonprofit organization that was not consistent with the related grant proposal. In addition, purchases specified in the grant agreement appeared to have no correlation to the related performance measures, and certain grant expenditures appeared questionable.	Not repeated
Finding 5	During the June 30, 2019 fiscal year closing process, the Maryland Department of Health and the Behavioral Health Administration improperly recorded certain expenditures on behalf of OOCC retaining general fund appropriation for future years.	Not repeated (Not followed-up on)

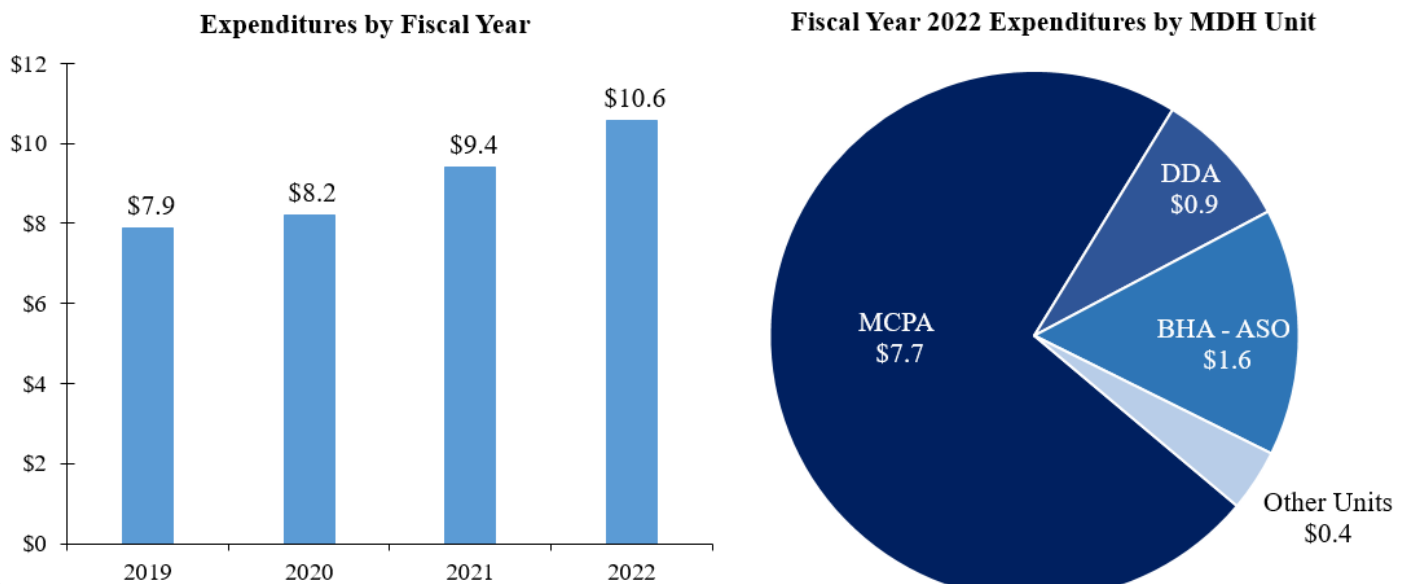
Findings and Recommendations

Federal Funds

Background

According to State records, Maryland Department of Health (MDH) federal fund expenditures during fiscal years 2019 through 2022 totaled approximately \$36.1 billion (see Figure 3). This amount excludes federal funds related to the COVID-19 public health emergency other than enhanced funding for the Medical Assistance Program (Medicaid).⁵ During fiscal year 2022, MDH's federal fund expenditures totaled \$10.6 billion, of which \$10.2 billion (96 percent) were made by the Medical Care Programs Administration (MCPA), the Behavioral Health Administration's Administrative Service Organization (BHA - ASO), and the Developmental Disabilities Administration (DDA) (see Figure 3).

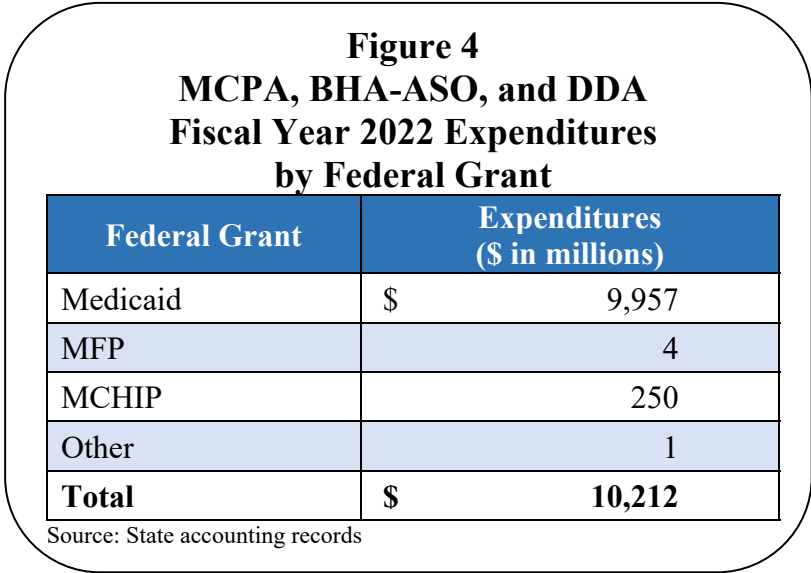
Figure 3
Summary of MDH Federal Fund Expenditures by Fiscal Year and MDH Unit
(\$ in billions)



Source: State accounting records

⁵ MDH's receipt, expenditure, and accounting for these funds are subject to review and testing during the annual federal Single Audit performed by independent auditors under contract with the State of Maryland.

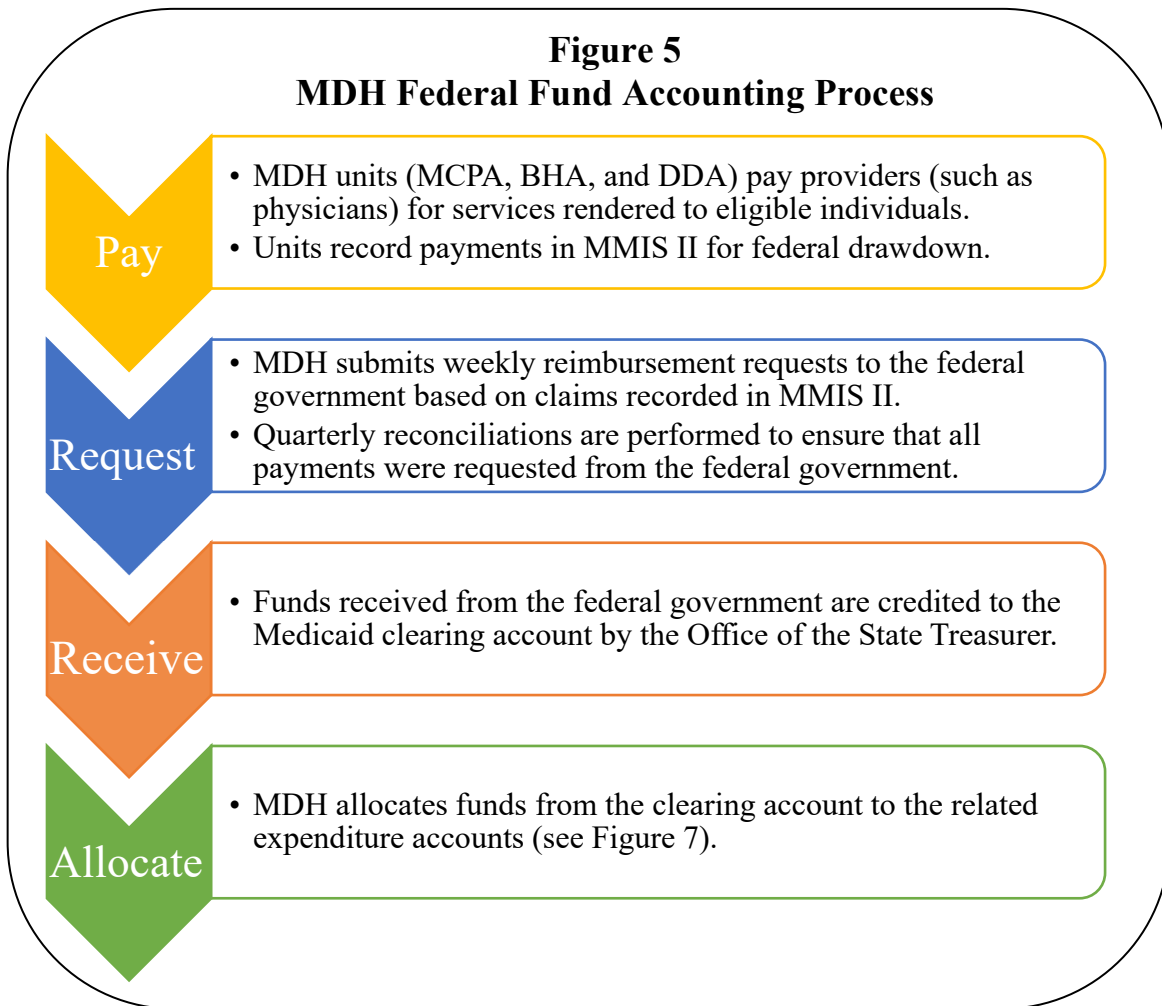
Our Office conducts separate audits of MCPA, BHA - ASO, and DDA. The scope of our current audit included MDH’s procedures and controls to recover federal funds for qualified expenditures made by these units related to Medicaid, the Maryland Children’s Health Insurance Program (MCHIP), and the Money Follows the Person Program (MFP). As shown in Figure 4, expenditures for these programs accounted for virtually all of these units’ federal fund expenditures during fiscal year 2022.



Expenditures for these three programs are ultimately recorded in MDH’s federally certified computerized system, the Medicaid Management Information System (MMIS II), to enable MDH to pursue federal reimbursement for the cost of services (see Figure 5 on the following page for an overview of the MDH federal fund accounting process).

Our current audit disclosed that MDH did not have comprehensive procedures and controls over all four steps of the federal fund accounting process. As a result, there was a lack of assurance that MDH recovered all available federal funds and untimely recoveries resulted in significant lost investment income to the State as further described in the findings below.

Figure 5
MDH Federal Fund Accounting Process



Finding 1

MDH did not have procedures to ensure MDH units properly entered all provider payments into MMIS II and resolved any rejected claims to enable timely and complete recovery of the funds.

Analysis

MDH did not have procedures to ensure MDH units properly entered all payments to providers into MMIS II and resolved any rejected claims to enable timely and complete recovery of the funds. The three MDH units noted above are responsible for recording federal fund expenditures into MMIS II for federal recovery purposes. MCPA expenditures are generally processed directly in MMIS II, and DDA and BHA expenditures are initially processed through separate systems (BHA expenditures are processed by its ASO contractor) before the related claims are recorded in MMIS II for federal reimbursement. MMIS II

has numerous edits to ensure that only qualified expenditures are reported on behalf of eligible recipients.

Our review disclosed that MDH had not established procedures to monitor the units to ensure they were properly entering the payments and pursuing all rejected claims. Specifically, MDH did not periodically compare expenditures made by these units to the amounts recorded in MMIS II. As a result, certain claims were not entered into or were rejected by MMIS II, and therefore the related federal funds have not been recovered. In this regard, four of our most recent five DDA audit reports (dating back to November 2009) have noted instances in which federal funds were not recovered because the payments were not recorded in MMIS II. For example, our October 26, 2022 DDA report noted that federal funds totaling \$8.8 million were not recovered because of this condition. Although MDH's response to that report indicated that it would investigate and obtain federal reimbursement for these claims, in its April 11, 2023 status report submitted to our Office, MDH advised that these funds are no longer recoverable. As a result, State general funds will be needed to cover these expenditures, and State and legislative officials with budgetary responsibilities will need to be consulted on the appropriate course of action.

In addition, our October 25, 2022 BHA-ASO report disclosed that BHA had unresolved denied claims totaling approximately \$106.7 million that had not been investigated as of September 2021. In its response to that report, MDH advised that the condition was not expected to be resolved until December 31, 2024 and its April 11, 2023 status report to our Office indicated that the issue had still not been corrected. Even if MDH is able to recover all of these funds, the failure to obtain timely reimbursement would still result in lost interest to the State.

Recommendation 1

We recommend that MDH

- a. establish procedures to ensure that MDH units properly recorded all payments in MMIS II and subsequently resolved any rejected claims, and**
- b. report the aforementioned unrecoverable funds to the Department of Budget and Management (DBM) and the budget committees and develop a plan to cover the related unfunded liabilities.**

Finding 2

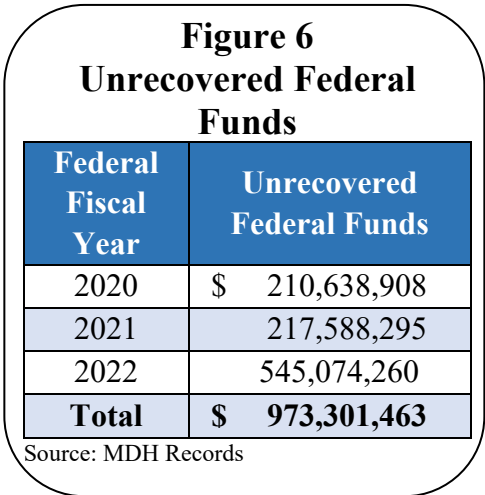
MDH did not ensure critical quarterly reconciliations were performed, resulting in the failure to recover \$973.3 million of federal funding timely and lost investment income totaling \$6.4 million.

Analysis

MDH did not ensure critical quarterly reconciliations were performed, resulting in the failure to recover \$973.3 million (see Figure 6) and lost investment income totaling \$6.4 million. MDH’s informal policy was to perform quarterly reconciliations to ensure that amounts requested from the federal government through the weekly drawdowns agreed to actual expenditures and to adjust subsequent reimbursement requests to account for the variances. Our review disclosed that MDH did not have a process to track the quarterly reconciliations to ensure they were completed timely and properly.

As a result, we noted that MDH had not conducted the reconciliations for approximately three years. Specifically, as of August 2022, MDH had not performed the quarterly reconciliations for the activity during the period from October 2019 to June 2022. MDH management advised us that the employee who performed the reconciliations left State service in December 2019 and the responsibility was never reassigned. MDH was not aware that the reconciliation was not being performed until we inquired about the reconciliation in August 2022 during our audit. Furthermore, there was no documented supervisory review of the reconciliations that were performed prior to October 2019.

MDH subsequently reconciled the expenditures for the period October 2019 through March 2022 and identified and recovered approximately \$862.5 million in federal funds that had not been previously requested. However, MDH did not reconcile the activity during the period from April 2022 to June 2022 until November 22, 2022, nearly four months after we first notified MDH of the condition. This November reconciliation resulted in the identification and recovery of an additional \$110.8 million in federal funds. In addition, we estimated that the failure to timely recover the \$973.3 million resulted in lost investment income totaling \$6.4 million.



Recommendation 2

We recommend that MDH establish a formal policy and procedures, including the appropriate procedural safeguards, to ensure that the critical quarterly reconciliations are completed properly and timely, and reviewed and approved by a supervisor independent of the reconciliation process.

Finding 3

MDH did not have procedures to ensure federal funds requested for reimbursement of State payments were subsequently received.

Analysis

MDH did not have a documented procedure to verify that all federal fund reimbursement requests were subsequently credited to the Medicaid clearing account by the Office of the State Treasurer (STO).⁶ While senior MDH fiscal personnel advised us that MDH verified the receipt of federal funds for most of its federal grants, we found that these verifications did not include the federal Medicaid, MCHIP, and MFP grants that collectively accounted for 96 percent (\$10.2 billion) of MDH's \$10.6 billion in federal fund expenditures in fiscal year 2022. As a result, there is a lack of assurance that all funds requested were subsequently paid by the federal granting agency and transferred to MDH by the STO.

Our testing did not identify any instances in which federal fund requests were not received. However, given the significant amount of federal funds associated with these grants and the STO acting as an intermediary for the collection of the funds, MDH should establish a documented procedure to ensure each federal fund request is received.

Recommendation 3

We recommend that MDH establish a documented procedure to ensure that all federal funds requested were received.

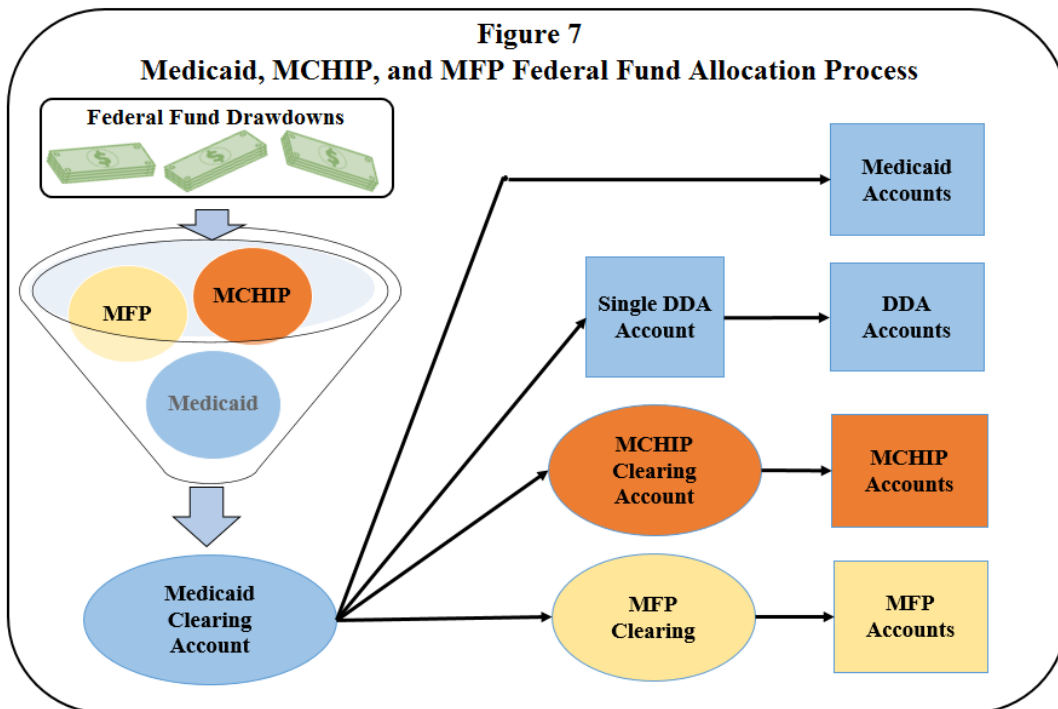
⁶ Although federal funds are requested by MDH, the STO actually receives the funds from the federal government, which is documented by the STO posting the receipt activity to the clearing account.

Finding 4

MDH did not have procedures to ensure all federal fund reimbursements were properly allocated to the appropriate expenditure accounts resulting in a lack of assurance that account balances were accurate and the inability to determine whether all federal funds had been recovered.

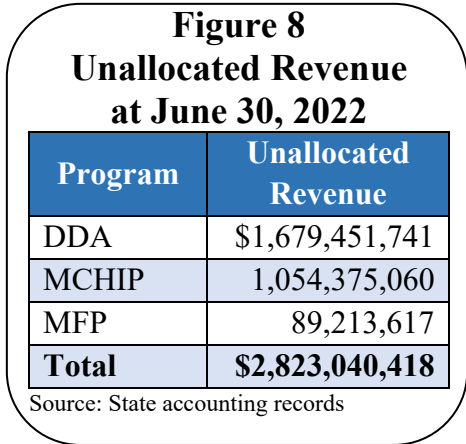
Analysis

MDH did not have procedures to ensure all federal fund reimbursements were properly allocated from the Medicaid clearing account to the related MDH expenditure accounts. We found that funds were either not allocated or allocated improperly, resulting in numerous accounts with questionable balances including longstanding deficits dating back to at least fiscal year 2015. As noted in Finding 3, federal funds for Medicaid, MCHIP, and MFP are received from the STO and are initially recorded in the Medicaid clearing account. MDH then needs to allocate the federal funds via journal entry to the accounts where the related State expenditures were initially recorded by MDH programs/administrations. As noted in Figure 7, MDH used a variety of methods to allocate the funds, including transferring the funds initially received from the federal grantor agencies and recorded in the Medicaid clearing account to three subsidiary MDH accounts.



Our review of MDH’s process to account for this activity disclosed the following deficiencies:

- MDH allocated federal funds from the Medicaid clearing account to the related expenditure accounts without considering the amount of revenue available for distribution. Specifically, MDH advised us that revenues were allocated based on the balances (unreimbursed expenditures) reflected in the accounts where the related expenditures were recorded. For example, in May 2022 MDH allocated \$1.6 billion to eliminate deficit balances in the various expenditure accounts even though there was only \$124.5 million available in the Medicaid clearing account. As of June 30, 2022, the Medicaid clearing account reflected a \$1.1 billion deficit balance. Since the clearing account is only used to record and account for federal revenues until allocation to the appropriate expenditure accounts, it should not have a negative balance. In this context, the deficit balance means that MDH had allocated more federal funds than the State actually had received.
- MDH did not update its revenue allocation methodology to reflect changes in the DDA federal funds accounting process, which resulted in funds being allocated improperly. Specifically, as noted in Figure 7, DDA funds from the Medicaid clearing account are allocated to a single DDA expenditure account based on amounts interfaced into MMIS II from DDA’s separate provider and consumer information system. In fiscal year 2019, DDA began processing certain payments directly in MMIS II, but MDH did not modify its allocation methodology to include this activity which, totaled \$300.9 million between fiscal years 2019 and 2022 (according to MDH records). As a result, the federal revenue received was likely allocated to other non-DDA expenditure accounts (such as Medicaid or MCHIP); however, MDH could not readily determine the disposition of the funds.
- MDH did not ensure that federal revenue allocated to the DDA, MCHIP, and MFP subsidiary accounts was properly allocated to the appropriate expenditure accounts to offset State-funded provider payments. As indicated in Figure 7, revenues were transferred from the Medicaid clearing account to one of three separate accounts maintained for these programs. MDH advised that further journal entries were required to allocate the funds from these three subsidiary accounts to the specific related expenditure accounts. However, MDH did not verify that these further journal entries were made. Our review disclosed that at fiscal year-end the revenues had not been allocated from these three accounts to the related expenditure



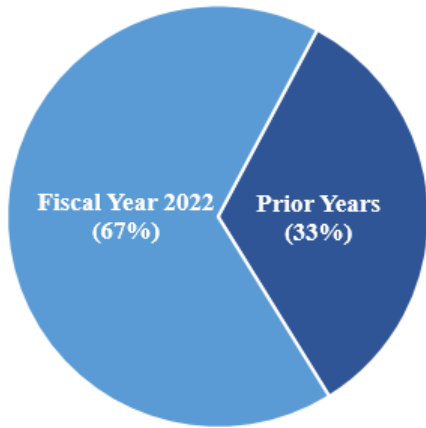
accounts resulting in surplus balances totaling \$2.8 billion in these three accounts as of June 30, 2022 (see Figure 8).

The failure to properly allocate the federal revenue resulted in a lack of assurance that any of the account balances (the clearing accounts and the numerous expenditure accounts) were accurate and MDH’s inability to determine whether all federal funds were ultimately recovered. The significance of this condition means that MDH could not readily determine the extent to which the numerous positive and negative expenditure and revenue account balances were related, resulting in certain deficit and surplus balances as of June 30, 2022 that dated back to fiscal year 2015. Specifically, our analysis of MDH’s accounting records at June 30, 2022 disclosed that 33 percent of the year-end balances were identical to the year-end balances in one or more prior fiscal years⁷ (see Figure 9). For example, the three accounts with negative balances of \$48,967,112 appear unchanged at every fiscal year-end from 2015 to 2022.

Figure 9

Fiscal Year 2022 Year-End Balances Identical to One or More Prior Years

Fiscal 2022 vs. Prior Year Activity



Fiscal Year	Deficit		Surplus	
	Accounts	Balance	Accounts	Balance
2015	3	\$ (48,967,112)	4	\$ 8,239,730
2016	10	(39,952,425)	0	-
2017	15	(799,913,487)	4	741,038,271
2018	0	-	0	-
2019	45	(433,554,877)	10	456,136,112
2020	40	(240,020,631)	5	192,817,888
2021	37	(323,266,879)	6	87,481,197
Total	150	(\$1,885,675,411)	29	\$1,485,713,198

Source: State accounting records

These conditions occurred, at least in part, because MDH had not established comprehensive and effective oversight of its federal fund accounting process to ensure that all critical journal entries were timely, properly, and accurately performed. In this regard, MDH written procedures at the time of our audit did

⁷ Balances in the other 67 percent of the accounts including the Medicaid clearing account also go back several years but were not identical and therefore the age of the balances could not be readily determined.

not specify how often the journal entries should be performed, and supervisory reviews of the journal entries were generally limited to verifying the mathematical accuracy of the entry. Further, and most critically, no documented comprehensive verifications were performed to ensure that revenues were matched to the related expenditures and that MDH had recovered the cost of all services.

Recommendation 4

We recommend that MDH

- a. establish procedures and controls to ensure federal funds are allocated properly and timely, and that the related transactions are subject to supervisory review and approval;**
- b. ensure clearing accounts have either a positive or zero balance;**
- c. investigate and resolve the aforementioned account balances; and**
- d. given the magnitude of the year-end closing deficiencies noted in this and other findings, consider engaging a qualified third-party consultant to assist in the development of appropriate corrective procedures and controls.**

Budgetary and Year-End Closing

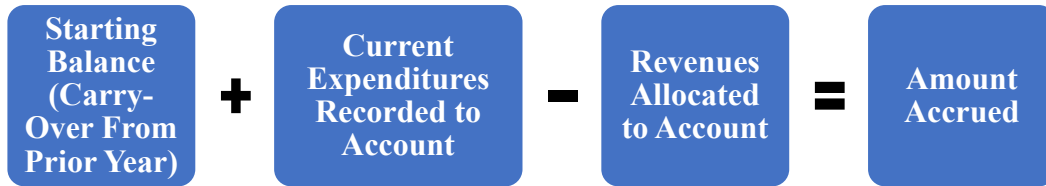
Finding 5

MDH used an automated script to record year-end revenue entries without verifying that the amounts recorded were valid and collectable.

Analysis

MDH used an automated script to record year-end revenue entries without verifying that the amounts recorded were valid and collectable. Specifically, at the end of fiscal year 2022, MDH recorded 1,250 accrued federal fund revenue entries totaling approximately \$10.2 billion consisting of 864 positive accrued revenue entries totaling \$6.2 billion (recording a receivable for anticipated future funds due) and 386 negative accrued revenue entries totaling \$4 billion (deferring revenue received to the subsequent year). MDH advised that these entries were the result of an automated script (creating a series of journal entries) based on the balance in each account as reflected in the State's accounting system at year-end (see Figure 10 on the following page).

Figure 10
Year-End Accrued Revenue Calculation



Year-End Balance	Accrued Revenue	Explanation
Deficit	Positive	<ul style="list-style-type: none"> Expenditures exceed the revenue recorded in the account. A positive accrued revenue entry is recorded to close the account at zero, with the expectation that the funds will be received in the next fiscal year.
Surplus	Negative	<ul style="list-style-type: none"> Revenues exceed the expenditures recorded in the account. A negative accrued revenue entry is recorded to close the account at zero, deferring the recognition of revenue already received to the next fiscal year.

As noted earlier in this report, MDH program costs (primarily provider payments initially paid with State funds) are generally recovered on a reimbursable basis (the State incurs the costs and then is reimbursed), so deficit balances in these accounts on any given date or at year-end would be typical. However, our analysis of the aforementioned 1,250 automated script-based accrued revenue entries disclosed that 517 entries (41 percent) related to accounts that had no expenditure activity recorded during fiscal year 2022, including 316 positive entries made to eliminate deficit balances totaling \$3.2 billion. In addition, 70 percent (361) of the 517 entries were identical to automated entries made in one or more prior fiscal years dating as far back as June 30, 2015. For example, during each of the 2017 through 2022 fiscal year-end closings, MDH recorded 32 accrued revenue entries to eliminate deficit balances totaling \$829.6 million⁸ (see Figure 11 on the following page).

⁸ We excluded fiscal year 2018 from our analysis because GAD recorded the year-end revenue accruals on MDH's behalf.

Figure 11
Accrued Federal Fund Revenue Entries For Accounts With
No Expenditure Activity Recorded in Fiscal Year 2022

First Fiscal Year Entry Recorded	Positive Entries (Deficit Account Balances)		Negative Entries (Surplus Account Balances)	
	Entries	Amount	Entries	Amount
2015	11	\$ 1,672,436	9	\$ (3,914,999)
2016	11	12,708,113	10	(6,235,453)
2017	32	829,575,066	17	(1,585,988)
2018*	0	-	0	-
2019	71	282,939,780	39	(1,008,874,410)
2020	46	230,141,979	25	(195,918,690)
2021	56	271,919,435	34	(195,481,388)
2022	89	1,560,055,814	67	(1,548,803,116)
Totals	316	\$3,189,012,623	201	\$(2,960,814,044)

*We excluded fiscal year 2018 from our analysis because GAD recorded the year-end revenue accruals on MDH's behalf.

Source: State accounting records

The age of the unreimbursed expenditures is significant because federal regulations require claims to be submitted for reimbursement within two years after the calendar quarter in which the expenditures were made. Given that MDH processes federal reimbursement requests weekly, the age of these accrued revenue entries and lack of related current year expenditures raises concerns that federal reimbursement for previous State payments may not have been requested or are no longer obtainable for the amounts accrued.

Although MDH senior fiscal management personnel advised that many of the positive entries (deficit account balances) were offset by negative entries (surplus account balances), as of April 28, 2023, MDH could not document the extent to which the underlying account balances were related. Ultimately, a definitive determination of these relationships may not be possible because of the age of the transactions and what we consider to be the pervasive deficiencies in MDH's federal fund accounting procedures previously noted in this report. To the extent

that the federal funds are not available, State general funds may be needed to cover any related deficits.⁹

MDH's practice of recording automated script-based revenues to eliminate deficit balances without regard to the ultimate collectability of those revenues is not consistent with the Comptroller of Maryland – General Accounting Division's (GAD) policies. Specifically, the GAD year-end closing instructions provide that accrued revenue transactions should reflect amounts that are collectable within 60 days of the end of the fiscal year and that revenue should be recognized in the same fiscal year the expenditure is made. The closing instructions also require that detail documentation to support the transactions be maintained.

Recommendation 5

We recommend that MDH

- a. ensure that all year-end revenue transactions are properly supported,**
- b. analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances, and**
- c. properly report any amounts determined to be uncollectable and work with DBM to resolve any related deficits.**

Procurements and Disbursements

Background

According to MDH's records, during the period from February 2019 to November 2021, MDH awarded procurements totaling \$1.4 billion, including emergency procurements totaling \$539.9 million and sole source procurements totaling \$131.7 million. We tested certain aspects of MDH's procurement and monitoring

⁹ This condition was disclosed in our January 26, 2023 special report on the *Statewide Review of Budget Closeout Transactions for Fiscal Year 2022*, in which we noted that MDH was unable to provide documentation to support the propriety of 16 of the aforementioned 1,250 accrued revenue entries totaling approximately \$3.5 billion. MDH subsequently advised that approximately \$2.1 billion of this amount had been recovered as of April 2023, but that a comprehensive analysis of its accounts was needed to determine the ultimate collectability of the accrued revenue transactions recorded during the fiscal year 2022 closing. Since the corrective actions implemented by MDH to address the concerns noted above occurred after our current audit field work was completed, the validity of MDH's accrued revenue entries (including unresolved entries from fiscal year 2022) and the adequacy of any related actions will be subject to OLA follow-up during our special review of fiscal year 2023 budget closeout transactions.

of 18 judgmentally selected¹⁰ (based on materiality and/or procurement type) contracts totaling \$170.9 million (see Figure 12).

Figure 12
MDH Procurements Selected for Testing

Count	Type	Contract Date	Contract Amount	Attributes Tested		
				Procurement	Payment	Monitoring
1	Emergency	3/16/202	\$303,075	✓	-	-
2	Emergency	7/16/202	423,792	✓	-	-
3	Emergency	10/20/20	2,173,296	✓	-	-
4	Emergency	2/15/201	348,905	✓	-	-
5	Emergency	1/21/202	87,046,141	*	✓	✓
6	Sole Source	5/2/2019	7,300,000	✓	-	-
7	Sole Source	7/2/2019	10,864,992	✓	-	-
8	Sole Source	7/23/201	2,279,039	✓	-	-
9	Sole Source	6/24/201	149,756	✓	-	-
10	Sole Source	11/6/202	173,282	✓	✓	-
11	Sole Source	5/17/201	2,000,000	✓	✓	-
12	Statewide Contract Task	8/23/202	57,338,667	✓	✓	✓
13	Statewide Contract Task	2/2/2022	147,774	✓	✓	-
14	Statewide Contract Task	1/29/201	87,337	✓	✓	-
15	Statewide Contract Task	8/28/201	142,998	✓	✓	-
16	Statewide Contract Task	1/26/202	62,200	✓	✓	-
17	Statewide Contract Task	12/28/20	49,900	✓	✓	-
18	Small Procurement	7/31/202	43,764	✓	✓	-
Totals			\$170,934,918	18	10	2

*This contact procurement was tested as part of our *Special Review of Certain Emergency Procurements related to the State of Maryland's COVID-19 Response*. In our current audit, we performed follow-up on the current status of the prior findings and included a review of the most recent contract modification.

Source: State records

Findings 6 and 7 describe the results of our testing. Specifically, Finding 6 is specific to contract number 5 (in Figure 12), which we choose to highlight separately due to its significant dollar value and our prior concerns with this contract that had previously been disclosed in our December 2021 *Review of Certain Emergency Procurements Related to the State of Maryland's COVID-19 Response* (see page 25 of that report). Finding 7 covers contracts 1-18, exclusive of contract number 5, except for certain publishing requirements and documents

¹⁰ To select these procurements, we considered certain factors including the dollar amount of the contract award and the procurement method used by MDH.

that MDH did not comply with State procurement laws and regulations related to various aspects of the procurement process.

Finding 6
MDH used an emergency contract originally procured for COVID related purposes for unrelated services without sufficient documentation that the services were received and the related payments were proper. As a result, we could not determine services were received or the propriety of MDH payments totaling \$60.4 million.

Analysis

MDH used an emergency contract originally procured for COVID related purposes for unrelated services without sufficient documentation that the billed services were received and the related MDH payments were proper. MDH awarded an emergency contract valued at \$3.8 million for consulting services related to the State’s COVID-19 Vaccination Program in January 2021. As of November 2022, MDH had processed four modifications that collectively increased the cost of this contract by \$83.3 million (see Figure 13). Subsequent to our current review, MDH processed another modification, extending the contract through April 2023, more than a year after the state of emergency ended. This modification will be subject to review in our next audit of MDH. MDH made payments over the course of the entire contract totaling \$83.7 million, including certain amounts unrelated to the COVID public health emergency as noted below.

Figure 13
Contract Costs as of November 2022

Description		Amount
Original Contract <i>January 21, 2021</i>	Consulting services for COVID-19 Vaccination Program	\$3,794,600
Modification 1 <i>April 5, 2021</i>	Extended the term by six months and funded the resources needed for additional vaccination sites	21,251,541
Modification 2 <i>August 9, 2021</i>	Extended the term by eight months and added funds	22,000,000
Modification 3 <i>November 4, 2021</i>	Retroactively modified the scope (effective February 1, 2021) to include additional COVID services	0
Modification 4 <i>December 18, 2021</i>	Extended the term by six months and added network security incident response services	40,000,000
Total		\$87,046,141

Source: State records

We reviewed activity under this contract through April 2021 during our aforementioned December 2021 *Review of Certain Emergency Procurements Related to the State of Maryland's COVID-19 Response*. As noted on page 25 of that report, we concluded that MDH lacked documentation to justify the initial contract and the April 2021 modification and did not adequately monitor the vendor and verify the propriety of the related payments (which totaled \$3.7 million at the time of our review). As described below, our current audit disclosed that the three modifications processed subsequent to the period covered by our special review also violated State procurement regulations, and MDH continued to make payments without sufficiently verifying that billed services were received and related payments were proper.

Contract Modifications Circumvented the Competitive Procurement Process

MDH used contract modifications to circumvent State procurement regulations by increasing the scope and cost of the emergency contract without justification. The original contract required the vendor to (1) conduct a comprehensive assessment of MDH's COVID-19 Vaccination Program to identify any additional support, processes, and actions necessary for MDH to effectively administer the Program and (2) provide staff on an as needed basis to implement the recommendations contained in this assessment.

Our review disclosed that the November and December 2021 modifications added services that were unrelated to the Vaccination Program. Specifically, the November 2021 modification retroactively modified the scope of the original contract to include additional COVID response services (defined as "testing, personal protective equipment, contact tracing, and hospital patient surge capacity management") and the \$40 million December 2021 modification included \$15 million for work related to MDH's network security incident response (which is described in broad terms in the Background Information Section of this audit report).

MDH could not provide adequate justification for either modification, nor could it explain why separate procurements were not issued for these services given the nature of the new work, which appeared unrelated to the original COVID vaccination scope. Specifically, MDH could not document the justification for the November 2021 modification, and the only justification for the additional work included in the December 2021 modification was that the vendor was deemed to be "the only available option for meeting the State's requirements and deadline for this emergency." However, MDH could not provide documentation to explain how it made this determination and only provided us with two presentations (prepared by the vendor) describing assistance the vendor had provided to other entities that experienced similar cybersecurity incidents. Given

the disparate nature of this activity compared with the scope of the original contract, we believe a separate contract should have been procured in conjunction with the Department of Information Technology and included consideration of information technology-specific vendors and consultants.

Furthermore, MDH could not explain how it determined the appropriateness or necessity of the dollar amounts related to the August and December 2021 modifications that increased the cost by \$62 million. Specifically, senior MDH leadership advised us that “based on average monthly spend, MDH added funds to carry the contract through the extended period.” However, MDH could not document how this amount was calculated or the actual nature of the cost details of the “average monthly spend” (specifically, what past services were being provided and how they related to anticipated future services). In addition, the modifications did not specify the number of vendor staff to be provided and the new or additional services those individuals were to perform. The lack of specificity is significant, because the billings for these new services accounted for virtually all of the contract cost and the number of vendor staff provided increased from 7 employees under the initial contract to as many as 138 (an increase of approximately 1,900 percent).

MDH also did not appear to have accurately reported the November 2021 modification to the Board of Public Works (BPW). Specifically, the modification was reported as a “no cost” modification despite the fact that it was retroactive and significantly expanded the scope of the contract. MDH did not provide the BPW with an estimate of the costs associated to these expanded services and could not readily provide us with the actual costs of this modification during the audit.

MDH Did Not Adequately Monitor the Contract and Related Payments

MDH did not adequately monitor the contract and related payments. Specifically, there was a pervasive lack of documentation to support that MDH had requested, reviewed, and approved the work the vendor performed. Consequently, MDH lacked assurance that the amounts billed by the vendor were reasonable in relation to the services provided.

MDH advised that it held weekly meetings with the vendor during which senior MDH leadership assigned the vendor work and reviewed its progress; however, when we inquired about independent (non-vendor based) documentation of these MDH decisions and associated monitoring, MDH management could not document the specific tasks it assigned the vendor and the number of employees it had approved to perform the work. Rather, virtually all the relevant documentation we were provided by MDH for this contract was prepared by the

vendor. Although MDH advised that these documents were discussed at the weekly meetings, we found no evidence that MDH had formally validated and approved the vendor's work.

Furthermore, the vendor-prepared documentation provided to us by MDH did not detail the work each vendor employee performed, and we found that MDH did not obtain this detailed information when approving the related billings even though it was required by the contract. Our review of all 57 invoices (totaling \$62.1 million) paid between April 2021 and October 2022 disclosed that none of the invoices included the contractually required statements of work performed by each vendor employee or other documentation that would allow MDH to independently determine the propriety of the billed amounts.

Specifically, the only routine support included with the invoices were a list of names of each billed employee, a vague description of the function they performed, the hours worked, and the associated hourly rates (see Figure 14 on the following page). There was no documentation to correlate the amounts invoiced to specific work MDH assigned to the vendor during the weekly meetings, to support that the number of employees and hours billed was reasonable in relation to these assignments, or that MDH officials had verified the related tasks had been completed.

**Figure 14
Excerpt of Vendor Invoice and Support Provided**

For professional services rendered: April 09, 2022 to April 22, 2022
Functional Area 1

		<u>USD</u> Amount	
Fee			1,251,593.00
Professional Services			1,251,593.00
Total Fees & Expenses Taxable	Amount	Tax Amount	Total Amount
Total Exempt	1,251,593.00		1,251,593.00
Total Invoice amount	1,251,593.00	0.00	1,251,593.00

4/9/2022 - 4/15/2022									
Team Role	Names	Function	Level	Approved/Requested by	Start Date	Rate	Hours	Cost	
Project Management & Oversight		Project Oversight - Supply, mass vax, PrepMod	SMR / Project Leadership		1/22/2021	\$450	8	\$3,600	
		Project Oversight - Data analytics, LTC	SMR / Project Leadership		1/22/2021	\$450	40	\$18,000	
		Project Management / Financial Analysis Lead	Senior Manager		2/4/2021	\$320	0	\$0	
		Project management	Consultant		8/2/2021	\$230	44	\$10,120	
RPC & Financial Analysis		Drive the requirements planning cell research,	Manager		1/24/2022	\$260	38.5	\$10,010	
		Financial analysis	Consultant		11/1/2021	\$230	40	\$9,200	
		Financial analysis	Consultant		11/1/2021	\$230	43.5	\$10,005	
Prep Mod		Lead UAT analyst for PrepMod platform and helps create/track user stories	Analyst		4/21/2021	\$160	6	\$960	

Source: MDH records

Due to the questionable use of the emergency contract for the expanded services combined with the pervasive lack of documentation to support what services MDH had requested and what services were actually provided, we concluded that MDH lacked assurance that its payments to the vendor were appropriate.

Recommendation 6

We recommend that MDH

- a. **conduct a review of this contract, which includes obtaining the detailed staffing information required by the contract, determine the extent of the services that were provided in relation to payments made, recover any payments determined to be improper, and disclose this information to BPW; and**
- b. **ensure that future emergency contracts are procured and documented in accordance with State procurement regulations and are properly monitored to ensure services were received and the related billings are adequately supported.**

Finding 7

MDH did not always comply with State procurement regulations when procuring goods and services via sole source and emergency contracts and did not always publish contract solicitations and awards as required.

Analysis

MDH did not always comply with State procurement regulations when procuring goods and services via sole source and emergency contracts and did not always publish contract solicitations and awards as required.

Emergency and Sole Source Contracts Were Not Procured in Accordance with State Regulations

MDH did not procure five emergency and sole source contracts in accordance with State laws and regulations. Our review of six judgmentally selected sole source procurements awarded between May 2019 and November 2020 totaling \$22.8 million and four emergency procurements awarded between February 2019 and October 2021 totaling \$3.2 million disclosed the following instances of non-compliance with State procurement laws and regulations.

- MDH did not justify the noncompetitive procurement of three contracts totaling \$946,000. Specifically, MDH could not provide us with the required written justifications for one sole source contract totaling \$173,000 and one emergency contract totaling \$424,000. In addition, documentation for another emergency procurement totaling \$349,000 did not justify the use of the emergency procurement method, because it did not address how the procurement was the result of a “sudden and unexpected occurrence or condition which agency management could not foresee”, as required under State regulations for an emergency procurement.
- MDH did not notify the BPW of the aforementioned emergency procurement totaling \$424,000 as required. The contract was awarded in July 2021, but had not been reported to the BPW as of July 2023.
- MDH could not document that it conducted the required price negotiations for two sole source procurements that respectively totaled \$10.9 million and \$150,000. As a result, the basis for the State’s cost was not evident, and there was a lack of assurance that the contract costs were in the best interest of the State.

State procurement regulations provide that agencies document the justification for not using a competitive procurement (such as sole source and emergency

procurements), notify the BPW of emergency procurements, and conduct price negotiations for sole source procurements.

Contract Solicitations and Awards Were Not Published as Required

MDH did not always publish contract solicitations and awards on *eMaryland Marketplace Advantage (eMMA)*¹¹ as required. Specifically, our test of the aforementioned 18 contracts disclosed that MDH did not publish the solicitation for 4 contracts totaling \$57.6 million and the award for 13 contracts totaling \$81.3 million. State laws and regulations require State agencies to publish on *eMMA* all competitive solicitations and the awards of contracts (including sole source and emergency) expected to exceed \$50,000. Publishing solicitations and awards helps provide transparency over the procurements including notice of a State contract opportunity, information about winning bidders, and the amount of the related awards.

Similar conditions regarding the lack of adequate justifications and price negotiations for sole source awards and the failure to comply with publication requirements on *eMMA* were commented upon in our two preceding audit reports. In its response to our prior audit report, MDH concurred with our prior findings and indicated that corrective actions had been taken to address these deficiencies. MDH attributed these conditions to staff turnover.

Recommendation 7

We recommend that MDH ensure that

- a. sufficient documented justifications exist for sole source (repeat) and emergency procurements;**
- b. documented price negotiations are conducted as appropriate (repeat);**
- c. BPW is notified of emergency procurements, including the one noted above (repeat); and**
- d. solicitations and awards are published on *eMMA* as required (repeat), including the ones noted above.**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 8 through 12 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit

¹¹ *eMMA* is an internet-based, interactive procurement system managed by the Department of General Services.

report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with MDH's responses, have been redacted from this report copy.

Finding 8
Redacted cybersecurity-related finding.

Finding 9
Redacted cybersecurity-related finding.

Finding 10
Redacted cybersecurity-related finding.

Finding 11
Redacted cybersecurity related finding.

Finding 12
Redacted cybersecurity related finding.

Accounts Receivable

Finding 13
MDH was eight months behind on billing for services rendered at MDH inpatient facilities, which based on MDH assertions could total approximately \$45.4 million at the time of our review.

Analysis

MDH was eight months behind on billing responsible parties (such as Medicare and insurance companies) for services rendered at MDH inpatient facilities. MDH's Division of Cost Accounting and Reconciliation (DCAR) uses several automated systems to bill for these services and to monitor the related collections. Our review disclosed that as of December 5, 2022 DCAR had not processed billings for certain inpatient services rendered during the eight months between April 2022 and November 2022.

MDH advised that the delay was caused by the ransomware security attack previously mentioned in this report, which disrupted access to the automated system used to bill the vast majority of DCAR activity. Specifically, MDH stated the system was inaccessible between December 2021 and August 2022, which temporarily precluded DCAR from processing billings for services. However, although access to the system was restored in August 2022, MDH advised that it has been unable to catch up with the backlog of unbilled services.

Further, we could not readily determine the dollar amount of unbilled services between April 2022 and November 2022, but MDH indicated that the current amount unbilled would be consistent with the services billed during the previous eight months, which totaled approximately \$45.4 million.

MDH management advised that it had developed a plan to address the backlog but did not expect it to be resolved until August 2023. The failure to timely bill for services results in lost investment income to the State totaling approximately \$62,000 and may decrease the likelihood of collecting the funds.

Recommendation 13

We recommend that MDH take formal action to address the backlog in unbilled services and ensure future services are billed in a timely manner.

Payroll

Finding 14

MDH had not established adequate controls to ensure the propriety of biweekly payroll adjustments, leave balances, and timesheets.

Analysis

MDH had not established adequate controls to ensure the propriety of biweekly payroll payments, leave balances, and timesheets. According to State records, MDH's payroll expenditures totaled approximately \$725.1 million in fiscal year 2022.

Employee Pay and Leave Balance Adjustments Were Not Adequately Reviewed

MDH did not adequately review adjustments to employee pay and leave balances for propriety and to ensure the adjustments were properly processed. During fiscal year 2022, MDH processed approximately 4,500 adjustments that changed employee pay by a total of \$1.7 million (increase of \$1.6 million and decrease of \$77,200), and approximately 8,000 adjustments that changed employee leave

balances by 247,800 hours (increase of 69,000 hours and decrease of 178,800 hours).

Each pay period, an MDH employee was responsible for submitting a manually prepared listing of payroll adjustments to DBM for processing in the Statewide Personnel System (SPS). Although there was a supervisory review of this listing, these reviews were not always documented and properly performed. Specifically, our test of 15 payroll adjustments processed between July 2021 and June 2022 totaling \$39,400 disclosed that the supervisor did not document their review of 3 adjustments, and another 6 adjustments were approved even though MDH could not provide documentation to support that the adjustments were authorized. Further, although MDH advised that a review of available system output reports to verify the propriety of payroll adjustments processed by DBM was conducted, we found that it was not documented.

Finally, MDH did not adequately verify the propriety of leave balance adjustments. Although MDH advised that it reviewed SPS output reports to ensure that only authorized adjustments were processed, this review was not documented. We did not identify any impropriety in the 10 leave adjustments tested.

MDH Approved Timesheets Without Verifying the Recorded Time

MDH's Central Payroll Unit (CPU) approved timesheets without verifying that the employees worked the recorded time. CPU timekeepers were responsible for approving timesheets for employees when an employee's respective supervisor did not approve it before the payroll deadline. Our test of overtime on six timesheets approved by CPU timekeepers during certain pay periods between May 2020 and January 2022 disclosed that CPU timekeepers approved the timesheets with no direct knowledge that the overtime was authorized or that the employees worked the recorded time. For the pay periods we tested, these six employees were paid overtime ranging from \$2,400 to \$33,600, with collective overtime payments totaling \$94,200.

Total Payroll Disbursements Were Not Reconciled

Biweekly payroll payments from the State's Central Payroll Bureau (CPB) were not reconciled, in the aggregate, to the payroll payments reflected in reports generated by SPS. Employees recorded their work time directly into SPS for online approval by their assigned supervisors. Payroll payments were processed by CPB based on the approved work time for the pay period and the salary information reflected in SPS. MDH did not compare the total payroll, as reflected in the CPB payroll registers, with the SPS payroll summary reports reflecting the amounts that should have been paid based on each employee's approved work

time and salary information. As a result, there was a lack of assurance that actual payroll payments were properly supported by time records and salary information maintained within SPS.

SPS contains certain unique system design features, which often resulted in differences between CPB and SPS. For example, CPB payroll registers only reflect activity processed during the particular pay period while SPS payroll summary reports will reflect all activity relevant to the pay period, irrespective of when the transactions were processed. We obtained MDH's payroll register from CPB and the related report from SPS for the pay period ending May 3, 2022, and we noted an unreconciled difference in that CPB reported payroll expense of \$287,000 greater than SPS.

Similar conditions were commented upon in our preceding audit report. In response to that report, MDH indicated that our recommended corrective actions would be implemented by August 2020. However, at the time of our current review MDH was in the process of implementing the corrective actions, and we concluded that adequate controls were still not in place.

Recommendation 14

We recommend that MDH

- a. independently verify pay and leave balance adjustments to ensure that only authorized adjustments have been processed and take appropriate corrective action when errors are noted (repeat);**
- b. retroactively verify that the time recorded on timesheets approved by payroll unit employees were actually worked, including those noted above (repeat); and**
- c. reconcile total payroll as reflected in CPB payroll registers each pay period with SPS payroll summary reports, investigate any differences, and ensure that those reconciliations are documented (repeat).**

Finding 15

MDH did not have procedures to ensure that employees who were terminated or left State service were promptly removed from the payroll, resulting in improper payments to at least 45 former employees totaling \$151,000.

Analysis

MDH did not have procedures to ensure that employees who were terminated or left State service were removed timely from the payroll, resulting in at least 45 employees continuing to be paid after they were terminated. According to State records, during February 12, 2019 to June 30, 2022, there were 6,282 employees terminated from MDH. We obtained a report of all MDH employee terminations processed in SPS during this period and compared the effective date of the termination entered by MDH to the date MDH processed the termination in SPS.

We reviewed 76 terminations with the longest delays between the effective date of the termination and the date the termination was processed in SPS, which ranged from 13 to 129 days. Our review disclosed that the untimely processing of the termination in SPS resulted in 45 employees receiving improper payments totaling \$151,000 subsequent to their termination. MDH was unaware of this condition until we brought the matter to its attention in January 2023, and consequently, MDH had not yet taken action to recover the improper payments. Our analysis disclosed that of the 6,282 terminated employees, 1,049 terminations processed in SPS were at least one day after the effective date of termination (including the 76 we reviewed). Given the results of our testing, a comprehensive review to determine whether additional improper payments were made to the other 973 employees appears warranted.

Recommendation 15

We recommend that MDH

- a. implement procedures to ensure timely posting in SPS of employees who are terminated or leave State service; and**
- b. investigate payments to employees after they left State service, including those noted above, and in consultation with legal counsel pursue recovery of any improper payments as deemed appropriate.**

Cash Receipts

Finding 16

MDH did not sufficiently control collections, including the untimely endorsement and deposit of collections, a lack of independent verification that collections were deposited, and a failure to require large payments to be submitted electronically.

Analysis

MDH did not have sufficient controls over cash receipts, including the failure to always independently verify collections to subsequent deposit. Collections are received at MDH's General Accounting Division as well as at various MDH units and the Local Health Departments (LHDs), which are then forwarded to the Division for processing. According to State records, MDH processed check collections totaling approximately \$164.1 million during fiscal year 2022.

- Checks received directly at the Division were not restrictively endorsed upon receipt. Rather, the checks were handled by at least two employees prior to being endorsed.
- Collections were not always deposited timely. Our test of 15 deposits received between April 2020 and June 2022, totaling \$32.9 million, disclosed that 10 deposits totaling \$19.2 million were made between 2 and 34 days after receipt by the Division.
- MDH could not always document that deposit verifications were performed. Specifically, there was no documentation of the deposit verification for 7 of the aforementioned 15 deposits tested, which totaled \$10.7 million.
- MDH did not require large payments to be made electronically to enhance accountability and security over the funds. In this regard, we noted that \$25.1 million (76 percent) of the aforementioned \$32.9 million tested consisted of 27 checks ranging from \$126,000 to \$3.1 million, including 22 checks totaling \$18.4 million received by the LHDs and forwarded to the Division. Controls could be enhanced by requiring these payments to be submitted electronically (such as via wire transfer).

The Comptroller of Maryland's *Accounting Procedures Manual* requires collections to be restrictively endorsed immediately upon receipt, deposited within one business day, and independently verified to deposit.

Recommendation 16

We recommend that MDH

- a. restrictively endorse collections immediately upon receipt,**
- b. deposit collections within one business day of receipt,**
- c. ensure that independent deposit verifications are documented for all collections, and**
- d. consider requiring large payments to be made electronically to enhance control over the funds.**

Executive Oversight

Finding 17

MDH did not ensure that appropriate corrective actions were implemented to address prior findings from our Office’s fiscal compliance audits of the other MDH units.

Analysis

MDH did not ensure that appropriate corrective actions were implemented to address prior findings from our Office’s fiscal compliance audits of the other MDH units. MDH is responsible for providing executive oversight and guidance to the individual units. As detailed in Exhibit 2, our Office conducts 19 separate audits of the various MDH units. Our most recent audit reports of these units contained 77 findings.

MDH relied primarily on its Office of Internal Controls, Audit Compliance, and Information Security¹² to ensure the units implemented corrective actions to address these findings. However, these efforts were not always sufficient to ensure that the findings were satisfactorily addressed. Specifically, 20 of the aforementioned 77 findings (26 percent) were repeated from our preceding audit reports (see Exhibit 2). Furthermore, our most recent two audits of the Development Disabilities Administration (DDA), which included a significant number of repeat findings, have concluded that DDA’s accountability and compliance level was unsatisfactory (in accordance with a rating process approved by the Joint Audit and Evaluation Committee).

¹²As previously noted in this report, Chapter 325, Laws of Maryland 2021 established MDH’s Office of the Inspector General as an independent unit of the State effective July 1, 2022. As a result, MDH established the Office of Internal Controls, Audit Compliance, and Information Security to manage certain responsibilities previously handled by the OIG, including conducting follow-up reviews of audit-related corrective actions.

Recommendation 17

We recommend that MDH ensure that appropriate correction actions are implemented to address Office of Legislative Audits report findings.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the Secretary and other units of the Maryland Department of Health (MDH) for the period beginning February 12, 2019 and ending June 30, 2022. 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 MDH'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 audits of local health departments and private providers, federal funds, procurements and disbursements, interagency agreements, cash receipts, payroll, information security, accounts receivable for patients in State facilities, and corporate purchasing card activity. Our audit also included a review of certain support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) provided by the MDH's Office of the Secretary and related units to the other units of MDH. We also determined the status of the six findings contained in our preceding audit report and four of the five findings contained in our special review of allegations related to a questionable grant awarded to a nonprofit organization by the Opioid Operational Command Center.

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 MDH's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDH.

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 February 12, 2019 to June 30, 2022, 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 MDH'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 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 MDH internal systems, such as the Hospital Management Information System for the purpose of testing accounts receivable for patients in State facilities. We performed various tests of the relevant data and determined 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.

MDH'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 MDH, 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 MDH'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 MDH 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 3.5-301(b), states that cybersecurity is defined as “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 judgment, 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 MDH and those parties responsible for acting on our recommendations in an unredacted audit report.

As a result of our audit, we determined that MDH's accountability and compliance level was unsatisfactory. The primary factor contributing to the unsatisfactory rating was the significance and number of the audit findings. Our rating has been made solely pursuant to the aforementioned law and rating

guidelines approved by the Joint Audit and Evaluation Committee. The rating process is not a practice prescribed by professional auditing standards.

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

Exhibit 1 Maryland Department of Health Organizational Chart

Maryland Department of Health

Updated 1/30/2023

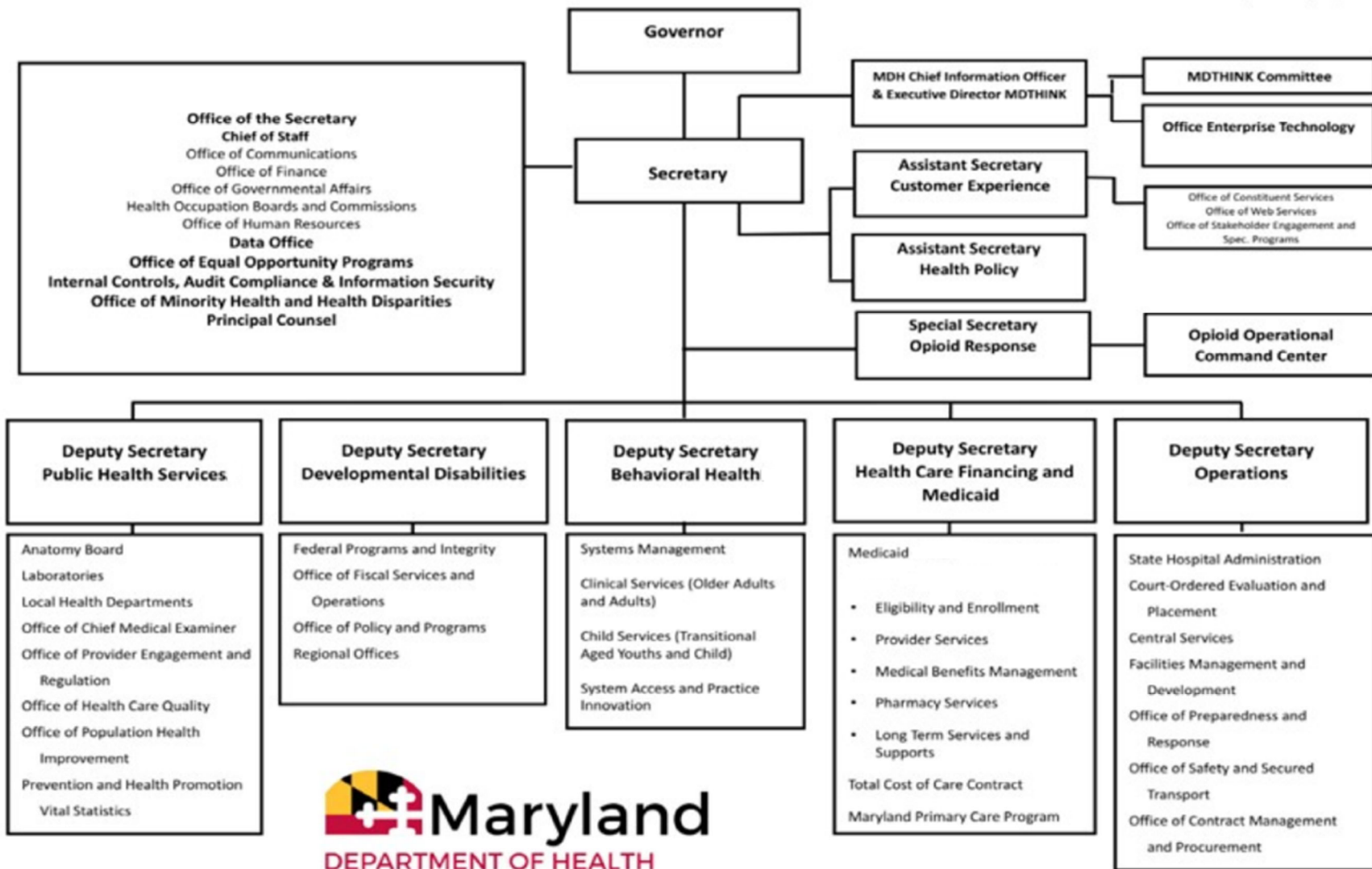


Exhibit 2
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of September 2023 (Page 1 of 2)

Name of Audit		Areas Covered	Most Recent Report Date	Total Findings	Number of Repeat Findings ^①
1	Chronic Care Hospital Centers	<ul style="list-style-type: none"> • Deer’s Head Hospital Center • Western Maryland Hospital Center 	05/10/23	3	1
2	Developmental Disabilities Administration U	Developmental Disabilities Administration	10/26/22	8	4
3	Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services U	<ul style="list-style-type: none"> • Behavioral Health Administration • Medical Care Programs Administration • Administrative Service Organization for Behavioral Health Services 	10/25/22	9	2
4	Intellectual Disabilities Residential Centers	<ul style="list-style-type: none"> • Holly Center • Potomac Center • Secure Evaluation and Therapeutic Treatment Program 	10/24/22	4	0
5	Regional Institutes for Children and Adolescents	<ul style="list-style-type: none"> • John L. Gildner Regional Institute for Children and Adolescents • Regional Institute for Children and Adolescents – Baltimore 	07/13/22	5	1
6	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/12/22	0	0
7	Prevention and Health Promotion Administration - Office of Population Health Improvement - Office of Preparedness and Response - Office of Provider Engagement and Regulation	<ul style="list-style-type: none"> • Prevention and Health Promotion Administration • Office of Population Health Improvement • Office of Preparedness and Response • Office of Provider Engagement and Regulation – Office of Controlled Substances Administration • Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program 	02/23/21	3	2
8	Regulatory Services	<ul style="list-style-type: none"> • 22 Health Professional Boards and Commissions • Office of Health Care Quality 	01/19/21	7	3
9	Vital Statistics Administration	Vital Statistics Administration	11/10/20	4	1
10	Pharmacy Services	Pharmacy Services for <ul style="list-style-type: none"> • Medicaid Managed Care Program • Maryland Medicaid Pharmacy Program • Kidney Disease Program • Maryland AIDS Drug Assistance Program • Breast and Cervical Cancer Diagnosis and Treatment Program 	08/31/20	7	1

① - The count of repeat findings does not include cybersecurity findings since State Government Article Section 2-1224(i) of the Annotated Code of Maryland requires that any cybersecurity findings be redacted from public reports.

U - This audit had an unsatisfactory rating.

Exhibit 2
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of September 2023 (Page 2 of 2)

Name of Audit		Areas Covered	Most Recent Report Date	Total Findings	Number of Repeat Findings ^①
11	Spring Grove Hospital Center	Spring Grove Hospital Center	04/22/20	4	1
12	Medical Care Programs Administration - Managed Care Program	Managed Care Program, known as HealthChoice including oversight of the nine private Managed Care Organizations	04/22/20	5	1
13	Laboratories Administration	Laboratories Administration	04/10/20	1	0
14	Clifton T. Perkins Hospital Center	Clifton T. Perkins Hospital Center	03/17/20	2	0
15	Medical Care Programs Administration	Medical Care Programs Administration	11/07/19	11	2
16	Health Regulatory Commissions	<ul style="list-style-type: none"> • Maryland Health Care Commission • Health Services Cost Review Commission • Maryland Community Health Resources Commission 	04/05/19	1	1
17	Thomas B. Finan Hospital Center	Thomas B. Finan Hospital Center	03/26/19	1	0
18	Springfield Hospital Center	Springfield Hospital Center	12/06/18	1	0
19	Eastern Shore Hospital Center	Eastern Shore Hospital Center	11/19/18	1	0
Total				77	20

① - The count of repeat findings does not include cybersecurity findings since State Government Article Section 2-1224(i) of the Annotated Code of Maryland requires that any cybersecurity findings be redacted from public reports.

APPENDIX



Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

October 16, 2023

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

Dear Mr. Hook:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – Office of the Secretary and Other Units, for the period beginning February 12, 2019, and ending June 30, 2022.

The Department is concerned about the severity of the audit findings contained in this report, especially in light of recent audit findings related to the fiscal 2022 closeout and the Medical Care Programs Administration. To that end, we have engaged an external accounting firm to support the Department's efforts to improve fiscal practices in several areas identified by the Office of Legislative Audits (OLA) in this report, particularly as it relates to properly leveraging federal funds. Similarly, there are a number of findings that highlight opportunities to improve the Department's procurement processes. As a first step, MDH has centralized procurement into one office. However, the Department will continue to identify areas for improvement in procurement and modify policies and procedures to ensure compliance with State law.

Improving the critical findings identified in this report are essential to best serve Marylanders. We appreciate the diligent work of OLA and look forward to

Gregory A. Hook
October 16, 2023
Page 2

working with your team as we correct these findings. If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,



Laura Herrera Scott, M.D.
Secretary

Enclosure

cc: Erin K. McMullen, R.N., Chief of Staff, MDH
Marie Grant, Assistant Secretary for Health Policy, MDH
Bryan I. Mroz, Deputy Secretary, Operations, MDH
Frederick D. Doggett, Director, Internal Controls, Audit Compliance &
Information Security, MDH
Deneen Toney, Deputy Director, Audit & Compliance, MDH

**Maryland Department of Health
Office of the Secretary and Other Units**

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Federal Funds

Finding 1
MDH did not have procedures to ensure MDH units properly entered all provider payments into MMIS II and resolved any rejected claims to enable timely and complete recovery of the funds.

We recommend that MDH

- a. establish procedures to ensure that MDH units properly recorded all payments in MMIS II and subsequently resolved any rejected claims, and**
- b. report the aforementioned unrecoverable funds to the Department of Budget and Management (DBM) and the budget committees and develop a plan to cover the related unfunded liabilities.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, MDH will develop documented processes for reconciling claims and accounting systems to ensure accurate recording of payments and the timely resolution of rejected claims.		
Recommendation 1b	Agree	Estimated Completion Date:	12/31/2024
Please provide details of corrective action or explain disagreement.	MDH is working to resolve all findings noted in OLA’s October 2022 fiscal compliance audit reports on the Developmental Disabilities Administration (DDA) and the Behavioral Health Administration Administrative Services Organization (BHASO). As this process nears completion, MDH will formally advise DBM and the budget committees of our progress and will develop a plan for covering any unfunded liabilities. MDH also notes that the \$106.7 million in unresolved claims cited in the BHASO report has been reduced to \$67 million as of October 2023. However, complete resolution of unresolved BHASO		

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Office of the Secretary and Other Units**

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	claims is unlikely to occur until the contract with the incumbent expires on December 31, 2024.
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Finding 2
MDH did not ensure critical quarterly reconciliations were performed, resulting in the failure to recover \$973.3 million of federal funding timely and lost investment income totaling \$6.4 million.

We recommend that MDH establish a formal policy and procedures, including the appropriate procedural safeguards, to ensure that the critical quarterly reconciliations are completed properly and timely, and reviewed and approved by a supervisor independent of the reconciliation process.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	MDH is performing quarterly reconciliations for all programs to ensure that amounts requested from the federal government through weekly drawdowns are agreed to actual expenditures. In response to this finding, MDH undertook a process to fully document the reconciliation process, including review and approval, in a Standard Operating Procedure (SOP). This was completed in January 2023.		

**Maryland Department of Health
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Finding 3
MDH did not have procedures to ensure federal funds requested for reimbursement of State payments were subsequently received.

We recommend that MDH establish a documented procedure to ensure that all federal funds requested were received.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, MDH will develop documented processes to ensure the receipt of requested federal funds.		

Finding 4

MDH did not have procedures to ensure all federal fund reimbursements were properly allocated to the appropriate expenditure accounts resulting in a lack of assurance that account balances were accurate and the inability to determine whether all federal funds had been recovered.

We recommend that MDH

- a. establish procedures and controls to ensure federal funds are allocated properly and timely, and that the related transactions are subject to supervisory review and approval;
- b. ensure clearing accounts have either a positive or zero balance;
- c. investigate and resolve the aforementioned account balances; and
- d. given the magnitude of the year-end closing deficiencies noted in this and other findings, consider engaging a qualified third-party consultant to assist in the development of appropriate corrective procedures and controls.

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Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will develop and document reconciliation procedures for proper allocation of federal fund reimbursements to expenditure accounts.		
Recommendation 4b	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will develop and document reconciliation procedures for proper allocation of federal fund reimbursements to expenditure accounts.		
Recommendation 4c	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will document reconciliation procedures for the proper allocation of federal fund reimbursements to expenditure accounts. Once that has occurred MDH will investigate and resolve the account balances that OLA mentioned in their report.		
Recommendation 4d	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will document reconciliation procedures for proper allocation of federal fund reimbursements to expenditure accounts.		

Budgetary and Year-End Closing

Finding 5
MDH used an automated script to record year-end revenue entries without verifying that the amounts recorded were valid and collectable.

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We recommend that MDH

- a. ensure that all year-end revenue transactions are properly supported,
- b. analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances, and
- c. properly report any amounts determined to be uncollectable and work with DBM to resolve any related deficits.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will document reconciliation procedures for verification of the validity and collectability of year-end automated revenue entries.		
Recommendation 5b	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will document reconciliation procedures for verification of the validity and collectability of year-end automated revenue entries.		
Recommendation 5c	Agree	Estimated Completion Date:	2/1/2024
Please provide details of corrective action or explain disagreement.	MDH has engaged an external accounting firm to assist the Department in identifying procedural gaps that led to OLA’s findings related to the federal fund accounting process. Through this engagement, the Department will document reconciliation procedures for verification of the validity and collectability of year-end automated revenue entries.		

Procurements and Disbursements

<p>Finding 6 MDH used an emergency contract originally procured for COVID related purposes for unrelated services without sufficient documentation that the services were received and the</p>

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Office of the Secretary and Other Units**

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related payments were proper. As a result, we could not determine services were received or the propriety of MDH payments totaling \$60.4 million.

We recommend that MDH

- a. conduct a review of this contract, which includes obtaining the detailed staffing information required by the contract, determine the extent of the services that were provided in relation to payments made, recover any payments determined to be improper, and disclose this information to BPW; and**
- b. ensure that future emergency contracts are procured and documented in accordance with State procurement regulations and are properly monitored to ensure services were received and the related billings are adequately supported.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	12/31/2023
Please provide details of corrective action or explain disagreement.	MDH has initiated a review of this contract, including all modifications. This review includes a detailed examination of selected invoices. For each invoice, the review team will determine whether amounts charged, including time charges for contract staff, were sufficiently documented and can be associated with specific assigned work or deliverables. Members of the review team were not associated with the contract and will report findings directly to the MDH Secretary, who will determine next steps, as appropriate.		
Recommendation 6b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	In order to ensure compliance with State procurement laws and regulations, MDH has reorganized all procurement officers into a single office - The Office of Contract Management and Procurement (OCMP). This reorganization has facilitated increased oversight over all Department procurement activities. This includes: ensuring all emergency procurement files are full and complete; that we are procuring goods and services in accordance with State procurement regulations; and properly monitoring to ensure services were received and the related billings are adequately supported.		

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Finding 7

MDH did not always comply with State procurement regulations when procuring goods and services via sole source and emergency contracts and did not always publish contract solicitations and awards as required.

We recommend that MDH ensure that

- a. sufficient documented justifications exist for sole source (repeat) and emergency procurements;
- b. documented price negotiations are conducted as appropriate (repeat);
- c. BPW is notified of emergency procurements, including the one noted above (repeat); and
- d. solicitations and awards are published on *eMMA* as required (repeat), including the ones noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	In order to ensure compliance with State procurement laws and regulations, MDH has reorganized all procurement officers into a single office - OCMP. This reorganization has facilitated increased oversight over all Department procurement activities, including ensuring sufficient documented justifications exist for sole source and emergency procurements. MDH continues to identify areas for improvement in procurement and modify policies and procedures to ensure compliance with State law.		
Recommendation 7b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	In order to ensure compliance with State procurement laws and regulations, MDH has reorganized all procurement officers into a single office - OCMP. This reorganization has facilitated increased oversight over all Department procurement activities, including ensuring price negotiations occur and are appropriately documented as required. MDH continues to identify areas for improvement in procurement and modify policies and procedures to ensure compliance with State law.		

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Recommendation 7c	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	<p>In order to ensure compliance with State procurement laws and regulations, MDH has reorganized all procurement officers into a single office - OCMP. This reorganization has facilitated increased oversight over all Department procurement activities, including ensuring timely notification to the Board of Public Works for any emergency procurements conducted by the agency. MDH continues to identify areas for improvement in procurement and modify policies and procedures to ensure compliance with State law.</p>		
Recommendation 7d	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	<p>In order to ensure compliance with State procurement laws and regulations, MDH has reorganized all procurement officers into a single office - OCMP. This reorganization has facilitated increased oversight over all Department procurement activities, including ensuring timely publications of solicitations and awards on eMMA. MDH continues to identify areas for improvement in procurement and modify policies and procedures to ensure compliance with State law.</p>		

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Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including findings 8 through 12 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(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). Although, the specifics of the following findings, including the analysis, related recommendations, along with MDH’s responses, have been redacted from this report copy, MDH’s responses indicated agreement with the findings and related recommendations.

Finding 8
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 9
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 10
Redacted cybersecurity-related finding..

Agency Response has been redacted by OLA.

Finding 11
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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Finding 12
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Accounts Receivable

Finding 13
MDH was eight months behind on billing for services rendered at MDH inpatient facilities, which based on MDH assertions could total approximately \$45.4 million at the time of our review.

We recommend that MDH take formal action to address the backlog in unbilled services and ensure future services are billed in a timely manner.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 13	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	MDH took action to address the backlog in unbilled services as a result of the network security incident, as soon as HMIS was restored to the network. Unfortunately, HMIS was not available or operational for the 8 months cited in OLA’s finding due to the network security incident. The recovery team regularly maintained procedures to work with the billings team to create back billings as soon as HMIS was restored and operational.		

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Payroll

Finding 14
MDH had not established adequate controls to ensure the propriety of biweekly payroll adjustments, leave balances, and timesheets.

We recommend that MDH

- a. independently verify pay and leave balance adjustments to ensure that only authorized adjustments have been processed and take appropriate corrective action when errors are noted (repeat);**
- b. retroactively verify that the time recorded on timesheets approved by payroll unit employees were actually worked, including those noted above (repeat); and**
- c. reconcile total payroll as reflected in CPB payroll registers each pay period with SPS payroll summary reports, investigate any differences, and ensure that those reconciliations are documented (repeat).**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 14a	Agree	Estimated Completion Date:	Complete

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<p>Please provide details of corrective action or explain disagreement.</p>	<p>MDH has implemented a comprehensive verification process for employee pay and leave balance adjustments, which is documented in SOPs/guidelines governing the review process.</p> <p>Pay Adjustments: Managers within OHR’s Payroll and Timekeeping Unit review pay adjustments (inputs) submitted by MDH payroll coordinators each week to ensure that they are accurately reviewed, verified, and recorded and confirm that only authorized adjustments are processed and paid. As required by DBM, payroll adjustments are submitted by the payroll manager through an Input Request form. Input Files are one-time fixed amounts that add to or reduce an employee's gross payroll amount initiated by authorized time entry and compensation change events in Workday. If pay adjustment errors are noted during processing, the appropriate corrective actions are taken, to include manual review of input forms, coordination of error resolution with the assigned Payroll personnel, and final submission of inputs to DBM.</p> <p>Leave Balance Adjustments: OHR’s Payroll and Timekeeping Unit instituted a leave adjustment review process to confirm the accuracy and proper recording of leave adjustments to prevent and/or correct the processing of unauthorized adjustments. If errors are noted upon review, appropriate corrective actions are taken. OHR’s corrective and preventative measures include an internal review and audit of a randomized selection of 10% of records to ensure compliance with leave adjustment standards.</p>		
<p>Recommendation 14b</p>	<p>Agree</p>	<p>Estimated Completion Date:</p>	<p>Complete</p>

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<p>Please provide details of corrective action or explain disagreement.</p>	<p>MDH has revised its timesheet certification process in response to this audit finding. The revised process outlines the review and verification procedures for merit and contractual timesheets that are approved by OHR’s timekeepers. After the identification of timesheets submitted by MDH’s timekeepers (due to missing initial entries), OHR obtains email confirmation from supervisors of missing timesheet information. This process is completed weekly on Thursdays by assigned Payroll personnel at the conclusion of the Office’s weekly standard payroll activities. Two weeks after the initial email, the assigned payroll personnel reports to the Chief of payroll those supervisors who have yet to confirm entries approved by OHR timekeepers. The Chief sends out follow-up emails to each supervisor to complete the certification process.</p>		
<p>Recommendation 14c</p>	<p>Agree</p>	<p>Estimated Completion Date:</p>	<p>Complete</p>
<p>Please provide details of corrective action or explain disagreement.</p>	<p>MDH has revised its processes in response to this finding. The bi-weekly payroll reconciliation process instituted by OHR requires the comparison of SPMS Payroll Summary Reports in Workday to the Central Payroll Bureau (CPB) Payroll Register. The assigned Payroll personnel completes a review for discrepancies between the reports to identify incorrect data. Upon the completion of the initial review, discrepancies are addressed by reviewing internal reports, Workday transactions, timesheets, and the Payroll Online Service Center (POSC) to identify dissimilar data. Once the erroneous result is correctly identified, the necessary corrections are made by the assigned Payroll personnel. The results and corrections are documented on the SPS Payroll Summary and CPB Payroll Register that is maintained in the OHR Payroll Manager shared files.</p>		

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Finding 15
MDH did not have procedures to ensure that employees who were terminated or left State service were promptly removed from the payroll, resulting in improper payments to at least 45 former employees totaling \$151,000.

We recommend that MDH

- a. implement procedures to ensure timely posting in SPS of employees who are terminated or leave State service; and**
- b. investigate payments to employees after they left State service, including those noted above, and in consultation with legal counsel pursue recovery of any improper payments as deemed appropriate.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 15a	Agree	Estimated Completion Date:	12/31/23
Please provide details of corrective action or explain disagreement.	MDH has identified areas of opportunity for additional knowledge transfer for supervisory and managerial employees as it relates to timely and efficient notification of impending employee terminations and resignations. This includes additional information on protocol and procedure, as well as the centralization of HR resources for ease of access and usage for those who need it. Further, MDH will optimize report usage to create an alternative means of finding instances of employees no longer working with the agency. This includes more effective and proactive usage of various available reporting tools (SPMS No Time Entered and Less the 80 Report) to proactively identify and address potential areas of concern. This should create a significant reduction in instances of the need for backdated or processing delayed termination in SPS Workday.		
Recommendation 15b	Agree	Estimated Completion Date:	12/31/23
Please provide details of corrective action or explain disagreement.	MDH is modifying its processes to address this finding. OHR will utilize termination reports to audit the same time period assessed by the audit team (beginning February 2019) and extend it to the end of fiscal year 2023 to identify those employees, both during the audited time frame and beyond, who may have been terminated with a backdated effective date. Using this list, all identified employees' records will be further		

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	audited to identify any potential improper payments and undergo what corrective action can be taken to resolve the issue. Moving forward from 7/1/2023, the above noted measures will be implemented to mitigate any further potential occurrences of this issue.
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Cash Receipts

Finding 16
MDH did not sufficiently control collections including the untimely endorsement and deposit of collections, a lack of independent verification that collections were deposited, and a failure to require large payments to be submitted electronically.

We recommend that MDH

- a. restrictively endorse collections immediately upon receipt,
- b. deposit collections within one business day of receipt,
- c. ensure that independent deposit verifications are documented for all collections, and
- d. consider requiring large payments to be made electronically to enhance control over the funds.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 16a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	MDH has implemented a procedure for restrictively endorsing collections immediately upon receipt. MDH has updated written procedures accordingly.		
Recommendation 16b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	MDH has implemented this recommendation and has updated written procedures accordingly.		
Recommendation 16c	Agree	Estimated Completion Date:	Complete

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Please provide details of corrective action or explain disagreement.	MDH resumed independent deposit verifications in July 2022 by having a staff member review and attach the Previous Day Composite Report to the daily deposit.		
Recommendation 16d	Agree	Estimated Completion Date:	12/31/2023
Please provide details of corrective action or explain disagreement.	MDH will study this issue and prepare a documented analysis. We caution, however, that the use of electronic ACH transfers could create confusion and complicate reconciliation of expenditures to revenues.		

Executive Oversight

Finding 17
MDH did not ensure that appropriate corrective actions were implemented to address prior findings from our Office’s fiscal compliance audits of the other MDH units.

We recommend that MDH ensure that appropriate correction actions are implemented to address Office of Legislative Audits report findings.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 17	Agree	Estimated Completion Date:	12/31/2024
Please provide details of corrective action or explain disagreement.	<p>MDH has engaged an outside accounting firm to help MDH address prior audit findings made by OLA, including those identified in this report, and recent reports on Medicaid, DDA, and the 2022 closeout audit. MDH is also actively recruiting and filling vacancies. The additional resources will assist with reconciliation of the data between FMIS, MMIS, PCIS2, any other related external systems. MDH is also exploring hiring recent retirees to support our fiscal staff with training and best practices.</p> <p>In addition, MDH meets regularly with DBM to review and evaluate ongoing corrective actions addressing prior OLA findings. These meetings will continue until all identified actions are deemed complete.</p>		

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