



**Department of Legislative Services
Office of Legislative Audits**

Follow-up Process and Repeat Audit Findings

Presentation to
Maryland General Assembly
Joint Audit Committee

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Department of Legislative Services Office of Legislative Audits

Overview of Repeat Audit Findings

- OLA issues about 50 fiscal compliance audit reports each year containing about 150 recommendations.
 - Virtually all recommendations are accepted by agencies.
 - As of June 2006, **40%** of findings were repeated in the first subsequent audit report.
 - As of June 2018, **24%** of findings were repeated in the first subsequent audit report, indicating significant improvement since 2006. Since 2013, the overall repeat percentage has been relatively stable; the number of repeat findings, which had been declining the past few years, also appears to have recently stabilized (See Exhibit).
 - As of June 2018, 6% of findings were repeated after the second subsequent audit, which represents no change from the previous year.
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Follow-up Processes for Repeat Audit Findings

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

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



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

- From 2006 to October 2010, 38 audit reports (involving 28 agencies) had five or more repeat findings, requiring these agencies to submit quarterly status reports, which are subject to OLA desk review.
 - From October 2010 through December 2016, for 3 of the 4 audit reports that had five or more repeat findings, the status report process has concluded.
 - For those 3 audits, the agencies collectively reported that 3 of the 36 findings had not been resolved; the subsequent audits found that 5 findings were actually unresolved.
 - For the 4th report, the next fiscal compliance audit report is being drafted, which will identify the actual resolution status of all prior findings.
 - During calendar years 2017 and 2018, 4 audit reports had five or more repeat findings and have also been subject to the more comprehensive JCR follow-up process and/or the OLA follow-up review process for agencies with unsatisfactory ratings.
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JCR Follow-up Process - Background

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



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JCR Follow-up Process – Recent Results

- The April 2017 Joint Chairmen’s Report (JCR) contained budget bill language restrictions for 2 agencies with four or more repeat audit findings.
 - Based on OLA’s review, the 2 agencies collectively addressed 7 of the 8 findings.
 - The restricted funds were fully released for both agencies.

- The April 2018 JCR contained budget language restrictions for 6 agencies (see chart on page 7).
 - Presently, all 6 agencies have submitted the required status reports.
 - OLA will review these reports and will report our conclusions regarding the corrective actions taken on the collective 33 repeat findings to the budget committees within 45 days prior to the end of fiscal year 2019.



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April 2018 JCR Follow-up Process

Agency	Report Date	Number of Repeats	Funds Restricted
Department of Human Services (DHS) – Family Investment Administration	4/9/2015 ¹	4	\$250,000
DHS – Office of the Secretary	9/12/2017	4	\$100,000
Maryland Department of Health (MDH) – Office of the Secretary	8/30/2017	6	\$100,000
MDH – Medical Care Programs Administration	8/18/2017	6	\$100,000
Uninsured Employers’ Fund	1/3/2018	7	\$100,000
State Department of Assessments and Taxation	2/22/2018	6	\$100,000
¹ OLA previously reviewed the actions taken by DHS to resolve these findings, in accordance with a requirement in the April 2016 JCR. DHS had not taken corrective actions to resolve 3 of the 4 findings.			



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Conclusion

- We believe that the various follow-up processes provide useful tools to compel State agencies to generally take meaningful corrective action to implement audit recommendations.
- Since 2006, the overall percentage of repeat audit findings has decreased from 40% to 24% in 2018. Since 2013, the percentage of repeat findings has remained virtually unchanged. The number of repeat findings had been declining but has leveled out.

Exhibit

Summary Analysis of Report Items and Repeat Findings Fiscal/Compliance Audits – FY 2004 to 2018

Audit Cycle Ended June 30 th	Number of Audits	Number of Current Audit Report Items	% of Prior Report Items Repeated
2004	205	944	46%
2005	205	1,027	45%
2006	204	1,026	40%
2007	207	1,045	36%
2008	207	1,041	35%
2009	205	982	33%
2010	203	927	30%
2011	202	844	26%
2012	199	740	25%
2013	195	662	21%
2014	193	615	23%
2015	192	554	23%
2016	190	568	23%
2017	189	546	23%
2018	188	572	24%

**Analysis of Fiscal/Compliance Audits
Audit Report Items by General Area of Government
as of June 30, 2018**

<u>General Area of Government</u>	Number of <u>Audits</u>	Current Report <u>Items</u>	<u>Prior Report</u>		
			<u>Total Items</u>	<u>Repeats</u>	<u>Repeat %</u>
Judicial and Legal Review (incl. Clerks of Court)	37	38	43	20	47%
Executive and Administrative Control	22	52	72	12	17%
Financial and Revenue Administration	13	36	39	15	38%
Budget, Personnel and Info. Technology	3	14	19	6	32%
Retirement & Pension Systems Admin.	2	5	2	0	0%
General Services	2	13	14	3	21%
Transportation	9	35	51	3	6%
Natural Resources and Recreation	2	4	6	3	50%
Agriculture	2	2	5	2	40%
Health, Hospitals and Mental Hygiene	22	84	86	27	31%
Human Services	5	46	37	15	41%
Labor, Licensing, and Regulation	6	20	19	4	21%
Public Safety and Correctional Services	7	26	28	5	18%
Education	23	134	136	23	17%
Housing and Community Development	2	9	9	2	22%
Commerce	3	11	6	1	17%
Environment	2	12	6	2	33%
Juvenile Services	1	12	12	3	25%
State Police	1	12	5	1	20%
Registers of Wills	<u>24</u>	<u>7</u>	<u>10</u>	<u>1</u>	<u>10%</u>
Totals	<u>188</u>	<u>572</u>	<u>605</u>	<u>148</u>	<u>24%</u>

Notes:

- Number of audits is based on agency audit schedule as of July 1, 2017
- "Audit Report Items" are the fiscal/compliance items contained in latest audit report for all entities subject to audit

**Analysis of Fiscal/Compliance Audits
Audit Report Items by Functional Area (Summary)
as of June 30, 2018**

<u>Audit Report Item</u>	<u>Total Items (%)</u>	
Program Compliance	177	(30.9%)
Information Systems	135	(23.6%)
Procurement/Disbursements	101	(17.7%)
Cash Receipts	55	(9.6%)
Universities/Colleges	24	(4.2%)
Payroll/Personnel	23	(4.0%)
Property	18	(3.1%)
Federal Funds	14	(2.5%)
Accounts Receivable	11	(1.9%)
Other Areas	<u>14</u>	<u>(2.5%)</u>
TOTAL	<u>572</u>	<u>(100%)</u>