

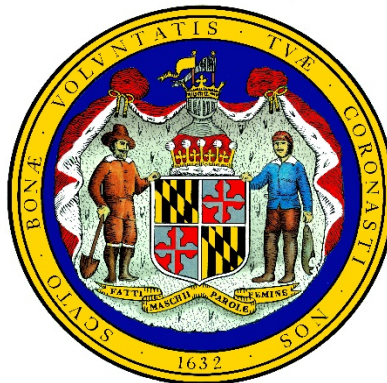
Audit Report

Maryland Department of Labor
Office of the Secretary
Division of Administration
Division of Workforce Development and Adult Learning

April 2025

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
MARYLAND GENERAL ASSEMBLY

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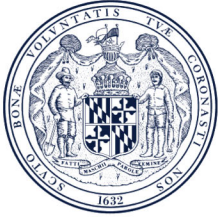
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: webmaster@ola.state.md.us
Website: www.ola.state.md.us

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

April 16, 2025

Senator Shelly L. Hettleman, 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 Maryland Department of Labor (MDL) – Office of the Secretary, Division of Administration, and the Division of Workforce Development and Adult Learning for the period beginning October 16, 2020 and ending July 31, 2024. The Office of the Secretary and the Division of Administration provide executive oversight, general administration, public information, fiscal services, information technology support, and comprehensive planning for the other MDL divisions. The Division of Workforce Development and Adult Learning administers various employment and training activities, including certain workforce programs that are funded primarily by the federal government.

Our audit disclosed that MDL could not provide documentation to support accrued federal fund revenue entries totaling \$204.7 million. These entries included at least \$67.6 million which MDL was aware was not recoverable because it had exceeded the related federal grant. Furthermore, MDL could not document the subsequent recovery of the accrued funds. MDL also did not submit timely requests for the reimbursement of federal fund expenditures, a condition noted but not corrected from our preceding audit report, resulting in lost interest income of at least \$450,000.

In addition, our audit disclosed that MDL did not have adequate controls over human resource and payroll transactions. For example, our test of ten payroll adjustments from fiscal years 2021 through 2024 that increased employees' payroll by approximately \$56,000 disclosed that none of the test items were independently reviewed prior to submission to the Department of Budget and Management including 4 adjustments that could not be supported. In addition, MDL did not ensure all timesheet discrepancies were resolved timely. For

example, one timesheet for the pay period ending February 21, 2023, was missing 36 hours of work time and 24 hours of unapproved time that was not resolved for 619 days, as of our test date in November 2024.

Furthermore, our audit disclosed a cybersecurity-related finding. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the finding 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 finding falls under the referenced definition. The specifics of the cybersecurity finding were previously communicated to those parties responsible for acting on our recommendations.

MDL’s response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of MDL’s response related to the cybersecurity audit finding. We reviewed the response and noted agreement to our findings and related recommendations, and while there are other aspects of MDL’s response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee’s attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by MDL.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Exhibit 1 – Listing of Most Recent Office of Legislative Audits Fiscal 18
Compliance Audits of Maryland Department of Labor Units as of February
2025

Agency Response

Appendix

Background Information

Agency Responsibilities

The Maryland Department of Labor (MDL) consists of the Office of the Secretary and eight operating divisions. This audit report includes the operations of the following units:

- Office of the Secretary
- Division of Administration
- Division of Workforce Development and Adult Learning

The Office of the Secretary and its Division of Administration provide executive oversight, general administration, public information, fiscal services, information technology support, and comprehensive planning for the other MDL divisions. The Division of Workforce Development and Adult Learning administers various employment and training activities, including certain workforce programs that are funded primarily by the federal government.

Although the remaining divisions of MDL (Unemployment Insurance, Financial Regulation, Labor and Industry, Occupational and Professional Licensing, Racing, and the newly created Division of Paid Leave) are included within the scope of, and reported upon, in separate audits, the support services they receive from the Office of the Secretary and Division of Administration are subject to review and testing during this audit (see Exhibit 1 for a listing of OLA audits of MDL and findings from the most recent audit report for each division).

According to the State's records, during fiscal year 2024, total MDL expenditures were approximately \$602.7 million, of which \$235.9 million related to the three units audited (see Figure 1 on the following page). During the period June 30, 2021 through June 30, 2024, MDL had vacancy rates that ranged from 11.7 percent to 16.0 percent. These vacancies may have contributed, at least in part, to the findings in this report.

Figure 1
MDL¹ Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024		
	Positions	Percent
Filled	675	86.0%
Vacant	110	14.0%
Total	785	
Fiscal Year 2024 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 78,954,380	33.5%
Technical and Special Fees	4,005,824	1.7%
Operating Expenses	152,914,274	64.8%
Total	\$235,874,478	
Fiscal Year 2024 Funding Sources		
	Funding	Percent
General Fund	\$ 55,060,466	23.3%
Special Fund	54,697,545	23.2%
Federal Fund	119,475,644	50.7%
Reimbursable Fund	6,640,823	2.8%
Total	\$235,874,478	

Source: State financial and personnel records

Organizational Change

Chapter 48, Laws of Maryland 2022, effective January 1, 2023, established the Family and Medical Leave Insurance (FAMLI) Program to be administered by MDL. The program provides up to 12 weeks of benefits to covered individuals who take leave from employment to care for certain family members, for the individual's own serious health condition, or for a qualifying exigency² arising out of a family member's military deployment. Chapters 258 and 259, Laws of Maryland 2023 and Chapter 266, Laws of Maryland 2024 made several modifications to FAMLI, including delaying the program's start date.

¹ Includes the Office of the Secretary, Division of Administration, and Division of Workforce Development and Adult Learning

² For example, leave may be needed by a family member of a service member because the service member has received notice of deployment within 7 days before the deployment is to begin.

Contributions to the program will now begin on July 1, 2025, and claims for benefits will now begin on July 1, 2026.

State Grants Audit

On November 10, 2021, we issued a performance report on *State Grants* to assess the State's policies and guidance for advertising, awarding, and monitoring State-funded grants. The report contained two findings related to MDL.

The first finding related to State agencies, including MDL, not having standardized grant applications and grant agreements and consequently, certain agencies, including MDL, did not include critical provisions in grant agreements. The recommendation for this finding was directed to the Governor's Grants Office (GGO) and the Department of Budget and Management (DBM). Both GGO and DBM agreed with the finding and related recommendation. The current status of this finding will be subject to audit in our audits of the Executive Department and DBM and was not followed-up during our audit of MDL.

The second finding related to MDL not notifying all grantees that received Maryland Employment Advancement Right Now grant awards of the opportunity to receive supplemental grant funds. The recommendation was directed to MDL and our current review determined that MDL satisfactorily addressed this finding.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the ten findings contained in our preceding audit report dated January 7, 2022. See Figure 2 on the next page for the results of our review.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MDL did not obtain documentation to support vendor billings it paid for additional staffing at its Division of Unemployment Insurance (DUI) and for modernizing DUI's unemployment insurance system.	Not repeated
Finding 2	MDL did not ensure it received technology enterprise services valued at \$3.8 million from the Department of Information Technology.	Not repeated
Finding 3	MDL did not always obtain required Board of Public Works approval for contract modifications prior to execution and did not publish certain contract awards <i>on eMaryland Marketplace</i> , as required.	Not repeated
Finding 4	MDL did not always submit requests for reimbursement of federal fund expenditures in a timely manner, resulting in lost interest income totaling approximately \$233,400.	Repeated (Current Finding 2)
Finding 5	MDL had not established adequate controls to ensure the propriety of biweekly payroll payments and leave balances.	Not repeated
Finding 6	MDL did not notify all grantees that received Maryland Employment Advancement Right Now grant awards of the opportunity to receive supplemental grant funds.	Not repeated
Finding 7	MDL lacked assurance that adequate information technology security and operational controls existed over its Workforce Exchange system that was hosted, operated, and maintained by a primary service provider and two subservice providers.	Status Redacted ³
Finding 8	MDL lacked assurance that the underlying code for its E-Licensing System web application was properly secured.	Status Redacted ³
Finding 9	MDL did not have an information technology disaster recovery plan for recovering computer operations.	Status Redacted ³
Finding 10	MDL's computer network had significant security weaknesses involving the lack of periodic assessments of its firewall rules, assignment of local administrative rights, and security settings for password and account controls for user network authentication.	Status Redacted ³

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

Findings and Recommendations

Year-End Closeout

Finding 1

The Maryland Department of Labor (MDL) could not support accrued federal fund revenue entries totaling \$204.7 million, including \$67.6 million which MDL had determined was not recoverable. In addition, MDL could not document the subsequent recovery of the accrued funds.

Analysis

MDL could not provide documentation to support the propriety of its accrued federal fund revenue entries or the subsequent recovery of funds, including at least \$67.6 million that MDL had determined was not collectable from the federal government. At the end of fiscal year 2024, MDL recorded 21 accrued federal revenue entries totaling \$210.2 million, consisting of 18 positive accrued revenues totaling \$204.7 million and 3 negative accrued revenue entries totaling \$5.5 million.

MDL Could Not Support Accrued Revenue Entries

MDL recorded 18 positive accrued revenue entries totaling \$204.7 without ensuring the amounts were related to current expenditures and collectable. Specifically, MDL recorded accrued revenues based on the balances for each budgetary appropriation number, which generally reflected combined activity for multiple federal grants. This process did not ensure that the accrued revenue entries were proper and represented amounts that were actually collectable in the subsequent year. An evaluation of year-end account balances is critical because of the significant amount of federal funds MDL receives each year, which may mask unrecovered expenditures or errors in MDL's accounting records.

MDL Could Not Support That it Received the Accrued Revenue

MDL could not readily support that accrued revenues were subsequently received. We selected three accrued revenues⁴ totaling \$114.3 million to determine whether the revenue was subsequently recovered. MDL advised us that it had recovered some of two of these accruals, but could not specify how much was recovered or support that the funds received were related to these accruals.

For the third accrual, MDL recorded a \$71.7 million entry to eliminate a deficit balance in one account even though MDL had determined that \$67.6 million of the amount accrued was not recoverable from the federal government because it

⁴ We selected these test items based on materiality.

had exceeded the available federal funding. Our review disclosed that this amount was an accumulation of deficits dating back to fiscal year 2020. MDL management advised that it was in consultation with the Department of Budget and Management (DBM) to address the deficit. To the extent that the federal funds are not available, State general funds may be needed to cover these deficits.

The Comptroller of Maryland – General Accounting Division’s year-end closing instructions provide that these entries should reflect amounts that are collectable within 60 days of the end of the fiscal year and that revenue should be recognized in the same fiscal year the expenditure is made. The closing instructions also require that detail documentation to support the entries be maintained.

Recommendation 1

We recommend that MDL

- a. ensure that all year-end revenue transactions are properly supported,**
- b. ensure the subsequent recovery of all accrued revenues, and**
- c. work with DBM to resolve current budgeting issues and to ensure that future budgets are sufficient to fund routine operations.**

Federal Funds

Finding 2

MDL did not submit requests for reimbursement of federal fund expenditures in a timely manner, resulting in lost interest income totaling at least \$450,000.

Analysis

MDL did not submit timely requests for reimbursement of federal fund expenditures related to the Unemployment Insurance and Workforce Development grants. According to the State’s records, during fiscal year 2024 MDL total grant expenditures were approximately \$240.2 million.

Our test of 12 federal grant reimbursements requests totaling approximately \$77.9 million made during fiscal years 2023 and 2024⁵ disclosed that the 12 requests totaling \$54.4 million were submitted one to five months late. Federal guidelines for these grants permit expenditures to be requested on a monthly basis. Based on our calculation, the delayed recovery of funds tested resulted in lost investment

⁵ We selected these test items based on materiality and timing of the drawdown.

interest income⁶ totaling at least \$450,000. For example, the reimbursement for December 2023 expenditures totaling \$1.8 million was not requested until the end of June 2024 resulting in lost interest income to the State totaling approximately \$32,000.

A similar condition regarding not submitting federal reimbursement requests timely was commented upon in our preceding audit report. In response to that report MDL stated that it would adhere to federal guidelines on reimbursement requests and it would cross-train staff to ensure that more than one staff would be able to process the reimbursements. During our current audit, we were advised that limited staffing prevented MDL from implementing its corrective action.

Recommendation 2

We recommend that MDL submit federal fund reimbursement requests as soon as permitted under federal guidelines (repeat).

Payroll

Background

MDL's Office of the Secretary processes payroll and leave for MDL units using the Statewide Personnel System (SPS). Employees submit their time in SPS and supervisors approve the time entered. Payroll adjustments (such as correcting inaccurate payments) are initiated by the units using a manual adjustment form and submitted to the Office of the Secretary. Similarly, leave adjustments are processed using various manual adjustment forms, for events including disciplinary actions and leave bank usage, and are submitted to the Office of the Secretary for processing. According to State records, MDL's payroll expenditures totaled approximately \$160.2 million in fiscal year 2024.

Finding 3

MDL did not independently and timely approve certain manually processed adjustments to employee pay and leave.

Analysis

MDL did not independently and timely approve certain manually processed adjustments to employee pay and leave. During the audit period MDL processed 494 manual payroll adjustments that changed employee pay by a total of \$358,942 (increase of \$337,992 and decrease of \$20,950) and 2,195 leave

⁶ Lost investment income refers to the amount that the State would have earned if the funds had been invested by the State Treasurer (based on the State's actual return on investment) instead of being used to finance federal fund expenditures.

adjustments that changed employee leave balances by a total of 72,058 hours (increase of 41,935 hours and decrease of 30,123 hours).

Pay Adjustments Were Not Independently Reviewed

MDL did not perform an independent review of manual payroll adjustments. Each pay period, an MDL employee prepared a listing of payroll adjustments using individual adjustment forms approved by the respective employees' supervisors. The listing was then submitted to DBM for processing in SPS. Our test of ten⁷ adjustments from fiscal years 2021 through 2024 that increased employees' pay by approximately \$56,000 disclosed that none of the adjustments were independently reviewed prior to submission to DBM. In addition, MDL did not have supporting documentation for four of these adjustments totaling \$21,800. As a result, we could not determine the propriety of these transactions. MDL was able to provide supporting documentation for the remaining six adjustments and we determined the transactions were proper.

Reviews of Leave Balance Adjustments Were Not Independent and Timely

MDL's reviews of manual leave adjustments were performed by an employee who was not independent and the reviews were not always timely. Our test of ten⁸ leave adjustments processed in fiscal years 2022 through 2025 which increased employee leave balances by 2,923 hours disclosed that they were performed by an employee who also had the ability to process adjustments. Additionally, the review of eight of the ten adjustments was performed between 5 and 36 months after the adjustment was processed. Our review of these adjustments noted that they were all properly supported.

Recommendation 3

We recommend that MDL

- a. independently and timely verify pay and leave balance adjustments to ensure that only authorized adjustments have been processed; and**
- b. investigate any unsupported pay adjustments, including those noted above, and take appropriate corrective action.**

⁷ We selected these test items based upon materiality and adjustment type.

⁸ We selected these test items based upon materiality the of employee adjustments and risk (such as adjustment type).

Finding 4

MDL did not ensure all timesheet discrepancies were resolved timely.

Analysis

MDL did not ensure all timesheet discrepancies were resolved timely. To assist in biweekly payroll processing, the State's Statewide Personnel System (SPS) generates several reports to help State agencies identify, investigate, and correct timesheet errors and other discrepancies, such as employee timesheets with no time entered, not submitted,⁹ or not approved. If errors and discrepancies are not resolved by the deadline for submission to the DBM's Office of Personnel Services and Benefits, the payroll must still be processed but agencies must go back and address the unresolved items.

We generated SPS discrepancy reports as of November 4, 2024, that identified timesheets that were either not submitted by an employee or not approved by a supervisor during fiscal years 2022, 2023, and 2024 that had not been resolved by MDL.¹⁰ The reports identified timesheets for 246 employees with 12,192 hours with a value of \$460,000 that were unsubmitted and timesheets for 14 employees with 854 hours of unapproved time with a value of \$30,000.

We selected eleven¹¹ of these employee timesheets for testing from fiscal years 2023 and 2024 that had a combined 880 hours valued at approximately \$40,600. Our test disclosed that as of November 1, 2024, all the timesheets tested with a total of 788 hours valued at approximately \$36,500, did not have some or all of the time entered (444 hours), were not marked as submitted by the employee (240 hours), or were not approved (104 hours) for periods of 115 days to 619 days. For example, one timesheet for the pay period ending February 21, 2023, was missing 36 hours of work time and 24 hours of unapproved time that was not resolved for 619 days, as of our test date in November 2024. In addition, for two of the test items, 88 hours of used leave was not properly deducted from the employee's leave balance due to the timesheet not being marked complete by the employee.

Recommendation 4

We recommend that MDL

- a. develop procedures to ensure that all outstanding payroll discrepancies are timely resolved; and**

⁹ Timesheets with time not entered means that the employee did not record time in SPS, whereas timesheets with time not submitted means that employee entered time in SPS but did not click submit to finalize the timesheet before supervisory approval.

¹⁰ MDL could not readily provide us reports of the total hours not entered for fiscal years 2022, 2023, and 2024. However, as part of our testing, we identified timesheets for which hours were not entered.

¹¹ Our test selection items were based on the significance of unsubmitted or unapproved hours.

- b. resolve the payroll discrepancies identified on the reports, including those noted in this finding.**

Information Systems Security and Control

We determined that Finding 5 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 MDL’s responses, have been redacted from this report copy.

Finding 5
Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Office of the Secretary, Division of Administration, and Division of Workforce Development and Adult Learning for the period beginning October 16, 2020 and ending July 31, 2024. 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 MDL'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, payroll, federal funds, procurement and disbursements activities, grants, and information systems security and control. Our audit included a review of certain support services (such as payroll, data processing, maintenance of accounting records, and related fiscal functions) provided by MDL to its divisions. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of MDL's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDL.

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 16, 2020 to July 31, 2024, but may include transactions before or after this period 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 MDL's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily

considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). 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 MDL's automated online financial systems for the purpose of testing certain areas, such as federal reimbursements. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MDL'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 MDL, 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 the MDL'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 MDL that did not warrant inclusion in this report.

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

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to MDL and those parties responsible for acting on our recommendations in an unredacted audit report.

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

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Labor (MDL) Units
As of February 2025

Name of Audit		Areas Covered	Most Recent Report Date	Total Findings	Number of Repeat Findings ¹²
1	Office of Financial Regulation	<ul style="list-style-type: none"> • Consumer credit and oversight of financial institutions • Examinations and licensing 	09/20/24	1	1
2	Division of Labor and Industry (DLI)	<ul style="list-style-type: none"> • DLI accounts receivable • Monitoring of compliance with certain laws pertaining to prevailing wages • Safety inspections for boilers, pressure vessels, and elevators 	01/06/23	1	1
3	Division of Unemployment Insurance (DUI) Part II Benefits ¹³	<ul style="list-style-type: none"> • Benefit payments • DUI System implementation 	11/15/22	13	3
4	DUI Part I Unemployment Insurance Tax Collections	<ul style="list-style-type: none"> • Employer unemployment contributions • Reimbursements from government agencies and certain non-profit organizations • DUI System implementation 	05/4/22	6	0
5	Division of Occupational and Professional Licensing (DOPL)	<ul style="list-style-type: none"> • DOPL cash receipts • Licensing • Guaranty funds 	03/11/22	3	2
6	Division of Racing (DOR)	<ul style="list-style-type: none"> • DOR cash receipts • Racing funds • Distribution of video lottery terminal funds • Certain licensee (racetrack) requirements regarding the reporting and distribution of pari-mutuel wagering revenue 	01/26/22	0	0

¹² Our count of repeat findings does not include cybersecurity findings in compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland.

¹³ This audit had an unsatisfactory rating.



OFFICE OF THE SECRETARY
100 S. Charles Street Tower 1, 9th Floor
Baltimore, MD 21201
Portia Wu, Secretary

April 16, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Re: Legislative Audit Report for Maryland Department of Labor (MD Labor) – Office of the Secretary, Division of Administration, and the Division of Workforce Development and Adult Learning - Audit Period October 16, 2020, to July 31, 2024

Dear Mr. Tanen:

I am writing to formally acknowledge receipt of the April 2025 Legislative Audit Report of the Maryland Department of Labor—Office of the Secretary, Division of Administration, and the Division of Workforce Development and Adult Learning. The audit included five findings, and the Agency Response Form addressing these findings is enclosed with this letter.

The Department is committed to addressing the identified issues and is actively working to implement procedures to resolve the findings as outlined in the response. We anticipate completing these corrective actions as expeditiously as possible.

I want to sincerely thank Senior Auditor Mr. James Fowler and his team for the professionalism, courtesy, and constructive engagement demonstrated throughout the audit process. Their valuable insights and recommendations are greatly appreciated and will contribute meaningfully to the Department's ongoing efforts to enhance accountability and operational efficiency. Please extend our gratitude to all audit team members for their dedication and thoroughness.

Portia Wu
Secretary

Jason Perkins-Cohen

cc: Erin Roth, Assistant Secretary, Division of Workforce Development and Adult Learning
Liz Williams, Executive Director, Office of Administration

Attachment: Agency Response Form

**Maryland Department of Labor
Office of the Secretary
Division of Administration
Division of Workforce Development and Adult Learning**

Agency Response Form

Year-End Closeout

Finding 1

The Maryland Department of Labor (MDL) could not support accrued federal fund revenue entries totaling \$204.7 million, including \$67.6 million which MDL had determined was not recoverable. In addition, MDL could not document the subsequent recovery of the accrued funds.

We recommend that MDL

- a. ensure that all year-end revenue transactions are properly supported,
- b. ensure the subsequent recovery of all accrued revenues, and
- c. work with DBM to resolve current budgeting issues and to ensure that future budgets are sufficient to fund routine operations.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	6/30/2025
Please provide details of corrective action or explain disagreement.	All year-end accruals will be calculated and supported by the federal draw in July of each year. In addition, MD Labor will strengthen internal controls to ensure all year-end revenue transactions are properly documented through enhanced oversight, reconciliations, and staff training.		
Recommendation 1b	Agree	Estimated Completion Date:	6/30/2025
Please provide details of corrective action or explain disagreement.	MD Labor is actively monitoring and reconciling accrued revenue to ensure all funds have been drawn down and received.		

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Recommendation 1c	Agree	Estimated Completion Date:	7/1/2025
Please provide details of corrective action or explain disagreement.	MD Labor is working with DBM to reconcile and determine if there is a deficit. A fee to administer Unemployment Insurance was introduced and passed as part of the 2025 Budget Finance Reconciliation Act of 2025, HB 352, 8-521 (a)(4) to help offset the costs due to declining federal funds and ensure sufficient funds for routine operations.		

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Federal Funds

Finding 2

MDL did not submit requests for reimbursement of federal fund expenditures in a timely manner, resulting in lost interest income totaling at least \$450,000.

We recommend that MDL submit federal fund reimbursement requests as soon as permitted under federal guidelines (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	1/31/2025
Please provide details of corrective action or explain disagreement.	MD Labor policy and procedures now request federal reimbursements monthly.		

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Payroll

Finding 3

MDL did not independently and timely approve certain manually processed adjustments to employee pay and leave.

We recommend that MDL

- a. independently and timely verify pay and leave balance adjustments to ensure that only authorized adjustments have been processed; and**
- b. investigate any unsupported pay adjustments, including those noted above, and take appropriate corrective action.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	3/31/2025
Please provide details of corrective action or explain disagreement.	The current practice is that the Payroll Supervisor presents the payroll input documents to the Human Resources Director via email. The HR Director reviews the pay adjustment, authorization and supporting documents received. The HR Director then responds in an email with the approval of the forms submitted by the Payroll Supervisor. After this approval, it is then submitted to the Office of Personnel Services and Benefits. This process has been in place as early as November 7, 2022, and will be formally incorporated in a Standard Operating Procedure document to ensure consistency by 3/31/2025.		
Recommendation 3b	Agree	Estimated Completion Date:	3/31/2025
Please provide details of corrective action or explain disagreement.	The agency agrees that the requested documentation was not available on the date requested by the audit team. After further investigation, the supporting documentation to justify the adjustments was obtained. Documentation was identified for 4 of the 4 test cases.		

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	The payroll and timekeeping unit will file pay adjustment documentation in a shared Google folder to ensure that they are readily accessible.
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Agency Response Form

Finding 4

MDL did not ensure all timesheet discrepancies were resolved timely.

We recommend that MDL

- a. develop procedures to ensure that all outstanding payroll discrepancies are timely resolved; and**
- b. resolve the payroll discrepancies identified on the reports, including those noted in this finding.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	2/18/2025
Please provide details of corrective action or explain disagreement.	<p>The agency timekeeper has identified the employees noted in the referenced discrepancies. Timesheet adjustments will be performed to update the time entry records in Workday.</p> <p>The Combined Time Report from Workday will be reviewed throughout the payroll cycle. Unsubmitted and unapproved timesheets will be identified and brought to the attention of both the employee and immediate supervisor for resolution. The standard operating procedure will be updated to include this requirement for our timekeeping personnel.</p>		
Recommendation 4b	Agree	Estimated Completion Date:	2/18/2025
Please provide details of corrective action or explain disagreement.	<p>The Combined Time Report from Workday will be reviewed throughout the payroll cycle. Unsubmitted and unapproved timesheets will be identified and brought to the attention of both the employee and immediate supervisor for resolution. The standard operating procedure will be updated to include this requirement for our timekeeping personnel.</p>		

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Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that Finding 5 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). Although the specifics of the finding, including the analysis, related recommendation(s), along with MDL’s responses, have been redacted from this report copy, MDL’s responses indicated agreement with the finding and related recommendations.

Finding 5 Redacted cybersecurity-related finding.
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Agency Response has been redacted by OLA.

AUDIT TEAM

James M. Fowler, CFE

Principal Auditor

R. Brendan Coffey, CPA, CISA

Edwin L. Paul, CPA, CISA

Information Systems Audit Managers

Peter W. Chong, CISA

Matthew D. Walbert, CISA

Information Systems Senior Auditors

Charles H. Hinds IV, CPA

Data Analytics Senior Auditor

Jammie A. Brown

Thomas J. Kraemer

Jessica G. McRobie

Timothy Moon

Jennifer N. Sayre, CFE

Staff Auditors

Joshua A. Nicodemus, CISA

Neha S. Tirkey

Information Systems Staff Auditors