

N00A01
Administration
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$93,583	\$98,559	\$96,449	-\$2,111	-2.1%
Adjustments	0	1,400	-156	-1,556	
Adjusted General Fund	\$93,583	\$99,959	\$96,293	-\$3,667	-3.7%
Special Fund	4,278	4,135	4,423	288	7.0%
Adjustments	0	0	-2	-2	
Adjusted Special Fund	\$4,278	\$4,135	\$4,421	\$286	6.9%
Federal Fund	72,132	73,835	138,777	64,942	88.0%
Adjustments	0	0	-108	-108	
Adjusted Federal Fund	\$72,132	\$73,835	\$138,669	\$64,834	87.8%
Reimbursable Fund	411	689	0	-689	-100.0%
Adjusted Reimbursable Fund	\$411	\$689	\$0	-\$689	-100.0%
Adjusted Grand Total	\$170,403	\$178,618	\$239,382	\$60,764	34.0%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 adjusted allowance of the Department of Human Resources (DHR) Administration increases by \$60.8 million, or 34%, compared to the fiscal 2017 adjusted working appropriation. Increases of \$64.8 million in federal funds and \$286,315 in special funds are partially offset by a decrease of \$3.7 million in general funds and \$689,496 in reimbursable funds.
- A large increase in federal funds (\$65.2 million) is due to the Maryland Total Human services Information NetworK (MD THINK) Major Information Technology Project.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 16 Actual</u>	<u>FY 17 Working</u>	<u>FY 18 Allowance</u>	<u>FY 17-18 Change</u>
Regular Positions	846.00	819.35	819.35	0.00
Contractual FTEs	<u>28.60</u>	<u>2.90</u>	<u>2.90</u>	<u>0.00</u>
Total Personnel	874.60	822.25	822.25	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	57.93	7.07%
Positions and Percentage Vacant as of 12/31/16	76.50	9.34%

- There is no position change in the fiscal 2018 allowance.
- Turnover expectancy in DHR Administration increases from 7.03% to 7.07% in fiscal 2018.
- As of December 31, 2016, DHR Administration has a vacancy rate of 9.34%, or 76.5 positions. To meet the turnover expectancy of 7.07%, DHR Administration needs to maintain 57.93 vacant positions.

Analysis in Brief

Major Trends

DHR Continues to Struggle with Procurement Goals: DHR failed to meet goals related to the percent of procurement contract dollars with minority business enterprises. However, DHR did meet its goal that 50% of contracts are received by the Procurement Division within the established guidelines for the number of days required to process the contract.

DHR Meets Goal on Timeliness of Out-of-home Placement Reviews: The Citizen’s Review Board for Children (CRBC) trains local volunteer boards to aid in child protection efforts. The local boards have a goal to submit 75% of reports on case reviews within 15 days of the review. DHR met the goal in fiscal 2016 and increased it to 80% for future years.

DHR Fails to Meet Goals in Two of Three Areas of Services Provided to Children in Out-of-home Placement Reviews: In its Managing for Results (MFR) submission for CRBC, DHR reports on several measures of outcomes that are captured in the out-of-home placement reviews. While these measures do not reflect the work of CRBC, the measures reflect the services provided by the local departments of social services. In fiscal 2016, the department did not meet its goals for the percent of children receiving appropriate physical and mental health services and the percent of children receiving appropriate educational services.

Performance Measures for the State Earned Income Tax Credit: DHR still has not included performance measures for the State Earned Income Tax Credit (EITC) in its MFR submissions.

Issues

DHR Failed to Address Office of the Secretary Audit Findings: In June 2014, the Office of Legislative Audits (OLA) released a fiscal compliance audit for the Office of the Secretary in DHR covering most of the administrative operations of the agency. The audit covered the period from November 17, 2009, to August 12, 2012. Of the nine findings contained in the audit, four were repeated from the previous audit. DHR did not implement all of OLA’s corrective actions.

Promotion of the Earned Income Tax Credit: Committee Narrative in the 2015 *Joint Chairmen’s Report* requested that DHR report on promotion efforts for the State EITC. This issue discusses the findings of that report as well as a report on the feasibility of an EITC notification system that was submitted by the Office of the Comptroller.

Recommended Actions

1. Add budget language restricting general funds pending the submission of Earned Income Tax Credit performance measures in the fiscal 2019 Managing for Results submission process.
2. Add budget language restricting general funds until corrective actions related to repeat audit findings are completed.
3. Add budget bill language restricting general funds in the Maryland Legal Services Program to that purpose.
4. Adopt committee narrative to request quarterly reports on the Maryland Total Human services Information NetworkK Major Information Technology Project.

N00A01
Administration
Department of Human Resources

Operating Budget Analysis

Program Description

The Department of Human Resources (DHR) administers programs through a State-supervised and locally administered system. DHR Administration provides direction through four major units:

- Office of the Secretary;
- Operations Office;
- Office of Technology for Human Services (OTHS); and
- Local General Administration.

Office of the Secretary

The Office of the Secretary provides overall direction and coordination for all programs and activities of DHR. The Office of the Secretary includes the offices of the Attorney General, chief of staff, and deputy secretaries; communications; employment and program equity; inspector general; planning and performance; and government, corporate, and community affairs. Other programs contained within the Office of the Secretary are:

- the Citizen's Review Board for Children (CRBC);
- the Maryland Commission for Women; and
- the Maryland Legal Services Program.

Operations Office

The Operations Office consists of two divisions. The Division of Budget, Finance, and Personnel supports the programs of other units in the department through the management and control of fiscal and personnel systems. The Division of Administrative Services provides key administrative services including fleet management, records management, and risk management to DHR, as well as disaster relief and emergency response throughout the State.

Office of Technology and Human Services

OTHS is responsible for the overall management and direction of DHR information systems. This includes responsibility for computer applications and systems, computer and communication equipment, computer peripheral equipment, ancillary facility and support equipment, and consumables and supplies. OTHS is responsible for the development and administration of DHR information technology (IT) systems including:

- the Child Support Enforcement System;
- the Client Automated Resource and Eligibility System;
- the Maryland Children’s Electronic Social Services Information Exchange (known as MD CHESSIE);
- the Maryland Total Human services Information NetworK (MD THINK);
- the Office of Home Energy Programs data system; and
- WORKS, the computer system for the Work Opportunities Program.

Local General Administration

Local departments of social services (LDSS) are situated in each county and Baltimore City; the administrative budgets of each LDSS are combined into the Local General Administrative (LGA) unit for the purposes of the State budget. LGA provides essential support services and staff to operate the 24 LDSS, including the management of staff, finance, statistical reporting, general services, central records, fleet operations, buildings and grounds, equipment, supplies, procurement, and inventory.

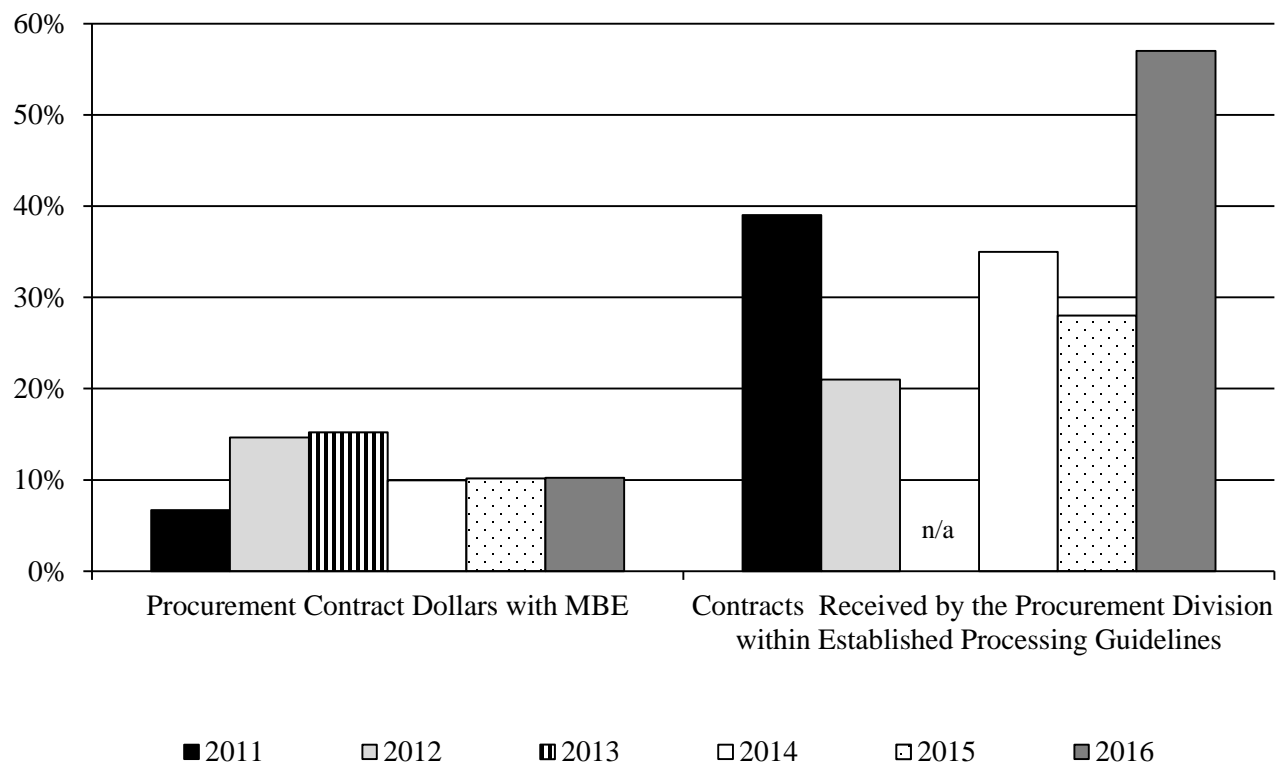
Performance Analysis: Managing for Results

1. DHR Continues to Struggle with Procurement Goals

The DHR Managing for Results (MFR) goal for the Office of the Secretary is to comply with statewide requirements for agency performance. One of the measures is the percentage of procurement dollars with Minority Business Enterprises (MBE). Chapter 154 of 2012 eliminated the statewide 25% MBE goal instead requiring the Special Secretary of Minority Affairs, in consultation with the Office of the Attorney General and the Secretary of Transportation, to establish a percentage goal on a biennial basis and apply the previous year’s goal for any year that a percentage goal is not established. The 25% goal remained in effect through fiscal 2013. DHR increased the goal to 29% in fiscal 2014, and it has remained at that level.

As shown in **Exhibit 1**, DHR failed to meet either the new 29.0% goal or the old 25.0% MBE goal in all recent years. After performance improved slightly in fiscal 2013 (increasing from 14.7% to 15.2%), the percentage of procurement dollars with MBEs decreased to 10.0% in fiscal 2014 and has remained around that level in fiscal 2015 and 2016. DHR indicates that the services that the department procures create unique barriers to meeting its MBE goals. **The Secretary should comment on the merits of setting the MBE procurement goal at an attainable level.**

Exhibit 1
Procurement – Various Data
Fiscal 2011-2016



Source: Department of Human Resources

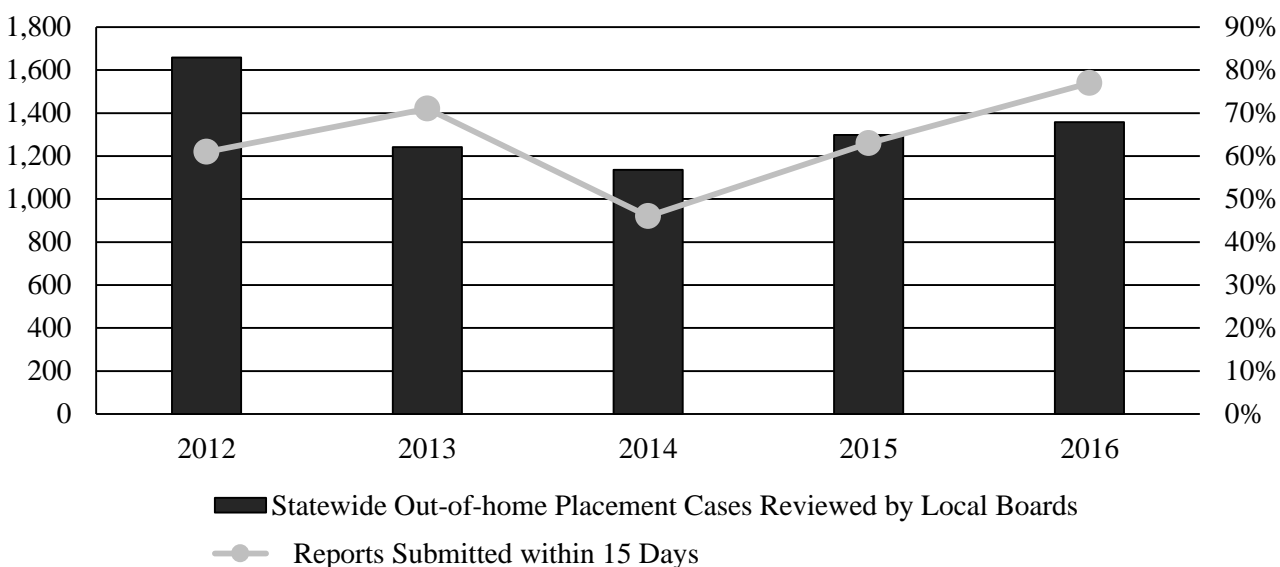
DHR has set a goal of having 50% of contracts received by the Procurement Division from other divisions of DHR within established processing guidelines, which is a key step in the achievement of a timely contract award. DHR performance for this measure increased significantly in fiscal 2016 from 28% to 57%. This is the first year that DHR has met this goal. DHR created a procurement coordination unit that works directly with all administrations and procurement, which helped meet this goal.

2. DHR Meets Goal on Timeliness of Out-of-home Placement Reviews

CRBC trains local volunteer boards to aid in child protection efforts. The local boards have a goal to submit 75% of reports on case reviews within 15 days of the review. In fiscal 2016, the percent of reports on case reviews submitted within 15 days of the review rose past the 75% goal to 77%. This is the first time DHR achieved the goal since fiscal 2011. DHR increased the goal to 80% for fiscal 2017.

Exhibit 2 presents data on the number of out-of-home placement cases reviewed by local boards. The number of out-of-home placement cases reviewed increased by 4.6% in fiscal 2016. The decreases in previous years were largely due to staff vacancies in positions that impact the scheduling of reviews and other functions and a decrease in volunteers. In the previous year, DHR indicated that CRBC planned to hire a volunteer recruitment coordinator to increase volunteers statewide. The volunteer recruitment coordinator position was filled.

Exhibit 2
Citizen’s Review Board for Children
Out-of-home Placement Reviews
Fiscal 2012-2016



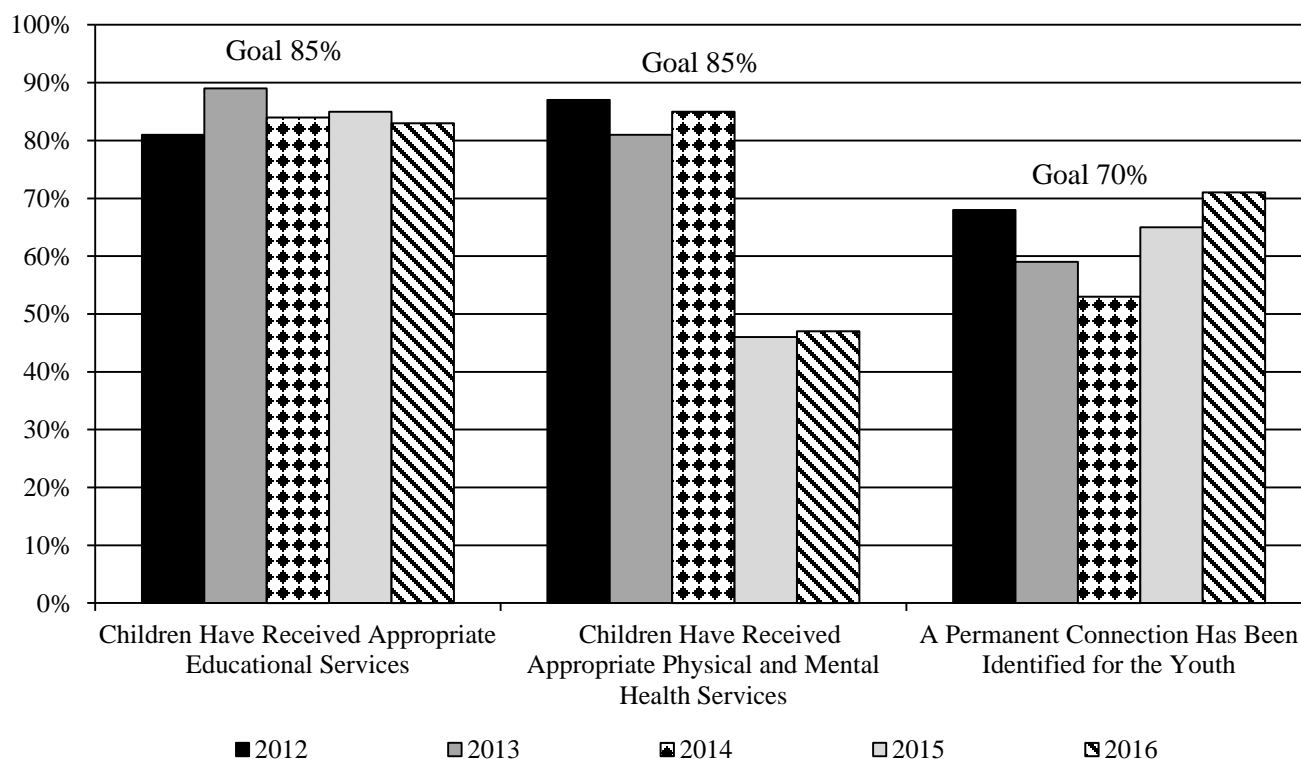
Source: Department of Human Resources

In fiscal 2017 budget testimony, DHR indicated that CRBC should have at least 287 volunteers to fill all 41 local review boards. There are currently 143 volunteers. **The Secretary should provide an update on the progress of CRBC in filling all 41 local review boards.**

3. DHR Fails to Meet Goals in Two of Three Areas of Services Provided to Children in Out-of-home Placement Reviews

Exhibit 3 contains information on three outcome measures as determined by CRBC. While these outcome measures are not directly impacted by activities of CRBC, the measures provide a means of evaluating LDSS child welfare activities. In fiscal 2016, based on cases reviewed by CRBC, the percent of children receiving appropriate educational services decreased from 85% to 83%, falling below the performance goal. Additionally, LDSS failed to meet the goal of 85% of children receiving appropriate physical and mental health services. The performance declined substantially from hitting the goal of 85% in fiscal 2014 to 46% in fiscal 2015. In fiscal 2016, this measure rose by 1 percentage point to 47%, well below the goal. Last year, the explanation for unusually low performance in this measure was unclear. **The Secretary should explain what is contributing to continuously low performance.**

Exhibit 3
Citizen's Review Board for Children
Outcomes of Reviews
Fiscal 2012-2016



Source: Department of Human Resources

Based on cases reviewed by CRBC, the percent of cases in which a permanent connection had been identified for the youth increased above the 70% performance goal. In fiscal 2015, 65% of cases had a permanent connection identified. In fiscal 2016, 77% of cases had a permanent connection identified.

4. Performance Measures for the State Earned Income Tax Credit

Narrative in the 2015 *Joint Chairmen's Report* (JCR) requested DHR to include goals, objectives, and performance measures related to the State Earned Income Tax Credit (EITC) in its fiscal 2017 MFR submission. In its budget response, DHR indicated that it would work with the Department of Budget and Management to integrate goals, objectives, and performance measures related to the program into its performance measures and would submit it with its fiscal 2017 MFR submissions. The fiscal 2017 MFR submissions did not include measures related to the EITC.

As with the fiscal 2017 submissions, the fiscal 2018 MFR submissions did not include EITC performance measures. However, DHR included performance measures in a report on EITC promotion efforts that was submitted in December 2016. The report does not include any substantive performance measures. The data that is provided is only for 2012 with no other years to compare. **Therefore, the Department of Legislative Services (DLS) recommends withholding a portion of the department's fiscal 2018 appropriation pending the inclusion of EITC performance measures in the fiscal 2019 MFR submission.**

In tax year 2016, Marylanders qualified for EITC if they had income below:

- \$47,955 (\$53,505 married filing jointly) with three or more qualifying children;
- \$44,648 (\$50,198 married filing jointly) with two qualifying children;
- \$39,296 (\$44,846 married filing jointly) with one qualifying child; or
- \$14,880 (\$20,430 married filing jointly) with no qualifying children.

The State EITC is 25.5% (refundable) or 50.0% (nonrefundable) of the federal earned income tax credit. Of the 415,000 recipients in 2012, nearly two-thirds claimed the refundable version of the credit. The average EITC amount claimed was \$730 for a head of household with dependents and \$261 for households with no children.

Fiscal 2017 Actions

Proposed Deficiency

The Governor's allowance includes a deficiency appropriation of \$1.4 million in general funds to pay legal fees related to a longstanding foster care consent decree. The amount was approved by a Board of Public Works action on January 4, 2017. As with all consent decrees, the State is required to underwrite legal fees for the attorneys who represent the plaintiffs. The settlement covers nearly 10 years of work during which the plaintiffs did not submit a bill.

Section 20 Position Abolitions

Section 20 of the fiscal 2017 budget bill required 657 vacant positions to be abolished throughout State government. In total, 72 positions were abolished in DHR, of which 11 were in Administration.

In total, in DHR, \$2.2 million in general funds were reduced as part of Section 20, slightly more than the general fund share of the salaries and fringe benefits for the positions that were abolished. However, the difference was less than \$100,000 and should be absorbed within the overall DHR budget.

Proposed Budget

As shown in **Exhibit 4**, the adjusted fiscal 2018 allowance of DHR Administration increases by \$60.8 million, or 34.0% compared to the fiscal 2017 adjusted working appropriation. Increases of \$64.8 million in federal funds and \$286,315 in special funds were partially offset by a decrease of \$3.7 million in general funds and \$689,496 in reimbursable funds. The federal fund increase is driven by a Major Information Technology Development Project.

Exhibit 4
Proposed Budget
DHR – Administration
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2016 Actual	\$93,583	\$4,278	\$72,132	\$411	\$170,403
Fiscal 2017 Working Appropriation	99,959	4,135	73,835	689	178,618
Fiscal 2018 Allowance	<u>96,293</u>	<u>4,421</u>	<u>138,669</u>	<u>0</u>	<u>239,382</u>
Fiscal 2017-2018 Amount Change	-\$3,667	\$286	\$64,834	-\$689	\$60,764
Fiscal 2017-2018 Percent Change	-3.7%	6.9%	87.8%	-100.0%	34.0%

N00A01 – DHR – Administration

Where It Goes:

Personnel Expenses

Salaries.....	\$207
Reclassification.....	178
Workers' compensation	48
Other fringe benefit adjustments.....	-11
Turnover adjustment	-49
Social Security contributions	-91
Employee retirement.....	-225
Accrued leave payout.....	-396
Employee and retiree health insurance	-549

Maryland Legal Services Program

Legal Services for Children to align with actual spending	-992
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Information Technology

Total Human services Information NetworK (MD THINK) MITDP	65,218
Applications Maintenance, Operations, and Enhancements Contract	661
Laptop and Computer replacement	111
Automated Financial System MITDP	-1,361

Cost Allocation

Department of Budget and Management paid telecommunications	72
Insurance Coverage.....	52
Department of Information Technology services allocation.....	-296
Statewide personnel system allocation	-585
Statewide budget system.....	-978

Administrative Expenses

Increase in Purchase of Care Services to local offices, primarily in Cecil County	430
Rent for Prince George's County local office.....	344
Local office security	297
Travel.....	46
One-time fiscal 2017 deficiency appropriation for attorney's fees for <i>L.J. vs. Massinga</i>	-1,400
Other	33

Total	\$60,764
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MITDP: Major Information Technology Development Project

Note: Numbers may not sum to total due to rounding.

Personnel

Personnel costs in the DHR Administration allowance decrease by \$887,080. This decrease is primarily driven by employee retirement and health insurance costs, which decrease by \$773,593. Of this amount, \$266,095 is contingent on the Budget Reconciliation of Financing Act of 2017. Specifically, the fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. The overall decrease in personnel costs is despite an increase in salaries of \$207,309.

Major IT Development Projects

Automated Financial System

The Automated Financial System (AFS) Replacement project will create a system used in LDSS to maintain the financial transaction history and generate checks for vendor payments, including child care and foster care providers. The existing system is written in an outdated language and, as a result, DHR indicates that it is difficult to find maintenance and support for the application. Additional information on the project goals and schedule is shown in **Appendix 2**.

The total estimated project cost is \$6.2 million. The fiscal 2018 allowance includes \$1.27 million for the project (\$700,537 in the Major Information Technology Development Project Fund (MITDF) and \$573,165 in federal funds in DHR Administration).

DHR completed the planning phase in mid-December 2015. The implementation phase began in March 2016, as indicated in the fiscal 2018 Information Technology Project Request (ITPR) for this project. However, DHR was not able to choose a vendor in the procurement process for the AFS project. Solicitation for proposals closed on August 31, 2016, but there was insufficient participation. DHR is working with partners to revise the Request for Proposal (RFP) to move forward in the procurement process. **The Secretary should describe the issues in the original RFP and explain how it is being improved.**

MD THINK

DHR is seeking to create a shared human services platform called MD THINK. MD THINK will integrate all of DHR's legacy IT systems as well as the human services systems at the Department of Labor, Licensing, and Regulation; the Department of Juvenile Services; the Maryland Health Benefit Exchange; and the Department of Health and Mental Hygiene (DHMH). This is a shift from program-centric systems to a client-centric platform.

MD THINK will include a cloud-based shared infrastructure and data repository. This allows for a modular approach to systems in which an agency can develop an application that is much more

adaptable to changing requirements. Additional information on the project goals and schedule is shown in **Appendix 3**.

The project was set to begin in fiscal 2017 with the inclusion of approximately \$13.78 million in general funds in the Department of Information Technology (DoIT) budget. However, the funds were included in the budget prior to the submission of an ITPR. Additionally, a federal Implementation Advanced Planning Document (IAPD) had not been approved by federal partners. An IAPD is required to secure federal matching funds. As a result, language was included in the general fund appropriation to restrict the funds pending receipt of a report that includes an approved IAPD.

In August 2016, the first IAPD proposal was denied. DHR indicated that it has worked closely with federal partners since that initial denial to revise the IAPD and submitted an updated version on November 21, 2016. Federal partners have 60 days from submission to review the IAPD. As of January 20, 2017, the revised IAPD has still not been approved.

According to the fiscal 2018 budget books, the total estimated project cost is \$253.3 million with a federal/general fund split of approximately 70%/30%. The fiscal 2018 allowance includes \$71.75 million for the project (\$6.53 million in the MITDF and \$65.22 million in federal funds in DHR Administration). The most recent ITPR, submitted in January 2017, lists the total costs as \$175.0 million. In November 2016, DHR listed the estimated cost as \$195.3 million, the figure used in the IAPD submission. DHR indicates that the number in the IAPD submission is limited to their costs. Other agency costs form the difference. As shown in **Exhibit 5**, the difference between the IAPD figure and the figure included in the fiscal 2018 budget books is nearly \$58.0 million (\$32.5 million in general funds and \$25.4 million in federal funds).

Exhibit 5
Difference between Costs Included in the IAPD and the Fiscal 2018 Budget Books

	<u>Costs Included in Pending IAPD</u>	<u>Costs Excluded from IAPD</u>
General Fund	\$43,122,226	\$32,544,380
Federal Fund	152,177,110	25,416,626
Total	\$195,299,336	\$57,961,006

IAPD: Implementation Advanced Planning Document

Source: Department of Human Resources, Governor's Proposed Budget

Issues and Risks: The fiscal 2018 ITPR identifies objectives, funding, resource availability, interdependencies technical, organizational culture, and implementation as medium-level risks. The

ITPR does not identify any high-level risks. Many of the risks identified as medium-level risks could reasonably be considered high-level risks. Funding, interdependencies, and technical risks are areas that should be considered high-level risks.

Funding is a high-level risk due to the cost of the project as well as the lack of an approved IAPD. This is estimated to be one of the most costly major IT projects in Maryland's history, and federal funds have yet to be secured. DHR intends to secure a large portion of the federal funds through the federal A-87 waiver program, allowing a higher 90%/10% federal/general fund split for portions of the project than would be otherwise available. The A-87 waiver expires in December 2018. In order to secure the necessary federal funds, all development costs must be expended by the expiration of the A-87 waiver. The A-87 waiver is authorized under the Affordable Care Act (ACA). It is unclear the extent to which federal action on the ACA will impact the available enhanced funding.

The tight deadline for project completion required to qualify for the A-87 waiver funds also poses a significant risk to the project. The State's procurement and development process does not lend itself to rapid implementation of major IT projects of this magnitude. Attempting to meet an artificial deadline may lead to unrealistic deadline shortcuts that adversely impact the outcome of the project.

Interdependencies and technical risks are both high due to the size and scope of this project. It involves multiple agencies each with their own legacy IT systems that need to be incorporated into MD THINK. This is the first attempt to do a project of this nature.

Rhode Island recently launched its legacy IT system overhaul called Unified Health Infrastructure Project (UHIP), which was developed using a similar methodology to the planned methodology of MD THINK. UHIP was plagued with cost overrun issues throughout development and had technical issues at launch. Originally, UHIP was projected to cost \$105 million. The project is currently estimated to cost approximately \$364 million. As of December 2016, the Center for Medicare and Medicaid Services was not able to approve further design, development, and implementation activities due to concerns with stability and a lack of specificity. **DHR should comment on whether it is examining similar IT projects to learn lessons from other states.**

Due to the risks inherent in a project of this magnitude, DLS recommends committee narrative requesting that DHR, in partnership with DoIT, submit quarterly reports that provide an update on the project's status that includes the award of any federal grants, the development of the data repository, each application, adherence to timelines, performance benchmarks, and a description of defects and solutions to defects.

Issues

1. DHR Failed to Address Office of the Secretary Audit Findings

In June 2014, the Office of Legislative Audits (OLA) released a fiscal compliance audit for the Office of the Secretary in DHR covering most of the administrative operations of the agency. The audit covered the period November 17, 2009, to August 12, 2012. The audit included nine findings, of which four were repeated from the previous audit, as shown in **Exhibit 6**.

Exhibit 6 Audit Findings

Audit Period for Last Audit:	November 17, 2009 – August 12, 2012
Issue Date:	June 2014
Number of Findings:	9
Number of Repeat Findings:	4
% of Repeat Findings:	44.4%
Rating: (if applicable)	n/a

- Finding 1:** The Department of Human Resources (DHR) recorded unsupported special fund revenues to offset deficit balances.
- Finding 2:** **DHR did not ensure the propriety of the payments to certain legal firms.**
- Finding 3:** **DHR lacked sufficient procedures and accountability over certain grants.**
- Finding 4:** **DHR had not established sufficient monitoring controls over certain users' access.**
- Finding 5:** Assignment of critical privileges and access and monitoring controls over mainframe systems were not sufficient.
- Finding 6:** Database controls were not sufficient to protect critical data.
- Finding 7:** **Certain DHR networks were not adequately secured.**
- Finding 8:** A vendor report did not address several key security controls.
- Finding 9:** DHR did not document its rationale for not assessing liquidated damages.

*Bold denotes item repeated in full or part from preceding audit report.

Source: Office of Legislative Audits

On April 20, 2016, OLA submitted a letter to the budget committees on the review of actions taken by DHR to resolve the four repeat audit findings from the June 2014 audit. Of the repeat findings reviewed, OLA determined that necessary corrective action resolved only two of the four findings. DHR did not implement the recommended actions to resolve findings 2 and 3.

Maryland Legal Services Program

Finding 2 stated that in the Maryland Legal Services Program, DHR did not ensure that payments to legal firms on behalf of individuals were proper and did not perform site visits to ensure that required services were provided. OLA noted that:

- DHR paid firms based on submitted invoices without verifying the firm was responsible for providing the legal services to the individuals (also included in the prior audit);
- DHR did not perform annual site visits for some firms as provided in the contracts or maintain documentation supporting the review and conclusion for some annual site visits performed (also included in the last two audits); and
- DHR did not obtain annual reports required for some firms.

DHR did not complete one of two recommendations made by OLA for this finding. OLA recommended that DHR verify payments are made to legal firms only for individuals for whom DHR is responsible for providing legal services and conduct on-site monitoring. OLA has determined that DHR implemented an on-site contract review process sufficient to address the recommendation to conduct on-site monitoring. However, DHR has not addressed the recommendation to verify payments.

Office of Grants Management

Finding 3 stated that in the Office of Grants Management, DHR lacked sufficient procedures and accountability over certain grants. Specifically, OLA noted that DHR did not independently verify that grant funds were spent as intended and that DHR did not ensure that assistance activity reports were submitted by the grantee (also included in the prior audit). OLA recommended that DHR independently verify that grant funds were spent as intended, ensure that required reports are submitted, and ensure that annual site visits are performed.

OLA has determined that DHR did not complete any of the three recommendations to address Finding 3.

Corrective Actions

The Joint Audit Committee (JAC) continues to be concerned with the number and frequency of repeat audit findings across State agencies as cited by OLA. In an effort to satisfactorily resolve these findings, JAC has asked the budget committees to consider action in the agency budgets where such findings occur. As noted, this audit contained four repeat audit findings. Despite withholding \$100,000

in general funds in fiscal 2016, DHR failed to implement corrective actions in two of four repeat audit findings. **Therefore, DLS recommends withholding a portion of the department's fiscal 2018 appropriation until OLA has determined that the repeat findings have been corrected.**

2. Promotion of the Earned Income Tax Credit

During the 2015 legislative session, the budget committees expressed intent that DHR, in consultation with DHMH and the Office of the Comptroller, be responsible for promotion of the State EITC program. Committee narrative in the 2015 JCR requested that DHR report on promotion efforts undertaken by the three agencies.

The report, submitted in December 2016, contained EITC performance measures and current/future promotion efforts. The performance measures are included as part of the performance analysis section of this analysis.

Current and Future Promotion Efforts

DHR indicates that it effectively promoted EITC in past years, but it was costly. The report explains how DHR can revise its past efforts to function more efficiently and effectively. **Exhibit 7** summarizes the promotion efforts that DHR has attempted in the past and revisions that will increase the effectiveness of the campaign.

The promotion revisions attempt to modernize the promotions already in place. The previous campaign efforts focused on paper pay stubs and paper mailings. These campaigns are not as effective as in the past. For instance, DHR indicated that including information on pay stubs is ineffective because many employees opt for direct deposit.

Exhibit 7
Department of Human Resources
Previous EITC Promotion Efforts and Revisions

Prior Promotion Effort

Revisions

Include a reminder on State employee pay stubs	Develop statewide electronic outreach campaign for State employees
Mass mailing and outreach campaign to TCA, FSP and Foster Care households	Work with partners to develop weblinks to EITC information for customers Make EITC information accessible on myDHR portal Develop a message to display on the Maryland Health Connection Website Explore the possibility of including EITC information on letters sent to customers for the National Directory of New Hires Work with FSP outreach organizations to get EITC information to applicants
Provide EITC information to programs that purchase food through MEFAP to distribute to program recipients	No change

EITC: Earned Income Tax Credit

FSP: Food Stamp Program

MEFAP: Maryland Emergency Food Assistance Program

TCA: Temporary Cash Assistance

Source: Department of Human Resources

Feasibility of an EITC Notification System

Committee narrative in the 2016 JCR requested that the Office of the Comptroller examine the feasibility of an EITC notification system in order to ensure that all eligible citizens are aware of their eligibility.

The Office of the Comptroller indicated that the proper infrastructure for a notification system is already in place. The Office of the Comptroller has a case management system (CAMS) that can communicate through mailings in multiple languages. At this point, the challenge is determining who is most likely to be eligible for EITC. **Exhibit 8** lists the possible strategies for making an eligibility determination and the costs of notification through CAMS.

Exhibit 8
Office of the Comptroller
EITC Notification System Strategies

	<u>Initial Cost</u>	<u>Ongoing Cost</u>
Pre-filing Activities		
Obtain data for Medicaid and Women, Infants, and Children Food and Nutrition Services recipients from the Department of Health and Mental Hygiene	\$655,505	\$502,165
Use Geospatial Information System technologies to integrate data from the Maryland Vehicle Administration with the existing Department of Human Resources data warehouse (DW) to identify longitudinal characteristics of the Earned Income Tax Credit (EITC) claimant tax returns	590,040	370,515
Incorporate spatial join of geocoded results of publically available U.S. Census Block data files with individual taxpayer return data to determine percent on social assistance, income levels, and poverty level	590,040	370,515
Obtain Supplemental Nutrition Assistance Program and other program data from the Department of Human Resources	327,040	189,665
Examine the prior year's tax returns to identify the number of Marylanders eligible to claim EITC for that tax year	441,415	297,505
Use federal data in the DW to identify the number of Marylanders that did not claim the federal credit on prior year's federal tax returns	295,650	185,565
Use prior year employer W2 data to identify the taxpayers that either did not file or might not have received the benefits of the credit	451,900	341,815
Post-filing Activities		
Identify those Maryland taxpayers that likely qualified but did not claim the EITC. Send letters via a case management system (CAMS) to these taxpayers offering free amended tax return preparation	338,290	194,380
Use the employer W2 file to identify potentially lower income taxpayers and send letters via CAMS mid-filing season to alert taxpayers of their potential eligibility	451,900	341,815

Source: Office of the Comptroller

A successful notification system is likely to employ a combination of the strategies listed in Exhibit 8. The report concludes that matching individuals through more than one of the strategies will increase accuracy and narrow the scope of the program, because an individual with multiple matches is more likely to be eligible for EITC. Implementing all of the strategies would initially cost approximately \$4.1 million with annual ongoing costs of approximately \$2.8 million.

DHR should provide an update on implementation of its promotion campaign revisions and whether it has worked with the Office of the Comptroller to decide which notification system strategies are feasible and most cost effective.

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that \$50,000 of the administrative appropriation may not be expended unless the Department of Human Resources includes Earned Income tax Credit performance measures, goals, and objectives in the fiscal 2019 Managing for Results submission.

Explanation: Narrative in the 2015 Joint Chairmen’s Report requested the Department of Human Resources (DHR) to include goals, objectives, and performance measures related to the State Earned Income Tax Credit (EITC) in its fiscal 2017 Managing for Results (MFR) submission. The fiscal 2017 MFR submissions did not include measures related to the EITC. As with the fiscal 2017 submissions, the fiscal 2018 MFR submissions did not include EITC performance measures.

This language withholds a portion of DHR’s budget pending the submission of EITC performance measures in the fiscal 2019 MFR submission.

2. Add the following language to the general fund appropriation:

, provided that since the Department of Human Resources (DHR) Office of the Secretary has had four or more repeat audit findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits (OLA), and DHR failed to completely resolve, or make adequate progress towards resolving, those repeat audit findings, \$50,000 of this agency’s administrative appropriation may not be expended unless:

- (1) DHR has reported the corrective action taken with respect to all repeat findings on or before November 1, 2017; and
- (2) a report is submitted to the budget committees by OLA listing each repeat finding along with an assessment of the corrective action taken by DHR for each repeat finding. The budget committees shall have 45 days to review and comment to allow funds to be released prior to the end of fiscal 2018.

Explanation: The Joint Audit Committee has requested that budget bill language be added for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency and a determination by OLA that each finding was corrected. OLA shall submit reports to the budget committees on the status of repeat findings.

If OLA reports that an agency fails to completely resolve, or make adequate progress toward resolving, those repeat audit findings, the Joint Audit Committee requests that \$50,000 in

general funds is withheld from each agency's appropriation in the fiscal year following the OLA report until more satisfactory progress has been made toward resolution of those repeat findings.

Information Request	Author	Due Date
Status of corrective actions related to the most recent fiscal compliance audit	OLA	45 days before the release of funds

3. Add the following language to the general fund appropriation:

Provided that \$13,087,212 of this appropriation made for the purpose of the Maryland Legal Services Program may be expended only for that purpose. Funds not used for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

Explanation: The language restricts the general fund appropriation of the Maryland Legal Services Program (MSLP) to that purpose and if it is not needed for that purpose requires that the funds revert to the General Fund. During the fiscal 2013 closeout process, the Department of Human Resources recorded an unprovided-for payable in the MSLP. That was the second consecutive year an unprovided-for payable was recorded and the fourth since fiscal 2007. Given the important function of the MSLP, it remains necessary to ensure the program is adequately funded. Similar language has been adopted in the last three fiscal years.

4. Adopt the following narrative:

MD THINK Quarterly Progress Report: The Department of Human Resources (DHR) is undertaking one of the largest Information Technology Projects in the history of the State, the Maryland Total Human services Information NetworK (MD THINK). DHR should work with the Department of Information Technology (DoIT) to submit quarterly progress reports for the project. The reports should include federal fund awards that were received for the project, the status of all applications completed or in progress of being completed, an updated timeline, an updated estimate of total project costs, performance benchmarks, descriptions of any defects and solutions to defects, and a list of all partner agencies with a description of their roles in the project.

For the period ending June 30, 2017, a report should be submitted by August 15, 2017. For the period ending September 30, 2017, a report should be submitted by November 15, 2017. For the period ending December 30, 2017, a report should be submitted by February 15, 2018. For the period ending March 30, 2018, a report should be submitted by May 15, 2018.

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Information Request	Authors	Due Date
MD THINK Quarterly Progress Report	DHR DoIT	August 15, 2017 November 15, 2017 February 15, 2018 May 15, 2018

Appendix 1
Current and Prior Year Budgets
Department of Human Resources – Administration
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2016					
Legislative Appropriation	\$93,171	\$3,997	\$76,664	\$0	\$173,832
Deficiency Appropriation	0	0	0		0
Budget Amendments	528	486	-45	569	1,539
Reversions and Cancellations	-116	-205	-4,488	-159	-4,968
Actual Expenditures	\$93,583	\$4,278	\$72,132	\$411	\$170,403
Fiscal 2017					
Legislative Appropriation	\$97,924	\$4,124	\$73,408	\$0	\$175,455
Cost Containment	0	0	0	0	0
Budget Amendments	635	11	427	689	1,763
Working Appropriation	\$98,559	\$4,135	\$73,835	\$689	\$177,218

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The fiscal 2016 legislative appropriation for the Department of Human Resources (DHR) Administration decreased by \$3.43 million.

The budget increased by \$1.54 million through budget amendments. This includes an increase of \$1,081,164 (584,429 in general funds, \$9,925 in special funds, and \$486,810 in federal funds) to restore a 2% cut to employee salaries. The realignment of the 2% across-the-board cost containment across all of DHR's programs reduced the DHR Administration appropriation by \$749,105 (a \$416,454 increase in general funds and \$1,165,559 decrease in federal funds). An amendment to realign communications costs across State Agencies reduced the general fund appropriation by \$60,000.

There was also an amendment that added a \$569,496 appropriation in reimbursable funds for the Automated Financial System (AFS) Major Information Technology (IT) Project

Two closeout amendments added funds throughout the DHR budget. These amendments increased DHR Administration's budget by \$697,304 including:

- an increase of \$1,935,570 in general funds and \$24,319 in special funds in the Office of the Secretary for salaries, wages, and fringe benefits as well as technical and special fees for contractual supports staff;
- a reduction of \$287,970 in general funds and \$59,379 in federal funds in the Citizen's Review Board for Children for salaries, wages, and fringe benefits;
- an increase of \$28,123 in general funds in the Commission for Women for salaries, wages, and fringe benefits;
- a reduction of \$194,046 in general funds, partially offset by an increase of \$39,101 in special funds, in the Division of Budget Finance and Personnel for salaries, wages, and fringe benefits;
- an increase of \$1,089,530 in general and \$9,845 in special funds in the Division of Administrative Services for salaries, wages, fringe benefits, contractual staff support, communications materials, and office improvements;
- an increase of \$53,355 in general funds in the Division of Administrative Services for grants to children victims of Hurricane Sandy;
- a reduction of \$2,575,620 in general funds in the Office of Technology for Human Services for salaries, wages and fringe benefits (\$725,935) and contractual services due to reduced contractual activity (\$1,849,685); and

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- an increase of \$1,439,893 (\$462,458 in general funds, \$402,783 in special funds, and \$574,652 in federal funds) in Local General Administration for salaries, wages, and fringe benefits.

DHR Administration reverted \$116,126 to the general fund – \$100,000 is due to the failure to address all repeat audit findings in the most recent legislative audit, and the remainder is largely due to the transfer of payroll services to the Department of Budget and Management. DHR Administration canceled \$4.49 million in federal funds – \$3.68 million in unattainable Title IV-E waiver funds and \$811,032 in unattainable Medical Assistance funds and Supplemental Nutrition Assistance Program funds. A \$205,418 special fund cancellation resulted from less than anticipated task order deliverables for the Universal Services Benefit Program. DHR Administration also canceled \$158,574 in reimbursable funds that were intended for the AFS Major IT Development Project due to less than anticipated expenditures.

Fiscal 2017

To date, DHR Administration's fiscal 2017 budget has increased by \$1,762,631 through three budget amendments. The budget increased by \$1,070,067 (\$633,176 in general funds, \$10,831 in special funds, and \$426,060 in federal funds) through an amendment that allocates centrally budgeted salary increments across State agencies. The budget increased by \$3,068 (\$2,052 in general funds and \$1,016 in federal funds) through an amendment that allocates funds for the annual salary review. The third amendment established a \$689,496 reimbursable fund appropriation for the AFS Major IT Project.

Appendix 2
Major Information Technology Projects
Department of Human Resources
Automated Financial System

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Project Status	Implementation.			New/Ongoing Project:		Ongoing.		
Project Description:	Replace the Department of Human Resources' (DHR) existing Automated Financial System (AFS), which is used by the local departments of social services (LDSS) to record financial transactions of LDSS; set up, print, and track vendor payments (including those for child care and foster care providers); and generate various financial reports. The project will lower costs of system support and maintenance because the existing system uses an outdated language. The project will also improve security and performance, as well as improve ease of use.							
Project Business Goals:	The new AFS is expected to improve ease of use, eliminate workarounds necessitated by the difficulty of updating the current system, and reduce the cost of maintenance and support of the system. The new system is also expected to consolidate financial information and reduce the time it takes to generate vendor payments. DHR indicates the new system will also allow for the system to be easier to modify and enhance as State and federal requirements change. This project also supports the goal of the agency to standardize the development environment and allow the agency to centralize hardware, functionality, and data.							
Estimated Total Project Cost:	\$6,202,154			Estimated Development Cost:		\$4,756,086		
Project Start Date:	November 3, 2014.			Projected Completion Date:		June 30, 2019.		
Schedule Status:	DHR was not able to choose a vendor due to insufficient participation and responses in the procurement process. DHR is making revisions to the Request for Proposal to move the project forward.							
Cost Status:	Project costs decreased from the previous year estimate by \$404,122.							
Scope Status:	The scope of the project has remained the same since the last reporting period.							
Project Management Oversight Status:	The fiscal 2018 allowance includes \$63,686 for project oversight.							
Identifiable Risks:	The only high risk identified by DHR was implementation, which results from data conversion and application integration concerns. Medium risks identified by DHR were technical, organizational culture, supportability, and that consolidating existing legacy applications may introduce additional complications. If procurement continues to be an issue that can pose a significant risk.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	2,996.5	1,273.7	1,273.7	636.9	0.0	0.0	0.0	0.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$2,990.4	\$1,273.7	\$1,273.7	\$658.3	\$0.0	\$0.0	\$3,205.7	\$6,202.2

Major Information Technology Projects
Department of Human Resources
Maryland Total Human services Information Network

Project Status	Planning.	New/Ongoing Project:	Ongoing.
Project Description:	<p>Maryland Total Human services Information Network (MD THINK) is an integrated Shared Human Services Platform. The Department of Human Resources (DHR) human services systems will be integrated with the human services systems of the Department of Labor, Licensing, and Regulation; the Department of Juvenile Services; the Maryland Health Benefit Exchange; and the Department of Health and Mental Hygiene to eliminate the siloed program-centric environments of the current legacy systems. This modern “client-centric” integrated platform will provide employees, partner providers, and constituents of Maryland’s social services agencies an efficient and effective platform for delivering collaborative services. A web and mobile front end will provide a central place to access any service from any participating agency. This is designed to replace legacy systems across State agencies.</p>		
Project Business Goals:	<p>DHR hopes to accomplish three goals with this project:</p> <ul style="list-style-type: none"> • applications will be optimized to allow case workers to more efficiently and effectively serve the people of Maryland, and allow our constituents a single point of entry for a streamlined application and eligibility determination process; • DHR and other collaborative agencies will effectively share data, reducing redundant caseworker actions, and enable comprehensive analytics to help guide future strategies to more effectively serve the people of Maryland; and • systems will be much more adaptable to continually changing requirements, as per statutory, programs, user, and constituent needs, thereby allowing agencies to be much more responsive to the customers’ enhancement times. 		
Estimated Total Project Cost:	\$253,260,342	Estimated Planning Project Cost:	\$13,613,617
Project Start Date:	June 15, 2015.	Projected Completion Date:	December 31, 2018.
Schedule Status:	The project is on schedule. However, DHR has not received federal approval, which could delay the project.		
Cost Status:	Since the last Information Technology Project Request total estimated costs have increased by approximately \$78 million.		
Scope Status:	The scope has not changed.		
Project Management Oversight Status:	The fiscal 2018 allowance includes \$500,000 for project oversight.		

Identifiable Risks:	DHR identified no high risks. Medium risks identified by DHR were objectives, funding, resource availability, interdependencies, technical, organizational culture, and implementation. Interdependencies may be high risk because the project relies on buy-in from federal and State partners. Funding and resource availability are also potential high risks because federal funds have not yet been secured. Additionally, this project is being completed using a different information technology development approach, which is a potential high risk.							
Additional Comments:	Implementation Advanced Planning Document not yet approved.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	13,784.4	71,748.3	73,917.3	53,724.4	40,085.9	0.0	239,475.9	253,260.3
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$13,784.4	\$71,748.3	\$73,917.3	\$53,724.4	\$40,085.9	\$0.0	\$239,475.9	\$253,260.3

Appendix 3
Object/Fund Difference Report
DHR –Administration

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	846.00	819.35	819.35	0.00	0%
02 Contractual	28.60	2.90	2.90	0.00	0%
Total Positions	874.60	822.25	822.25	0.00	0%
Objects					
01 Salaries and Wages	\$ 74,006,147	\$ 72,598,541	\$ 71,977,556	-\$ 620,985	-0.9%
02 Technical and Spec. Fees	1,352,027	369,679	567,575	197,896	53.5%
03 Communication	7,658,086	7,570,267	7,642,078	71,811	0.9%
04 Travel	325,448	230,321	276,504	46,183	20.1%
06 Fuel and Utilities	443,338	474,493	484,976	10,483	2.2%
07 Motor Vehicles	398,804	476,564	400,211	-76,353	-16.0%
08 Contractual Services	73,275,136	80,333,333	133,134,661	52,801,328	65.7%
09 Supplies and Materials	1,065,605	1,079,756	965,471	-114,285	-10.6%
10 Equipment – Replacement	2,256,367	1,520,238	1,609,600	89,362	5.9%
11 Equipment – Additional	314,154	534,341	8,452,713	7,918,372	1481.9%
12 Grants, Subsidies, and Contributions	-46,745	2,269,649	3,967,157	1,697,508	74.8%
13 Fixed Charges	9,355,130	9,760,791	10,169,754	408,963	4.2%
Total Objects	\$ 170,403,497	\$ 177,217,973	\$ 239,648,256	\$ 62,430,283	35.2%
Funds					
01 General Fund	\$ 93,582,670	\$ 98,559,270	\$ 96,448,602	-\$ 2,110,668	-2.1%
03 Special Fund	4,277,964	4,134,613	4,422,954	288,341	7.0%
05 Federal Fund	72,131,941	73,834,594	138,776,700	64,942,106	88.0%
09 Reimbursable Fund	410,922	689,496	0	-689,496	-100.0%
Total Funds	\$ 170,403,497	\$ 177,217,973	\$ 239,648,256	\$ 62,430,283	35.2%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

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**Appendix 4
Fiscal Summary
DHR –Administration**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
01 Office of the Secretary	\$ 15,943,617	\$ 14,387,702	\$ 14,944,571	\$ 556,869	3.9%
02 Citizen’s Review Board for Children	670,301	847,961	820,372	-27,589	-3.3%
03 Commissions	166,857	132,984	136,018	3,034	2.3%
04 Legal Services Program Management	13,035,711	14,095,565	13,087,212	-1,008,353	-7.2%
01 Division of Budget, Finance and Personnel	20,169,689	20,068,987	19,884,661	-184,326	-0.9%
02 Division of Administrative Services	11,225,425	10,691,745	10,411,701	-280,044	-2.6%
02 Major Information Technology Development Projects	485,691	1,934,496	65,927,799	63,993,303	3308.0%
04 General Administration	64,926,996	69,611,938	69,667,510	55,572	0.1%
05 General Administration	43,779,210	45,446,595	44,768,412	-678,183	-1.5%
Total Expenditures	\$ 170,403,497	\$ 177,217,973	\$ 239,648,256	\$ 62,430,283	35.2%
General Fund	\$ 93,582,670	\$ 98,559,270	\$ 96,448,602	-\$ 2,110,668	-2.1%
Special Fund	4,277,964	4,134,613	4,422,954	288,341	7.0%
Federal Fund	72,131,941	73,834,594	138,776,700	64,942,106	88.0%
Total Appropriations	\$ 169,992,575	\$ 176,528,477	\$ 239,648,256	\$ 63,119,779	35.8%
Reimbursable Fund	\$ 410,922	\$ 689,496	\$ 0	-\$ 689,496	-100.0%
Total Funds	\$ 170,403,497	\$ 177,217,973	\$ 239,648,256	\$ 62,430,283	35.2%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

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