



Department of Legislative Services
Office of Legislative Audits

Follow-up Process and Repeat Audit Findings

Presentation to Joint Audit and Evaluation Committee

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Overview of Repeat Audit Findings

- OLA issues about 50 fiscal compliance audit reports each year containing about 150 recommendations.
- Virtually all recommendations are accepted by agencies, although there have been isolated disagreements.
- As of June 2006, **40%** of findings were repeated in the first subsequent audit report.
- As of June 2022, **27%** of findings were repeated in the first subsequent audit report, indicating significant improvement since 2006. Since 2013, the overall repeat percentage had been relatively stable, although in the past 4 years, the number of repeat findings started rising again with a slight reduction this year (See Exhibit).
- As of June 2022, 8% of findings were repeated after the second subsequent audit, which represents no change from the previous year.



Follow-up Processes for Repeat Audit Findings

- State Government Article, §2-1224(h) requires agencies with 5 or more repeat audit findings to provide
 - an initial status report to OLA on corrective actions taken on **all findings** within 9 months of the related audit reports and, thereafter,
 - quarterly status reports until satisfactory progress has been made on all findings, or until the next audit begins.

- Budget bill language and committee narrative (Joint Chairmen's Report), instituted annually since the 2013 Session, has restricted the appropriations for agencies with 4 or more repeat audit findings until
 - corrective action has been taken by the agencies for the **repeat findings**, and
 - OLA submits reports on its determination regarding the actions taken.



Results for the SG §2-1224(h) Follow-up Process

Historical Perspective:

- From 2006 to October 2010, 38 audit reports (involving 28 agencies) had 5 or more repeat findings, requiring these agencies to submit quarterly status reports, which are subject to OLA desk review.
- From October 2010 through December 2016, 4 audit reports had 5 or more repeat findings and the status report process has concluded. These 4 audit reports collectively contained 44 report findings (including 23 repeats). The next audit for each found that 35 of the 44 prior findings were resolved (only 1 of the original 23 repeats was not corrected).
- During calendar years 2017 and 2018, 4 audit reports had 5 or more repeat findings and have also been subject to the more comprehensive JCR follow-up process and/or the OLA follow-up review process for agencies with unsatisfactory ratings. These 4 audit reports collectively contained 50 report findings (including 26 repeats). The next audit for each found that 37 of the 50 prior findings were resolved (only 4 of the original 26 repeats were not corrected).



Results for the SG §2-1224(h) Follow-up Process (cont.)

- During calendar year 2019, 2 audit reports had 5 or more repeat findings and have also been subject to the OLA follow-up review process for agencies with unsatisfactory ratings or the more comprehensive JCR follow-up process. The next audit for one report found that 7 of the 11 prior findings were resolved (with 2 of the original 5 repeats not corrected), but the agency again received an unsatisfactory rating due to the significance of the findings. The subsequent audit for the other report is still in progress.
- During calendar year 2020, no audit reports issued had 5 or more repeat findings.
- During calendar year 2021, 3 audit reports (MDH – Regulatory Services, DHS – Social Services Administration (SSA), and Higher Education Commission) had 5 or more repeat findings. The OLA follow-up review process for agencies with unsatisfactory ratings was recently completed for the SSA report and found that 3 of the 6 findings reviewed had not been corrected. All 3 reports are subject to the quarterly status report process, which is still in process.



JCR Follow-up Process – Background

- Beginning with the April 2013 Joint Chairmen's Report, in response to JAC concerns, the Chairmen of the Senate Budget and Taxation Committee and the House Appropriations Committee instituted a process to restrict funding for agencies with 4 or more repeat audit findings, until the submission of a report by OLA on the status of related corrective actions.
- The annual amount of funds restricted for each agency generally is \$100,000, but has recently ranged from \$50,000 to \$250,000.
- The determination of whether to release funding is at the sole discretion of the budget committees.



JCR Follow-up Process – Recent Results

- The April 2021 JCR did not contain any budget language restrictions related to OLA audit findings.
- The April 2022 JCR contained budget bill language restrictions for 3 agencies with 4 or more repeat audit findings or significant findings (see chart on page 8).
 - OLA received status reports from each agency and will review the reports submitted by each agency and report our conclusions regarding the corrective actions taken on the collective 15 repeat findings to the budget committees. The budget committees have 45 days from the date of the receipt of the report to review and comment to allow for funds to be released prior to the end of fiscal year 2023.
- In addition to the above, there were budget language restrictions in April 2020 and April 2021 for cybersecurity-related findings.



April 2022 JCR Follow-up Process

Agency	Report Date	Number of Repeats	Funds Restricted
Uninsured Employers' Fund	9/14/2021	2	\$250,000
Department of Human Services – Social Services Administration	6/03/2021	8	\$100,000
Maryland Higher Education Commission	6/24/2021	5	\$100,000



Conclusion

- We believe that the various follow-up processes provide useful tools to compel State agencies to generally take meaningful corrective action to implement audit recommendations.
- Since 2006, the overall percentage of repeat audit findings has decreased from 40% to 27% in 2022. There were some recent upticks in repeat percentages, but those percentages have begun to trend down again starting in 2022. OLA will continue to monitor this trend and report to the Committee.

Exhibit

Summary Analysis of Report Items and Repeat Findings Fiscal/Compliance Audits – Fiscal Years 2007 – 2022

(Data provided for each “Audit Cycle” is a rolling number,
which includes the results of most recent audit of each agency.)

Audit Cycle Ended June 30 th	Number of Audits	Number of Current Audit Report Items	Percent of Prior Report Items Repeated
2007	207	1,045	36%
2008	207	1,041	35%
2009	205	982	33%
2010	203	927	30%
2011	202	844	26%
2012	199	740	25%
2013	195	662	21%
2014	193	615	23%
2015	192	554	23%
2016	190	568	23%
2017	189	546	23%
2018	188	572	24%
2019	188	593	26%
2020	187	594	28%
2021	188	566	29%
2022	190	551	27%

**Analysis of Fiscal/Compliance Audits
Audit Report Items by General Area of Government
as of June 30, 2022**

<u>General Area of Government</u>	Number of Audits ¹	Current Report Items ²	Repeat Calculation		
			Current Report Repeats ³	Prior Report Items ⁴	Repeat Percent ⁵
Judicial and Legal Review (incl. Clerks of Court)	36	32	8	38	21%
Executive and Administrative Control	20	37	10	47	21%
Financial and Revenue Administration	14	44	15	36	42%
Budget, Personnel and Info. Technology	4	35	5	14	36%
Retirement & Pension Systems Admin.	2	4	0	5	0%
General Services	2	14	8	13	62%
Transportation	9	30	4	43	9%
Natural Resources and Recreation	2	7	1	4	25%
Agriculture	1	3	2	2	100%
Health	24	85	25	82	31%
Human Services	5	29	18	46	39%
Labor, Licensing, and Regulation	7	29	9	22	41%
Public Safety and Correctional Services	5	15	8	26	31%
Public Education	26	133	29	139	21%
Housing and Community Development	2	9	4	9	44%
Commerce	3	12	2	11	18%
Environment	2	13	4	11	36%
Juvenile Services	1	6	2	12	17%
State Police	1	11	3	12	25%
Registers of Wills	<u>24</u>	<u>3</u>	<u>1</u>	<u>7</u>	<u>14%</u>
Totals	<u>190</u>	<u>551</u>	<u>158</u>	<u>579</u>	<u>27%</u>

Notes:

- 1 – Number of total fiscal compliance audits in a full audit cycle (3-4 years) per agency audit schedule for fiscal year 2022 (Most general areas of government have numerous individual agencies audited.)
- 2 – Number of total report items in most recent report for each agency audited as of June 30, 2022
- 3 – Number of total repeats in most recent report for each agency audited as of June 30, 2022
- 4 – Number of total report items in prior audit report for each agency
- 5 – Repeat Calculation = Current Report Repeats (3) divided by number of Prior Report Items (4)

**Analysis of Fiscal/Compliance Audits
Audit Report Items by Functional Area (Summary)
as of June 30, 2022**

<u>Audit Report Item</u>	<u>Total Items (Percent)</u>	
Program Compliance	187	(34%)
Information Systems	125	(23%)
Procurement/Disbursements	101	(18%)
Cash Receipts	43	(8%)
Universities/Colleges	33	(6%)
Payroll/Personnel	28	(6%)
Property	12	(2%)
Federal Funds	7	(1%)
Accounts Receivable	7	(1%)
Other Areas	<u>8</u>	<u>(1%)</u>
TOTAL	<u>551</u>	<u>(100%)</u>