

Audit Report

Department of Budget and Management Office of the Secretary and Other Units

May 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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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

May 24, 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 Department of Budget and Management's (DBM) Office of the Secretary, which includes the Central Collection Unit (CCU), and certain other units of DBM for the period beginning October 20, 2017 and ending January 15, 2022. DBM assists the Governor in the preparation and monitoring of the State's annual operating and capital budgets. CCU is responsible for collecting delinquent debts owed to the State, except those excluded by law (such as taxes and child support) and its collections totaled \$121.8 million during fiscal year 2022.

Our audit disclosed several deficiencies relating to procedures and controls at CCU. For example, potential wage garnishments were not always pursued as a means to collect outstanding debts – a condition that we have commented upon since 1997 – and there was a lack of controls over the abatement of accounts, which generally results in a cessation of collection efforts. During our audit period, CCU abated accounts totaling \$5.9 million.

Furthermore, CCU did not periodically review existing deviations from State regulations granted to State agencies regarding the submission of delinquent accounts to CCU to ensure that the deviations were still warranted. At the time of our review, there were 127 active deviations held by 32 State agencies dating back to 1979. Our audit also disclosed that DBM did not verify that electronic receipts collected by a third-party vendor for CCU, which totaled \$54.3 million during fiscal year 2021, were deposited into the State's bank account and accurately recorded in the State's records.

In addition, our audit disclosed certain risks in DBM's 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.

Also, DBM did not verify the propriety of charges from the Department of Information Technology for technology enterprise services, which totaled \$4.1 million during fiscal years 2020 and 2021.

Finally, our audit included a review to determine the status of 13 of the 14 findings contained in our preceding report. For the non-cybersecurity-related findings we determined that DBM satisfactorily addressed 5 of those 8 findings. The remaining 3 findings are repeated in this report.

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

We wish to acknowledge the cooperation extended to us during the audit by DBM. We also wish to acknowledge DBM's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Department of Budget and Management (DBM) is primarily responsible for assisting the Governor in the preparation and monitoring of the State's annual operating and capital budgets. This audit includes the Office of the Secretary (including Executive Direction, the Division of Finance and Administration, and the Central Collection Unit (CCU)), the Office of Budget Analysis, and the Office of Capital Budgeting. DBM's Office of Personnel Services and Benefits, which directs the State's personnel policies and administers the health care benefits programs for State employees and retirees, is audited and reported upon separately.

As noted in Figure 1 on the following page, the three units covered by this audit had combined expenditures totaling approximately \$31.7 million during fiscal year 2022, of which 52 percent related to CCU.

Figure 1
DBM - Office of the Secretary and Other Units
Positions, Expenditures, and Funding Sources

	Office of the Secretary				Office of Budget Analysis and Office of Capital Budgeting	
	Executive Direction, Division of Finance and Administration		Central Collection Unit			
Full Time Equivalent Positions as of June 30, 2022						
	Positions	Percent	Positions	Percent	Positions	Percent
Filled	25	96.2%	105	90.5%	38	95.0%
Frozen ¹	0	0.0%	6	5.2%	0	0.0%
Vacant	1	3.8%	5	4.3%	2	5.0%
Total	26		116		40	
Fiscal Year 2022 Expenditures						
	Expenditures	Percent	Expenditures	Percent	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$4,101,622	64.7%	\$9,882,429	60.0%	\$5,005,106	56.1%
Technical and Special Fees	219,915	3.5%	575,325	3.5%	18,415	0.2%
Operating Expenses	2,016,758	31.8%	6,025,360	36.5%	3,891,355	43.7%
Total	\$6,338,295		\$16,483,114		\$8,914,876	
Fiscal Year 2022 Funding Sources						
	Funding	Percent	Funding	Percent	Funding	Percent
General Fund	\$6,109,200	96.4%	\$ -	0.0%	\$6,719,683	75.4%
Special Fund	-	0.0%	16,483,114	100.0%	544,251	6.1%
Reimbursable Fund	229,095	3.6%	-	0.0%	1,650,942	18.5%
Total	\$6,338,295		\$16,483,114		\$8,914,876	

Source: State financial and personnel records

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Frozen positions were unauthorized to be filled according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions now are available to be filled.

Organizational and Operational Change

Chapter 590, Laws of Maryland 2017 effective on various dates beginning October 1, 2017 and culminating with the final implementation date of October 1, 2019 required among other changes, the consolidation of most State procurement activities under the Department of General Services (DGS) authority. Effective October 1, 2019, the law repealed the authority of DBM over service contract procurements and motor vehicle leases. The authority over these functions was placed with the DGS – Office of State Procurement (OSP) and DBM procurement personnel were transferred to OSP in fiscal year 2020.

Central Collection Unit Operations

CCU's primary responsibility is to collect delinquent accounts owed to the State, except those excluded by law (such as taxes and child support). CCU's operations include its Baltimore headquarters office, and five satellite offices established at select Motor Vehicle Administration (MVA) locations to assist primarily in the collection of uninsured motorist penalty fees assessed by MVA. Collections on debt, less CCU's assessed collection fees, are generally paid either to the State Treasury or to the unit of State government where the debt originated.

State law authorizes CCU to assess and collect for each debt a fee sufficient to cover all collection and administrative costs, not to exceed 20 percent of the outstanding principal and interest. CCU's collection fee is currently established at 17 percent, which is added to the original amount of the debt. Collection fees received are deposited into the Central Collection Fund, a continuing, non-lapsing special fund used to pay CCU's operating expenses. According to State law, any balance in the Fund at the end of the fiscal year exceeding 15 percent of CCU's actual operating expenses for that year is required to be reverted to the State's General Fund.

According to State records, during fiscal years 2018 to 2022, CCU reverted approximately \$6.1 million to the State's General Fund. This amount represents a decrease of approximately \$4.3 million from the amount reverted during fiscal years 2015 to 2017, and was primarily the result of suspended collection efforts by CCU between April 3, 2020 and October 9, 2020 because of the COVID 19 pandemic. According to CCU's records, as of July 1, 2022, the balance in the Central Collection Fund totaled approximately \$85,040.

According to its records, the balance of outstanding debt referred to CCU for collection efforts was approximately \$2.7 billion as of June 30, 2022, as noted in Figure 2 on the following page.

Figure 2
Outstanding Debts
(As of June 30th)

Fiscal Year	Accounts	Balance	Collections*
2018	8,191,315	\$2,634,687,680	\$131,225,902
2019	8,370,436	2,531,001,408	134,968,902
2020	10,019,917	2,654,603,517	113,234,730
2021	10,255,975	2,708,195,074	105,374,255
2022	10,585,817	2,651,451,510	121,813,683

*Collections are net of collection fees and account adjustments (such as refunds), and include amounts collected through the State's Tax Refund Intercept Program.

Source: CCU records

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 13 of the 14 findings contained in our preceding audit report dated October 29, 2019.² As disclosed in Figure 3 on the following page, for the non-cybersecurity-related findings, we determined that DBM satisfactorily addressed 5 of those 8 findings. The remaining 3 findings are repeated in this report.

² Prior audit report Finding 9, will be subject to follow-up during the next Office of Legislative Audits audit of the Department of Information Technology.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	CCU did not perform a periodic review of user access to its debt collection and cash register systems, and did not adequately restrict access to those systems.	Status Redacted ³
Finding 2	DBM did not ensure that access to personally identifiable information (PII) stored in its debt collection system, such as names and related social security numbers, was restricted. We noted that PII for approximately 5.8 million accounts was not adequately restricted.	Status Redacted ³
Finding 3	Deficiencies in CCU's debt collection system resulted in the failure to assess collection fees of at least \$17.8 million and the improper rejection of certain valid debts.	Not repeated
Finding 4	CCU did not adequately pursue potential wage garnishments from debtors.	Repeated (Current Finding 2)
Finding 5	CCU did not have adequate controls over the abatement of accounts, which totaled approximately \$39.1 million during our audit period.	Repeated (Current Finding 3)
Finding 6	CCU did not perform a periodic review of existing deviations from State regulations previously granted to State agencies regarding the submission of delinquent accounts to CCU.	Repeated (Current Finding 4)
Finding 7	Certain significant debt amounts were excluded from TRIP because of CCU system omissions and errors.	Not repeated
Finding 8	CCU collected TRIP revenues totaling \$11.6 million for a private entity after the law authorizing these collections to be handled by CCU was repealed in 2005.	Not repeated
Finding 9	Vendor PII was not adequately restricted in the Financial Management Information System (FMIS) and was visible to 5,204 employees Statewide.	Not pursued ⁴
Finding 10	Sensitive PII maintained by CCU was stored without adequate safeguards.	Status Redacted ³
Finding 11	DBM did not have a complete information technology disaster recovery plan for recovering computer operations.	Status Redacted ³
Finding 12	Network security risks existed from information technology contractors having unnecessary network-level access to the DBM network and the unnecessary assignment of administrative rights on numerous workstations.	Status Redacted ³

³ Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

⁴ Our preceding audit report included a finding on FMIS that was also included in our Department of Information Technology (DoIT) audit report dated May 1, 2020. During our current audit we did not review the status of this finding, which will be addressed as part of our DoIT audit.

Figure 3
Status of Preceding Findings

Preceding Findings	Finding Description	Implementation Status
Finding 13	DBM did not require State agencies to report interagency agreements with local community colleges.	Not repeated
Finding 14	DBM lacked documented justification for excluding certain vehicle types from its annual review of vehicle usage. In addition, DBM's cost assessments of the need for an agency to retain vehicles when they were not driven the minimum annual miles without adequate justification were not properly calculated.	Not repeated

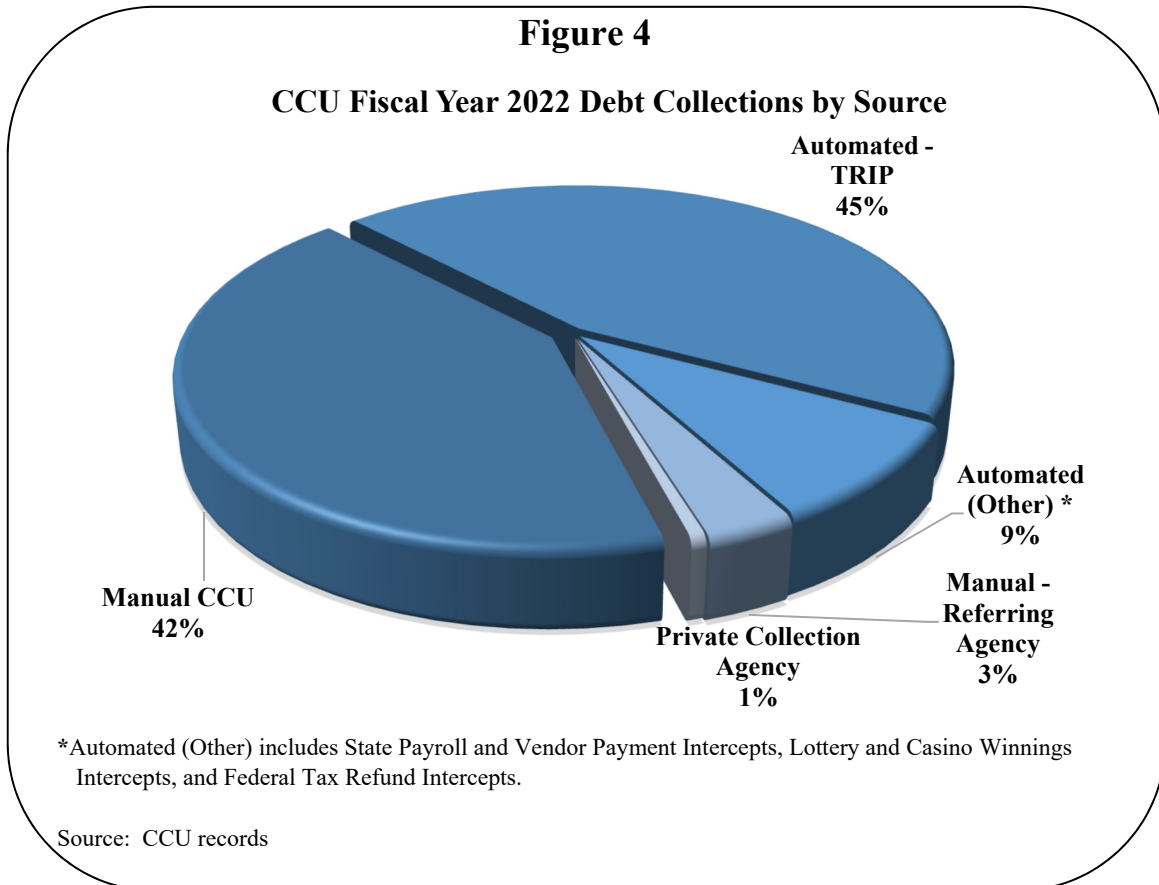
Findings and Recommendations

Central Collection Unit

Background

The Department of Budget and Management's (DBM) – Central Collection Unit (CCU) uses a variety of methods and resources to facilitate the collection of delinquent accounts, including automated and manual processes, as well as the use of a private collection agency. Automated collection efforts include the use of the State's Tax Refund Intercept Program (TRIP), which captures debtor State tax refunds, and other automated intercept programs. CCU agents will pursue voluntary payments (such as payment plan agreements) via phone and written correspondence and will also forward selected accounts to the CCU Legal Measures Unit for proactive non-voluntary collection actions, such as wage garnishments and property liens. CCU processes debtor payments received via the internet, mail, or in person as a walk-in, or from the referring agency where the debt originated.

Figure 4 below depicts the details of fiscal year 2022 collections totaling approximately \$121.8 million, by collection method, according to CCU records.



We determined that Finding 1 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 is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with DBM’s responses, have been redacted from this report copy.

Finding 1
Redacted cybersecurity-related finding.

Finding 2
CCU did not adequately pursue potential wage garnishments from debtors, and it had not established a formal system for prioritizing such activity as committed to in its response to this longstanding issue in our preceding audit report.

Analysis

CCU did not always pursue wage garnishments from debtors when viable wages were identified through quarterly computer matches of its accounts with State wage data from the Maryland Department of Labor (MDL). CCU’s debt collection policies provide that CCU will generally consider pursuing wage garnishments on accounts with debts greater than \$750, and for which wages of at least \$3,500 per quarter are currently available to attach (garnish).

CCU’s quarterly wage match queries for the second quarter of calendar year 2021 identified approximately 61,200 debtor accounts (each greater than \$750 and quarterly wages greater than \$3,500) with balances totaling \$343.2 million and MDL-reported quarterly wages earned of \$711.6 million, which could have been subject to garnishment based on CCU policies. In May 2022, we judgmentally selected (based on materiality) and reviewed the CCU accounts for 15 debtors appearing on this match, with debtor balances as of October 2021 totaling approximately \$12 million and quarterly wages of \$220,000. Our review disclosed that 11 debtors had not made a payment for periods ranging from 25 to 272 months.⁵

In addition, we noted a general lack of adequate subsequent collection activity after the wage match in question, as CCU’s Legal Measures Unit had established

⁵ CCU may have recovered certain amounts from these debtors using involuntary methods, such as a tax refund intercept.

a wage garnishment for only 2 of these 15 debtors. For the remaining 13 debtors we found:

- Eleven debtors with quarterly wages totaling approximately \$170,000, had not made any debt payments. Of the 11, 8 had not been referred to the Legal Measures Unit to initiate wage garnishments and there was not documentation as to why these debtors were not referred. The remaining 3 debtors were referred, but wage garnishments had not been established nor were the reason(s) for not taking such action documented.
- One debtor did not have sufficient current wages to pursue wage garnishment.
- One debtor had a lien placed on their property but no wage garnishment was initiated.

Similar conditions regarding wage garnishments were noted in our eight prior audit reports dating back to 1997. In response to our preceding report, CCU agreed with our recommendations to pursue wage garnishment when practicable, but advised that executing a wage garnishment is an expensive and lengthy process. CCU further advised us that it used its limited resources to pursue debts that are likely to produce the best recoveries; however, its policies did not address prioritizing accounts for potential wage garnishments once viable accounts are identified. CCU further advised that it planned to establish guidance on prioritizing accounts for potential wage garnishments within CCU's debit collection policies; however, as of June 2022 no such policy had been established.

Recommendation 2

We recommend that DBM

- a. take appropriate action to pursue potential wage garnishments from debtors in a timely manner and document its efforts (repeat), and**
- b. establish formal guidance on prioritizing accounts for potential wage garnishments within CCU's debt collection policies (repeat).**

Finding 3

CCU did not have adequate controls over the abatement of accounts, which totaled approximately \$5.9 million during our audit period.

Analysis

CCU had not established adequate controls over the abatement of accounts (generally, the cessation of collection efforts). Specifically, there was no procedure in place to ensure that only authorized accounts were moved from an active status to an abated status in the debt management system. According to

CCU's records, approximately 2,126 accounts valued at \$5.9 million were abated during our audit period.

Generally, accounts that are deemed uncollectable, for example because of inadequate support or the close of a debtor's business, are manually compiled on a written form along with supporting documentation for submission to CCU's abatement committee for review. CCU policy requires approval from its abatement committee for certain changes in account status from active to abated. Once approved, the employee who prepared the manual abatement form forwards the committee-approved abatement account list to a second employee to update the account status in the system. Our review disclosed that CCU did not have a procedure to ensure that only authorized accounts were abated on the system. As noted in Finding 1 of this report, 78 users had unnecessary system access to abate accounts. Our test of 10 accounts abated during our current audit period totaling approximately \$829,000 did not disclose any abatements that were not approved by the committee.

A similar condition was commented upon in our preceding audit report. In that report we noted that a review of recorded system abatements for proper support that CCU had previously performed had not been conducted since July 2016. In response to that report, DBM indicated that a system report would be developed by October 2019 that shows all changes in abatement status which would be reviewed by an individual who does not have access to make changes on the system. As noted above, DBM did not establish the necessary report and independent review procedure as indicated in its response.

Recommendation 3

We recommend that DBM

- a. establish adequate controls over the abatement process by having an independent employee verify that all changes in account status to an abatement status have been properly authorized (repeat); and**
- b. examine accounts abated since July 2016, at least on a test basis, to ensure they were proper and approved (repeat).**

Finding 4

CCU did not adequately monitor long-term deviations from State regulations previously granted to State agencies regarding the submission of delinquent accounts to CCU.

Analysis

CCU did not have an adequate process for monitoring long-term deviations from compliance with State regulations regarding the submission of delinquent accounts to CCU that had been granted to State agencies. At the time of our review, approximately 94 State agencies⁶ had referred debts to CCU during our audit period, of which 32 of these agencies had 127 active deviations for various types of accounts receivable. These deviations were authorized by CCU, without an expiration date or renewal requirement, during the period between December 1979 and June 2019, the majority (88) of which were established prior to 1999. Although we were not readily able to estimate the value of debts not referred to CCU in accordance with existing deviations, as of April 15, 2022, the balance of accounts referred to CCU during our audit period by the 32 agencies with current deviations totaled approximately \$327 million on 877,000 accounts.

A similar condition was commented upon in our preceding audit report. In response to that report, DBM indicated that by December 2019 CCU would perform a documented review of approved deviations to determine their current validity and to assess the impact on debt collectability. However, CCU did not perform a complete and comprehensive review of approved deviations, and a formal process for monitoring deviations was not established. Beginning September 2020, CCU sent questionnaires regarding the need and impact of deviations to 27 of the 32 agencies with active deviations. As of May 31, 2022, responses had been received from just 9 agencies (the most recent being received in March 2022), all of which indicated that their deviations were still needed. The questionnaire stated that if no response was received from the agency, its deviation would be rescinded, and for responses indicating that the deviation was still needed, CCU would notify the agency within 30 days as to whether the deviation request would continue to be approved.

As of May 2022, CCU had not documented its decision regarding the 9 agencies that responded, and had not rescinded any deviations from agencies that failed to respond. According to CCU, other priorities and its workload have delayed its follow-up on the questionnaires.

⁶ This includes 14 Maryland community colleges and 19 Register of Wills offices, none of which hold a deviation from CCU.

State regulations generally require State agencies to send the debtor three written demands for payment at 30-day intervals after which the unpaid account is to be submitted to CCU for further collection efforts. With the approval of the Secretary of DBM, however, CCU may grant an agency a deviation from these regulations based on a documented request from the agency. Such requests must include the nature of the deviation, the type of accounts involved, and justification for the deviation. For example, an agency may request and receive approval to extend the period after which accounts must be sent to CCU in order to allow more time for debtors to respond to the agency's own collection efforts.

Recommendation 4

We recommend that DBM establish a formal process for periodically monitoring deviations granted to State agencies to ensure that they remain necessary and effective, including timely follow-up when agencies respond or fail to respond to requests for information and documentation regarding their deviations (repeat).

Finding 5

DBM did not verify that electronic receipts collected by a third-party vendor for CCU were deposited into the State's bank account and accurately recorded in the State's accounting records.

Analysis

DBM did not verify that electronic collections reported by the third-party vendor used to receive and process these collections were deposited into the State's bank account, and were accurately recorded in the State's accounting records. According to CCU's records, electronic collections totaled approximately \$54.3 million during fiscal year 2021.

Our test of five days of vendor-reported collections judgmentally selected based on materiality and totaling approximately \$1.1 million, disclosed that the collections were properly deposited into the State's bank account and recorded in the State's accounting records. The Comptroller of Maryland's *Accounting Procedures Manual* requires collections to be independently verified to deposit and recorded in the State's accounting records.

Recommendation 5

We recommend that DBM implement procedures to verify that all electronic collections reported by the vendor were properly deposited and recorded, and that these verifications be documented.

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 6 through 8 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). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with DBM’s responses, have been redacted from this report copy.

Finding 6
Redacted cybersecurity-related finding.

Finding 7
Redacted cybersecurity-related finding.

Finding 8
Redacted cybersecurity-related finding.

Disbursements

Finding 9
DBM did not determine the reasonableness of charges related to technology enterprise services from DoIT, which were valued at \$4.1 million.

Analysis

DBM did not determine the reasonableness of DoIT charges for technology enterprise services during fiscal years 2020 and 2021 valued at \$2.1 million and \$2 million, respectively. At the beginning of fiscal 2020, DoIT transitioned to a cost allocation model for technology enterprise services provided to State agencies, including DBM. Under this model, in fiscal years 2020 and 2021, DoIT submitted an invoice covering the services it planned to provide to DBM, which DBM was to pay in four equal quarterly payments. The DoIT invoices specified the general categories of work to be performed. For example, the fiscal year 2020 annual invoice included end user support services totaling \$441,000 for 503 devices and cyber defense services totaling \$103,000 for 332 users.

Our review disclosed that DBM did not take action to determine the reasonableness of the DoIT invoices or otherwise verify the accuracy of the number of devices billed or the extent to which services were provided. Furthermore, DBM had not determined the reason for an increase in DoIT's Financial Management Information System (FMIS) user access charges, which went from \$35,000 in fiscal year 2020 to \$127,000 in fiscal year 2021, an increase of over 250 percent.

Recommendation 9

We recommend that DBM take reasonable measures to

- a. in the future, ensure that all technology enterprise services invoiced have been received; and**
- b. verify receipt of the services noted above as invoiced for fiscal years 2020 and 2021, and the reason for the significant increase in FMIS user access charges between the two years.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Department of Budget and Management (DBM) for the period beginning October 20, 2017 and ending January 15, 2022.

Office of the Secretary (including the Central Collection Unit)
Office of Budget Analysis
Office of Capital Budgeting

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 DBM'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 cash receipts, collection practices, accounts receivable, procurement and disbursement activity, interagency agreements, and vehicle fleet maintenance. Our audit included DBM's administration of the Cigarette Restitution Fund and State Reserve Fund that consisted of the Dedicated Purpose Account, the Revenue Stabilization Account, the Economic Development Opportunities Program Fund, and the Catastrophic Event Fund.

Our audit also included certain support services (such as maintenance of certain accounting records) provided by DBM to the Office of Personnel Services and Benefits (OPSB). In addition, it included certain support services (such as legal, internal audit, and budgeting) provided by DBM to the Department of Information Technology. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DBM by OPSB. These support services (such as payroll and certain contract monitoring) are included within the scope of our audit of OPSB.

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 October 20, 2017 to January 15, 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 DBM'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 expenditure 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 DBM's debt management system in order to perform certain tests related to cash receipts and accounts receivable, including collection practices. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DBM'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 DBM, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DBM'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 DBM 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 judgement, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been

communicated to DBM and those parties responsible for acting on our recommendations in an unredacted audit report.

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

APPENDIX



WES MOORE
Governor

HELENE GRADY
Secretary

ARUNA MILLER
Lieutenant Governor

MARC L. NICOLE
Deputy Secretary

May 17, 2023

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

Dear Mr. Hook:

The Department of Budget and Management (DBM) has reviewed your draft audit report on the DBM Office of the Secretary, which includes the Central Collection Unit (CCU), and certain other units of DBM for the period beginning October 20, 2017, and ending January 15, 2022. As requested, attached are our responses to the findings in the report.

If you have any questions or need additional information, you may contact me at 410-260-7041 or Joan Peacock, Director of the Audit and Finance Compliance Unit, at 443-871-1648.

Sincerely,

A handwritten signature in blue ink that reads "Helene Grady".

Helene Grady
Secretary

Cc: Secretary Katie Savage, DoIT
Marc Nicole, Deputy Secretary, DBM
Clifton Gray, Assistant Attorney General, DBM
Anthony Fugett, Director, Central Collection Unit, DBM
Kathrine Thomson, Acting Director, Finance and Administration, DBM
Joan Peacock, Director, Audit & Finance Compliance Unit, DBM

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Central Collection Unit

The Office of Legislative Audits (OLA) has determined that Finding 1 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 is subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendations, along with DBM’s responses, have been redacted from this report copy, DBM’s responses indicated agreement with the finding and related recommendations.

Finding 1
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 2
CCU did not adequately pursue potential wage garnishments from debtors, and it had not established a formal system for prioritizing such activity as committed to in its response to this longstanding issue in our preceding audit report.

We recommend that DBM

- a. take appropriate action to pursue potential wage garnishments from debtors in a timely manner and document its efforts (repeat), and**
- b. establish formal guidance on prioritizing accounts for potential wage garnishments within CCU’s debt collection policies (repeat).**

Agency Response	
Analysis	
	Additional Comment: DBM agrees that potential wage garnishments from debtors should be adequately pursued in a timely manner, and that documentation should be maintained to support the process and efforts taken. Executing a wage garnishment is an expensive and lengthy process that may take months or even years to obtain the required judgments and orders from the courts. CCU uses its limited resources to pursue debts that are likely to produce the best recoveries. As the number of accounts referred to CCU increases, so does the potential opportunities to pursue wage garnishment. The pandemic introduced additional challenges. CCU will continue to make the best use of its resources to collect from debtors and will ensure its collection efforts are documented. Since the introduction of the new

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	<p>collection system, CCU has been working to gain some efficiency through automation. This includes the potential opportunity to take advantage of automation of the various county courts systems. The efforts to pursue this were stalled and put on delay with the occurrence of the pandemic. As mentioned below, we are hoping to have some of these efforts in place by June 2023.</p> <p>Additionally, as noted by the auditors, CCU will implement policies (as part of its SOPs) to address prioritizing accounts for potential wage garnishments once viable accounts are identified. This has been put on hold as we were developing a more automated process.</p>		
Recommendation 2a	Agree	Estimated Completion Date:	August 2023
	<p>CCU has implemented manual reports to identify potential wage garnishment that is currently being used by Legal Measures until the IT department can automate the process. The automated process is anticipated to be in place by July 31, 2023.</p> <p>As described above, CCU will make the best use of its resources to pursue potential wage garnishments in a timely manner, prioritizing accounts that are determined to provide the best opportunity for collection. These efforts will be documented, including why debtor accounts have not been pursued or were not selected for wage garnishment.</p>		
Recommendation 2b	Agree	Estimated Completion Date:	August 2023
	<p>As part of the automation process, CCU will establish a Suit Drafting SOP along with the existing Wage Garnishment SOP that will contain formal guidance and application configuration on the Wage Garnishment and suit drafting processes. These SOPs will include guidance on prioritizing accounts for potential wage garnishments.</p>		

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Finding 3

CCU did not have adequate controls over the abatement of accounts, which totaled approximately \$5.9 million during our audit period.

We recommend that DBM

- a. establish adequate controls over the abatement process by having an independent employee verify that all changes in account status to an abatement status have been properly authorized (repeat); and**
- b. examine accounts abated since July 2016, at least on a test basis, to ensure they were proper and approved (repeat).**

Agency Response			
Analysis			
Recommendation 3a	Agree	Estimated Completion Date:	June 2023
	CCU IT will generate a monthly Abatements Report of all accounts that are abated automatically or manually in our debt collection system. This report will be submitted to DBM's audit team. The audit team will perform a monthly independent review to ensure changes in account status to abatement status have been properly authorized. As applicable, this review will include a reconciliation of accounts abated to the Abatement Committee reports, that show all accounts submitted to the Abatement Committee for review and their status (approved or not approved for abatement). For all other accounts abated through an automated process, the audit team will, at minimum, review a sample to verify the abatement was properly authorized or processed. This process is estimated to be in place by May 31, 2023.		
Recommendation 3b	Agree	Estimated Completion Date:	June 2023
	The DBM audit team will do an independent review that includes sampling to ensure abatements, from July 2016 through April 2023, were proper and approved.		

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Finding 4

CCU did not adequately monitor long-term deviations from State regulations previously granted to State agencies regarding the submission of delinquent accounts to CCU.

We recommend that DBM establish a formal process for periodically monitoring deviations granted to State agencies to ensure that they remain necessary and effective, including timely follow-up when agencies respond or fail to respond to requests for information and documentation regarding their deviations (repeat).

Agency Response			
Analysis			
	Deviation Requests from agencies do not prohibit agencies from referring delinquent accounts to CCU for collection but may alter the timeframe accounts are referred to CCU for collection based on the agencies' request.		
Recommendation 4	Agree	Estimated Completion Date:	October 2023
	All requests for Deviation Reviews or Updates will be sent to agencies by 7-1-23. CCU will monitor agency responses and perform timely follow-up and reviews. For the 9 agencies mentioned in the audit analysis that indicated in their responses to CCU that their deviations were still needed, CCU has completed a review of their responses, agrees that the deviation is still needed and has notified all 9 agencies that their deviation was approved. Once the comprehensive review is completed, CCU will establish a formal process to periodically review deviations granted to State agencies to ensure that they remain necessary and effective. This will include timely follow-up when agencies respond or fail to respond to requests for information and documentation regarding their deviations		

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Finding 5

DBM did not verify that electronic receipts collected by a third-party vendor for CCU were deposited into the State's bank account and accurately recorded in the State's accounting records.

We recommend that DBM implement procedures to verify that all electronic collections reported by the vendor were properly deposited and recorded, and that these verifications be documented.

Agency Response			
Analysis			
Recommendation 5	Agree	Estimated Completion Date:	August 2023
	CCU Accounting will implement a process to create a manual spreadsheet to complete a match to ensure electronic payments reported by the third-party vendor are credited to the State's bank account and accurately recorded to the State's accounting records (i.e., CCU's FMIS fund balance) by utilizing the following reports: the third-party payment report, bank statement and the FMIS dafr7200 report. Any discrepancies will be investigated. This review, to verify that all electronic collections reported by the vendor were properly deposited and recorded, will be documented and retained for future purposes		

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Information Systems Security and Control

OLA has determined that the Information Systems Security and Control section, including Findings 6 through 8 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 State Government Article 2-1224(i). Although the specifics of the findings, including the analysis, related recommendations, along with DBM’s responses, have been redacted from this report copy, DBM’s responses indicated agreement with the findings and related recommendations.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 7
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 8
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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Disbursements

Finding 9

DBM did not determine the reasonableness of charges related to technology enterprise services from DoIT, which were valued at \$4.1 million.

We recommend that DBM take reasonable measures to

- a. in the future, ensure that all technology enterprise services invoiced have been received; and**
- b. verify receipt of the services noted above as invoiced for fiscal years 2020 and 2021, and the reason for the significant increase in FMIS user access charges between the two years.**

Agency Response			
Analysis			
Recommendation 9a	Agree	Estimated Completion Date:	May 2023
	DBM will review DoIT billings for reasonableness. To the extent possible, DBM will verify billings are consistent with our MOU with DoIT and appear reasonable based on expected services to be provided by DoIT.		
Recommendation 9b	Agree	Estimated Completion Date:	May 2023
	DBM is in the process of completing a review of the FY2020 and FY2021 DoIT invoices to ensure amounts billed are consistent with our MOU with DoIT and appear reasonable with expected services to be received from DoIT. As part of this review, we are determining the reason for the significant increase in FMIS user access charges between the two years that was noted by the auditors.		

AUDIT TEAM

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