

Audit Report

**Department of Budget and Management
Central Collection Unit**

April 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

April 13, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Budget and Management – Central Collection Unit (CCU) for the period beginning July 1, 2005 and ending February 29, 2008. CCU is responsible for collecting all delinquent debts due the State, except those excluded by law (such as taxes and child support).

Our audit disclosed that accountability and control over cash receipts was not sufficient at the two CCU locations we examined which received \$11.8 million of the \$22 million cash collected by CCU during fiscal year 2008. Our audit also disclosed that certain debt collection procedures, such as wage garnishments, were not always pursued in a timely manner and that certain debtor accounts were excluded from collection efforts for extended periods. Additionally, controls over accounts receivables and information systems security were not sufficient, and CCU was not adequately monitoring the private collection agency used to help collect certain accounts.

Ensuring debt collection efforts are consistently applied and establishing adequate controls over collections is particularly important for CCU since its collections from all sources totaled over \$129 million in fiscal year 2008. As of June 30, 2008, outstanding debts which have been referred to CCU totaled approximately \$1.3 billion.

An Executive Summary of our findings can be found on page 5. The Department of Budget and Management's response to this audit, on behalf of CCU, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by CCU.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on the Department of Budget and Management Central Collection Unit (CCU) April 2009

- **Accountability and control over cash receipts at CCU's headquarters office and the one satellite office we examined were not sufficient to deter or detect errors or other discrepancies in a timely manner. For example, certain employees who handled receipts could make critical adjustments to the accounts receivable system and certain collections were not recorded upon receipt and were not properly accounted for. According to CCU's records, cash and checks received at these two locations totaled approximately \$11.8 million during fiscal year 2008.**

CCU should take steps to improve accountability and control over all cash receipts, including ensuring that employees who have access to receipts cannot alter critical data on the accounts receivable system and ensuring that all funds are recorded upon receipt and are properly accounted for.

- **CCU lacked procedures to ensure that all deposit adjustments were identified and properly investigated.**

Since deposit adjustments may be caused by errors, theft, or other discrepancies, CCU should ensure that all deposit adjustments were identified and properly pursued.

- **Certain available collection procedures were not always pursued in a timely manner. For example, CCU had not pursued wage garnishments for all accounts.**

CCU should pursue available collection procedures, including wage garnishments, on a timely basis.

- **Comprehensive collection actions were not conducted on 22,000 debtor accounts totaling \$60 million.**

CCU should ensure all significant debts are subject to CCU collection procedures.

- **CCU did not adequately pursue collection of certain uninsured motorist fines and penalties and needs to address the timely collection of these cases from the Motor Vehicle Administration (MVA).**

CCU should pursue collection of certain uninsured motorist fines and penalties and work in conjunction with the MVA to develop a better method of assessing and collecting uninsured motorist penalties.

- **CCU did not adequately verify the propriety of account adjustments requested by State agencies. Specifically, although adjustment forms are signed by at least one agency employee, the signatures were not compared to a listing of authorized signatures maintained at CCU.**

CCU should develop procedures for ensuring that adjustment forms are signed by an authorized employee.

- **CCU did not adequately monitor the private collection agency (PCA) it hired to help collect outstanding debts. During fiscal years 2006 through 2008, CCU referred approximately 161,000 debts totaling \$166 million to the PCA.**

CCU should take steps to adequately monitor the efforts of the PCA, including on-site reviews of applicable PCA records, ensuring that all uncollected accounts are returned when required, and ensuring the PCA has adequate procedures to safeguard collections of State funds and sensitive client information.

- **We noted certain security and control deficiencies relating to CCU's information systems. For example, CCU did not adequately address the back up of critical data.**

CCU should take the recommended actions to improve security and control over its information systems.

Background Information

Agency Responsibilities

The Central Collection Unit (CCU) is a program within the Department of Budget and Management's Office of the Secretary. CCU's primary responsibility is to collect all delinquent debts due the State, except those excluded by law (such as taxes and child support). Collections on debt, less CCU's assessed collection fees, are generally paid to either the State Treasury or the unit of State government where the debt originated. CCU's operations include its headquarters office and five satellite offices established at selected Motor Vehicle Administration locations to assist primarily in the collection of uninsured motorist penalty fees assessed by the Administration.

State law authorizes CCU to assess and collect for each debt a fee sufficient to cover all collection and administrative costs. The fee may not exceed 20 percent of the outstanding principal and interest. Currently, CCU's collection fee is 17 percent which is added to the original debt amount. Collection fees are deposited into the Central Collection Fund, a continuing, non-lapsing special fund used to pay CCU's operating expenses.

According to CCU's records, collection fees exceeded CCU operating expenses by approximately \$8 million annually during fiscal years 2006 through 2008. As a result, the balance in the Fund has increased from approximately \$14.4 million at June 30, 2005 to \$39.7 million as of June 30, 2008. As noted in the accompanying chart, outstanding debt referred to CCU was approximately \$1.3 billion.

Fiscal Year	Outstanding Debts (at June 30)		Total Collections
	Accounts	Balance	
2005	1,034,000	\$922,133,000	\$102,156,000
2006	1,192,149	\$1,022,713,315	\$114,450,760
2007	1,236,407	\$1,138,175,882	\$122,279,482
2008	1,350,481	\$1,271,599,187	\$129,235,773

Source: CCU records

Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the 10 fiscal/compliance findings contained in our preceding audit report dated March 13, 2006. We determined that CCU satisfactorily addressed seven of these findings. The three remaining findings are repeated in this report.

Findings and Recommendations

Cash Receipts

Background

According to the Department of Budget and Management – Central Collection Unit’s (CCU) records, cash receipts totaled approximately \$129 million during fiscal year 2008 (see chart at right). CCU collects receipts at its headquarters office and at five satellite offices established at certain Motor Vehicle Administration locations. These receipts included checks and cash (currency) totaling approximately \$22 million. Although CCU also received collections in a number of other ways (as noted in the table), checks and cash received directly by any entity are particularly vulnerable to loss.

<u>2008 Collections</u>	
Cash and Check	\$22,015,381
Credit Card and EFT	\$37,772,281
Lockbox	\$12,122,912
Transfers (for example, TRIP ¹)	<u>\$57,325,233</u>
Total	\$129,235,807
Source: CCU records	

During our audit period, CCU procured and implemented an automated cash register system to account for its receipts. The system was used to record all walk in receipts at CCU headquarters and at the satellite offices across the State and interfaced with its accounts receivable system.

Finding 1

Adequate accountability and control had not been established over cash receipts.

Analysis

CCU had not established adequate accountability and control over cash receipts received at CCU headquarters and the one satellite office we reviewed. According to CCU records, during fiscal year 2008 receipts in the form of cash and checks at CCU headquarters and the one satellite office reviewed totaled, \$4.2 million and \$7.6 million, respectively. Our review of the procedures and controls over these cash receipts disclosed the following conditions:

- Six CCU headquarters employees involved in the cash receipts process also had the capability to change the debtor’s billing/mail address on the automated accounts receivable system. Consequently, receipts could be misappropriated and subsequent notices to the debtor could be diverted.

¹ TRIP is the State’s Tax Refund Intercept Program.

- Cash receipts received by mail at CCU headquarters were not recorded immediately upon receipt and the transfer of these receipts to the cash office for deposit preparation was not properly documented to establish accountability over the funds. Rather, these receipts were processed by two individuals before being recorded. In addition, there was no documentation of the transfer of the mail receipts from the personnel who processed mail receipts to the cash office personnel responsible for forwarding the deposit to the bank by courier.
- In addition to their assigned supervisory duties, a supervisory employee at the satellite office routinely performed cashier responsibilities that were not subject to any independent review. This supervisor also had access to all cash receipts prior to deposit without any independent supervision. This is significant because this employee's supervisory duties included the ability to process voids and modify debtor addresses on CCU's accounts receivable system.

Recommendation 1

We recommend that

- a. employees who have access to cash receipts not have the capability to adjust critical data on the automated accounts receivable system,**
- b. CCU establish accountability over mail receipts by recording such payments immediately upon receipt and by documenting the transfer of funds to the cash office, and**
- c. CCU establish adequate procedures and controls at the aforementioned satellite office to ensure all receipts are properly controlled.**

We advised CCU on accomplishing the necessary separation of duties using existing personnel.

Finding 2

CCU lacked adequate procedures for ensuring all deposit adjustments were identified and properly investigated.

Analysis

CCU lacked adequate procedures for ensuring all deposit adjustments were identified and properly investigated. Such adjustments may be necessary when actual receipts submitted to the bank are less than those indicated on the corresponding deposit documents, or when a particular debtor's payment is rejected by the bank due to insufficient funds. In these instances, CCU is notified by the State Treasurer's Office (STO) and directly by the financial institutions

(such as through on-line deposit documentation posted by the bank) that a deposit had to be adjusted.

While CCU investigated adjustments based on notifications from the financial institutions, CCU did not use the report received from the STO to ensure all adjustments were properly investigated. In this regard, our test of 25 bank adjustments disclosed that, for six adjustments totaling \$20,000, CCU could not document that the adjustments were investigated and the appropriate debtor account was adjusted on CCU's accounts receivable system.

According to CCU records, bank adjustments totaled approximately \$477,000 during fiscal year 2007. Since deposit shortages can be caused by error, theft or other discrepancies, CCU should adequately monitor and evaluate such occurrences on an ongoing basis, and investigate as necessary. A similar condition was commented upon in our preceding audit report.

Recommendation 2

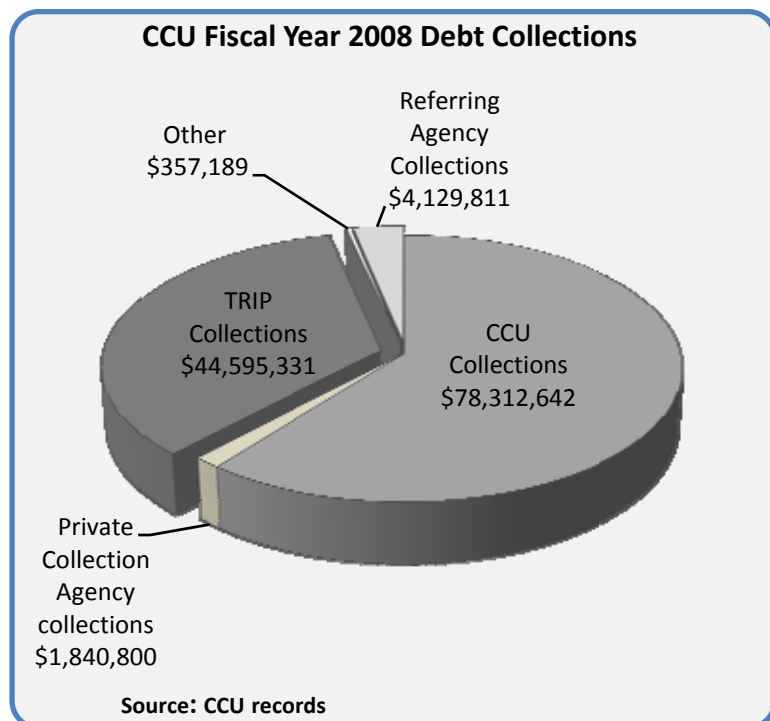
We recommend that CCU ensure all deposit adjustments are identified and pursued. Specifically, we recommend that CCU

- a. use the adjustment reports received from the STO to identify all deposit adjustments, and**
- b. properly investigate and resolve the deposit adjustments and that documentation of such efforts be maintained (repeat).**

Debt Collection Efforts

Background

CCU uses a variety of methods and resources to facilitate the collection of delinquent accounts including automated, manual, and outsourced collection efforts. Automated collection efforts involve the use of the State's Tax Refund Intercept Program (TRIP), which captures debtor tax refunds. This process is used in



conjunction with the other CCU collection efforts. Manual collection efforts involve CCU collectors who attempt to identify debtors and related assets and pursue collection of the delinquent accounts. Collectors will pursue voluntary payments via phone and written correspondence and also forward certain accounts to CCU's legal unit for proactive non-voluntary collection actions such as wage garnishments and property liens. Lastly, CCU outsources certain accounts to a private collection agency. For example, CCU forwards accounts with balances less than \$750, accounts with no identifiable wages or assets, or accounts with no collections for six months to the agency. See the chart on the preceding page for a breakdown of fiscal year 2008 collections by collection method.

If the aforementioned collection efforts are unsuccessful CCU can abate the delinquent account based on the decision of an internal abatement committee. If an account is abated, CCU may still subject the accounts to the automated collection efforts or may terminate all collection efforts.

Finding 3

CCU did not adequately pursue potential wage garnishments and/or property liens from debtors.

Analysis

CCU did not adequately pursue potential wage garnishments and/or property liens from debtors. Specifically, our review disclosed the following conditions:

- CCU did not always pursue wage garnishments when eligible wages were identified. Debtors with wages are identified through computer matches of CCU's records with wage data from the Department of Labor, Licensing and Regulation. CCU's December 2007 match identified 59,000 debtors with aggregate debt totaling approximately \$152 million who had wages that could possibly be subject to garnishment. However, our test of 10 of these debtors with accounts totaling approximately \$362,000 disclosed that, as of February 28, 2008, CCU had not initiated wage garnishments for 8 of the debtors tested owing approximately \$162,000 that were identified as wage earners as early as February 2006. A similar condition has been commented upon in our preceding audit reports dating back to January 1997.
- Computer matches of CCU's records with the Department of Assessments and Taxation's property ownership database were not analyzed in a timely manner to identify debtors owning property that might be subject to a lien. Specifically, while several of these matches were performed during the audit period, as of June 2008, the last match used to identify potential property was

generated in December 2005. A similar condition was noted in our preceding audit report.

The failure to pursue timely wage garnishments and property liens is significant because CCU does not pursue certain cases that are more than one year old (such as MVA insurance lapse cases) due to statute of limitations issues. Consequently, CCU management advised us that it could not pursue wage garnishments for three of the ten accounts noted in our test of wage garnishments and could not pursue property liens for nine of the ten accounts noted in our test of property liens because they exceeded the one-year limit.

Recommendation 3

We recommend that

- a. CCU ensure that timely follow-up collection efforts are made with regard to wage garnishments (repeat),**
- b. property lien matches be performed on a regular basis (at least semiannually) and that the results be pursued on a timely basis (repeat), and**
- c. all debt collection efforts be documented (repeat).**

Finding 4

CCU did not conduct comprehensive collection actions on 22,000 delinquent accounts totaling \$60 million.

Analysis

CCU did not conduct all possible collection actions on 22,000 delinquent accounts that, according to CCU records, totaled \$60 million as of March 12, 2008. CCU automatically distributed cases to its employee collectors based on various criteria such as the amount of delinquent account. However, there was a vacancy in the collector position responsible for cases between \$2,000 and \$10,000. As a result, cases assigned to this position were not actively pursued for collection. While the aforementioned cases would still have been subject to TRIP recovery, the cases were not subject to all other normal collection actions.

CCU management advised us that the aforementioned condition resulted from a vacancy during fiscal year 2007 and it was allocating the cases from this collector to other collectors during fiscal year 2008.

Recommendation 4

We recommend that CCU ensure that all significant cases are subject to comprehensive collection actions.

Motor Vehicle Administration Debts

Background

State law authorizes the Motor Vehicle Administration (MVA) to assess penalties for customers who violate the motor vehicle insurance laws (for example, if a vehicle's insurance lapses during the registration period). If the penalties are not paid, the debts are referred to CCU for collection action. To assist in these collection efforts, CCU has satellite offices at certain MVA offices, and CCU may establish installment payment plans for customers who meet certain requirements. According to CCU records, as of June 30, 2008, MVA had referred \$787 million in debts to CCU for collection assistance.

Finding 5

CCU did not adequately pursue certain delinquent uninsured motorist penalty accounts.

Analysis

CCU did not adequately pursue recovery of certain lapsed fines and penalties related to delinquent motor vehicle insurance. Specifically, we noted the following conditions:

- Our test of 10 delinquent installment plans with principal balances totaling \$82,086 disclosed that for 7 installment plans with principal balances totaling \$52,604, CCU did not notify the Motor Vehicle Administration (MVA) of the collection lapse for periods ranging from four to five months after the last payment was received. In this regard, CCU had an agreement with MVA that these cases would be referred three months after the last payment. Timely notification to the MVA of the delinquent accounts is critical since the MVA will suspend the registration of debtors that are delinquent on their accounts in an effort to compel payment.
- Although CCU routinely forwarded certain accounts to a private collection agency (PCA) for additional collection efforts (for example, accounts less than \$750 and accounts that were six months old without any collection activity), no such referrals were made for delinquent insurance lapse fines or penalties. CCU management advised us that it did not refer the insurance lapse accounts because of logistical problems with receiving payments at the MVA branches. Specifically, since the PCA had no representatives at the MVA branches, debtors would not be able to pay their fines and penalties at the MVA branch when the debtor was there to address their lack of insurance with MVA. However, we believe that given the total outstanding dollar value of these accounts, CCU should use all available resources to pursue collection.

Recommendation 5

We recommend that CCU

- a. provide timely notification to the MVA of delinquent installment plans, and**
- b. implement an appropriate process to forward delinquent insurance lapse fines and penalties to the PCA. For example, CCU employees at the MVA branches could collect such fines and penalties and still credit the PCA, as applicable.**

Finding 6 (Policy Issue)

CCU needs to work with MVA to address the timely collection of delinquent uninsured motorist penalties.

Analysis

CCU needs to work with the MVA to address the timely collection of delinquent uninsured motorist penalties. Our audit report covering MVA dated October 19, 2007 noted significant delays in the referral of delinquent uninsured motorist penalties to CCU. Specifically, we noted that the MVA's procedure was to wait until an event occurred (such as the expiration of registration or notification of new insurance coverage) before assessing an uninsured motorist penalty and forwarding the account to CCU. MVA management advised us that this practice was implemented because CCU regulations require all debts referred for collection be for the total amount due. Since the insurance penalties increase daily (\$7 per day), the MVA would not know the total amount due until the "event occurs" which would stop the accumulation of the penalty.

As a result of this procedure, significant delays (up to two years) could occur before accounts are forwarded to CCU. Therefore, the accounts would not be subject to CCU's normal collection efforts, such as the State's automated tax refund intercept program.

In our MVA audit report, we recommended that CCU work with the MVA to develop a better method of assessing and collecting uninsured motorist penalties. In response to our recommendation, the MVA contacted CCU to address this issue. On April 2, 2008, CCU management notified the MVA that it could not deviate from its policy requiring all referrals to be for the total amount due. CCU management provided a number of issues supporting its position. For example, if a debtor is taken to court by CCU and settles or pays the current balance, CCU would not be able to collect any additional amounts due.

While we acknowledge that there may be issues with forwarding the debt before the final amount due is determined, we continue to believe that the magnitude of the receivables from uninsured motorist penalties warrant modifications to improve the collectability of the amounts due. In this regard, we were advised by CCU management that it may be possible for CCU to apply certain collection procedures (such as tax refund intercept) without the accounts formally being referred to CCU, since a similar process is employed for a few other State agencies.

Recommendation 6

We recommend that CCU work in conjunction with MVA to develop a better method of assessing and collecting uninsured motorist penalties. For example, CCU should consider the feasibility of having uninsured motorist accounts transferred to CCU on an interim basis so that the accounts could be certified for the State's tax refund intercept program.

Accounts Receivable

Finding 7

CCU did not ensure the validity of signatures authorizing account adjustment requests received from State agencies.

Analysis

CCU did not ensure the validity of signatures authorizing account adjustment requests received from State agencies. Specifically, although adjustment forms are signed by at least one agency employee, the signatures were not compared to a listing of authorized signatures maintained at CCU. In this regard, our test of 15 adjustments totaling \$485,000, disclosed that for five adjustments totaling approximately \$197,000 authorizing signatures did not match those on file at CCU. While we were able to confirm the propriety of four of the aforementioned adjustments with the referring agencies, for one of the adjustments tested eliminating a \$39,000 receivable, we were advised by the referring agency that the adjustment was processed in error and should be reinstated on CCU's records.

In response to this issue, CCU management advised us that, rather than require a review of signed adjustment forms, it would issue monthly summary reports of adjustments to agencies for their review. According to CCU this process was put in place in January 2008, however, for adjustments subsequent to that month, CCU could not document that this process was performed nor did it require agencies to confirm receipt of such reports. Since the actual forms are the source for adjustments that can reduce account balances on CCU's records, CCU should

ensure that such forms are properly authorized and adequately supported. According to CCU's records, approximately 31,000 adjustment forms totaling approximately \$27 million were received in fiscal year 2007.

Recommendation 7

We recommend that CCU develop procedures for ensuring that account adjustment request forms are signed by an authorized agency employee.

Finding 8

Critical capabilities on the automated accounts receivable system were not adequately controlled or subject to independent approvals.

Analysis

Critical capabilities on the automated accounts receivable system were not adequately controlled or subject to independent approvals. For example, our review disclosed that 60 individuals could change "desk codes" without any independent approval. Furthermore, all individuals with access to CCU's automated receivable system, including those involved in the collection process, could change account status codes without any independent approval. Access to these critical capabilities should be restricted to only those individuals who require such access for their job duties and should be subject to independent approval.

Desk codes are used to designate who is responsible for working accounts referred to CCU, and status codes are used to manage accounts at CCU and designate the types of collection efforts and monitoring that should exist on each account. Improper code or status changes could result in an accounts not being actively worked or subject to TRIP.

Recommendation 8

We recommend that CCU establish adequate controls over all critical transactions. Specifically, we recommend that access to critical transactions should be

- a. limited to individuals who require such access for their job duties, and**
- b. subject to independent approval.**

Private Collection Agency

Finding 9

CCU did not adequately monitor the private collection agency to ensure they were pursuing delinquent accounts in accordance with the terms of the contract.

Analysis

CCU did not adequately monitor the private collection agency (PCA) contracted to help collect debts to ensure they were pursuing delinquent accounts in accordance with the terms of the contract. Generally, debts are referred to the PCA after six months of unsuccessful collection efforts or when CCU does not consider it to be cost effective to pursue the account with CCU staff. Our review of CCU's monitoring of the PCA disclosed the following conditions:

- CCU did not conduct documented inspections of the PCA during the audit period as provided for in the contract. The contract specifies that the PCA will implement thorough collection procedures including a reasonable number of telephone calls, direct mailing efforts, and skip tracing procedures (data base searches) when necessary. The contract further provides that CCU shall have the right to inspect the PCA's records relating to all referred accounts. We were advised by CCU management that it did monitor the PCA performance using a variety of onsite and offsite procedures and that the PCA performed well compared to national benchmarks. However, CCU lacked documentation of its monitoring efforts to substantiate these claims. A similar condition was commented upon in our preceding audit report.
- CCU did not have procedures to ensure that uncollected accounts were reverted to CCU from the PCA as required. The contract required the PCA to revert uncollected accounts to CCU after six months of no collection activity. Although accounts submitted to the PCA are still subject to certain automated collection procedures (such as TRIP), the accounts are not actively pursued by CCU while at the PCA. Our review of the PCA's records disclosed approximately 19,000 cases that met the contract's criteria for return, but that had not been returned.
- Although CCU required the PCA to submit annual audited financial statements and any management letter comments regarding the adequacy of internal controls, it did not obtain the reports for fiscal years 2005 and 2007. As a result, there was a lack of assurance that the PCA had adequate procedures and controls in place to safeguard collections of State funds and sensitive client information (such as social security numbers).

According to CCU's records, during fiscal years 2006 through 2008, CCU referred approximately 161,000 debts totaling \$166 million to the PCA. Collections received by the PCA are deposited directly into a State's account. CCU pays the PCA a commission of 7.9 percent of amounts collected on referred debts. According to CCU's records, during fiscal year 2008, CCU paid the PCA commissions totaling approximately \$360,000.

Recommendation 9

We recommend that CCU ensure

- a. that referred accounts are subject to all appropriate and required collection practices, through periodic on-site visits and an examination of a sample of relevant PCA records, and that the monitoring procedures performed are documented (repeat);**
- b. that all uncollected accounts are returned from the contractor when required; and**
- c. that the PCA has adequate procedures to safeguard collections of State funds and sensitive client information by obtaining and reviewing copies of the PCA's audited financial statements and management letters.**

Information Systems Security and Control

Finding 10

CCU did not adequately address backup and transfer of critical data.

Analysis

CCU did not adequately address backup and transfer of critical data. CCU stored backup tapes of its Revenue Collection System (RCS) servers in the same room where the servers were located. Accordingly, if the facilities which house both the original data and the backup copies were destroyed by the same disaster, it is uncertain if all critical information not retained at the Annapolis location could be recreated. In addition, the backup tapes containing critical accounts receivable and RCS data were not encrypted. Finally, sensitive information (including names and social security numbers of debtors) sent to another State agency, via the United States Postal Service, was also not encrypted.

Best practices according to the Department of Information Technology's (DoIT) *Information Technology Security Program Standard* specify that agencies should encrypt information when the confidentiality or sensitivity of information must be maintained while a message is in transit between computing devices and when confidential or sensitive information is stored in a file or database.

Recommendation 10

We recommend that

- a. the weekly backups of RCS servers be maintained at a secure offsite location, and**
- b. CCU encrypt backup data sent to offsite storage and to other State agencies.**

Audit Scope, Objectives, and Methodology

We have audited the Department of Budget and Management – Central Collection Unit (CCU) for the period beginning July 1, 2005 and ending February 29, 2008. 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 CCU's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of CCU's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to CCU by the Department of Budget and Management – Office of the Secretary. These support services (such as payroll) are included within the scope of our audit of the Office of the Secretary.

CCU'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.

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 CCU's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to CCU that did not warrant inclusion in this report.

The Department of Budget and Management's response to our findings and recommendations, on behalf of CCU, is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.



MARTIN O'MALLEY
Governor

ANTHONY BROWN
Lieutenant Governor

T. ELOISE FOSTER
Secretary

DAVID C. ROMANS
Deputy Secretary

March 30, 2009

Mr. Bruce A. Myers, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Budget and Management has reviewed your draft audit report on the Department of Budget and Management – Central Collection Unit (CCU) for the period beginning July 1, 2005 and ending February 29, 2008. As requested, our responses to the findings in the report are attached.

If you have any questions or need additional information, you may contact me at 410-260-7041 or Dick Ihrle, the Department's compliance auditor, at 410-260-6058.

Sincerely,

T. Eloise Foster
Secretary

cc: Anthony S. Fugett, Director, Central Collection Unit
Joan M. Peacock, Manager, Audit Compliance Unit, DBM
Charles R. (Dick) Ihrle, Compliance Auditor, DBM

~Effective Resource Management~

45 Calvert Street • Annapolis, MD 21401-1907

Tel: (410) 260-7041 • Fax: (410) 974-2585 • Toll Free: 1 (800) 705-3493 • TTY Users: call via Maryland Relay
<http://www.dbm.maryland.gov>

Department of Budget and Management
Central Collection Unit
Response to Legislative Audits Findings and Recommendations
Audit Period: July 1, 2005 and ending February 29, 2008

Cash Receipts

Finding 1

Adequate accountability and control had not been established over cash receipts.

Recommendation 1

We recommend that

- a. employees who have access to cash receipts not have the capability to adjust critical data on the automated accounts receivable system,
- b. CCU establish accountability over mail receipts by recording such payments immediately upon receipt and by documenting the transfer of funds to the cash office, and
- c. CCU establish adequate procedures and controls at the aforementioned satellite office to ensure all receipts are properly controlled.

We advised CCU on accomplishing the necessary separation of duties using existing personnel.

DBM-CCU Response 1:

We agree with the recommendations. CCU has changed the Cash Office staff to avoid conflicts with collection activity and the ability to change addresses. Our new collection system, which is planned to be implemented in fiscal year 2011, will be designed to prevent employees that have access to collections to also have the ability to adjust related critical receivable data. With regard to the six employees identified above they no longer handle cash receipts.

In order to ensure that mail receipts are recorded immediately upon receipt, the agency has placed a separate Revenue Collection System (RCS) machine in the mailroom. This allows all checks received via mail to be recorded in a similar manner to that of the Cash Office and deposited directly to the bank daily.

CCU had implemented personnel changes at the referenced satellite office. This provides for adequate segregation of duties and re-establishes adequate controls over collections.

Finding 2

CCU lacked adequate procedures for ensuring all deposit adjustments were identified and properly investigated.

Recommendation 2

We recommend that CCU ensure all deposit adjustments are identified and pursued. Specifically, we recommend that CCU

- a. use the adjustment reports received from the State Treasurer's Office (STO) to identify all deposit adjustments, and
- b. properly investigate and resolve the deposit adjustments and that documentation of such efforts be maintained (repeat).

DBM-CCU Response 2:

We agree. Accounting did not start using the daily transaction register for the STO until July 2008. Currently, CCU Accounting uses both the STO report and the daily bank report to investigate all adjustments and, as appropriate, adjust the appropriate debtor account on CCU's accounts receivable system. All investigations are documented.

Debt Collection Efforts

Finding 3

CCU did not adequately pursue potential wage garnishments and/or property liens from debtors.

Recommendation 3

We recommend that

- a. CCU ensure that timely follow-up collection efforts are made with regard to wage garnishments (repeat),
- b. property lien matches be performed on a regular basis (at least semiannually) and that the results be pursued on a timely basis (repeat), and
- c. all debt collection efforts be documented (repeat).

DBM-CCU Response 3:

We agree with the recommendations. Wage garnishment is a complex and labor intensive process. This is an area we believe can be improved with the implementation of the new collection system.

In the meantime, CCU is exploring ways to improve the process including the establishment of written criteria to make it more efficient. CCU will make best efforts to perform a wage match at least semiannually to identify those matches that can be pursued for wage garnishment. Based on this work, CCU will analyze the individual merits of each case to determine the likelihood of positive results. Key considerations in this analysis include child support and payment of taxes (both of which have priority over CCU debts), staff resources and minimum amounts that must be earned in the quarter in order to establish a wage garnish. All efforts will be documented in the account notes.

The existing property match process is also labor intensive as matches are performed utilizing a computer match on just the first four letters of the last name and address. Further, this is a low yield area as collections on liens are only recognized when property is sold. CCU is currently working with the Annapolis Data Center to assist in improving the efficiency and effectiveness of the computer match process.

CCU will make best efforts to perform a real estate match semiannually and then narrow those matches to ones that meet the criteria for pursuing property liens. The accounts that are identified to be pursued for property liens will be worked by collectors and submitted to the Legal Measures unit of CCU. All efforts will be documented in the account notes.

Finding 4

CCU did not conduct comprehensive collection actions on 22,000 delinquent accounts totaling \$60 million.

Recommendation 4

We recommend that CCU ensure that all significant cases are subject to comprehensive collection actions.

DBM-CCU Response 4:

We agree. This recommendation has already been addressed. CCU reviewed the collector desk assignments and on August 8, 2008 did a complete reorganization of each desk. As a result, each collector has a desk assignment and the dollar amount associated with that desk is based on the collector classification. Currently, all material accounts are assigned to a collector.

If future vacancies occur, accounts will be reallocated to ensure that each material account is assigned to a collector.

Motor Vehicle Administration Debts

Finding 5

CCU did not adequately pursue certain delinquent uninsured motorist penalty accounts.

Recommendation 5

We recommend that CCU

- a. provide timely notification to the MVA of delinquent installment plans, and
- b. implement an appropriate process to forward delinquent insurance lapse fines and penalties to the PCA. For example, CCU employees at the MVA branches could collect such fines and penalties and still credit the PCA, as applicable.

DBM-CCU Response 5:

We agree with the recommendations. CCU now adheres to an agreement we have with MVA that payment plans in default after 90 days will be reported to MVA for re-flagging and further MVA action. Because the report is run monthly, accounts will be reported to MVA on the first report following the 90 days of non-payment.

CCU doesn't forward MVA accounts to the PCA because it is not permitted under CCU's MOU with MVA to do so. Per current agreed upon policy and practice, an individual who pays off their account anticipates immediate release of services from MVA. Accounts sent to the PCA and paid to the PCA would not be able to comply with this requirement (i.e., immediate release could not be granted until

CCU receives payment or a signed contract and payment plan). However, we will work with MVA to explore a process and timeframe for sending accounts to the PCA which minimizes the immediate release issue. This is a complex issue which will require agreement and a modification of the MOU with MVA as well as modification of the PCA contract.

Finding 6 (Policy Issue)

CCU needs to work with MVA to address the timely collection of delinquent uninsured motorist penalties.

Recommendation 6

We recommend that CCU work in conjunction with MVA to develop a better method of assessing and collecting uninsured motorist penalties. For example, CCU should consider the feasibility of having uninsured motorist accounts transferred to CCU on an interim basis so that the accounts could be certified for the State's tax refund intercept program.

DBM-CCU Response 6:

We agree to work with MVA to explore methods to address the timely collection of delinquent uninsured motorist penalties. CCU has already been in discussion with MVA to see if some other means to refer accounts could be developed. However, a number of difficulties and logistical problems have been identified given the timing and structure of the fine and penalty. We will explore the possibility of utilizing the State's Tax Refund Intercept Program (TRIP) to collect these accounts prior to the accounts being transferred to CCU.

Accounts Receivable

Finding 7

CCU did not ensure the validity of signatures authorizing account adjustment requests received from State agencies.

Recommendation 7

We recommend that CCU develop procedures for ensuring that account adjustment request forms are signed by an authorized agency employee.

DBM-CCU Response 7:

We agree. CCU has procedures in place for ensuring that debt adjustment forms have the proper authorized signature. As of September 2008, any debt adjustment form that does not have an authorized signature will be returned to the agency.

Finding 8

Critical capabilities on the automated accounts receivable system were not adequately controlled or subject to independent approvals.

Recommendation 8

We recommend that CCU establish adequate controls over all critical transactions. Specifically, we recommend that access to critical transactions should be

- a. limited to individuals who require such access for their job duties, and
- b. subject to independent approval.

DBM-CCU Response 8:

We agree that controls over the automated accounts receivable system could be strengthened. The CCU's current automated accounts receivable system allows anyone with access to the collector screen to have either complete access or no access to desk code and status code changes. We are working with our vendor to make changes to the program to address this issue. In the meantime, we will restrict the ability to make changes to status codes and desk codes to management. Our new collection system will be designed to allow flexibility in this area including the generation of desk code and status code change reports which will be independently approved.

Private Collection Agency**Finding 9**

CCU did not adequately monitor the private collection agency to ensure they were pursuing delinquent accounts in accordance with the terms of the contract.

Recommendation 9

We recommend that CCU ensure

- a. that referred accounts are subject to all appropriate and required collection practices, through periodic on-site visits and an examination of a sample of relevant PCA records, and that the monitoring procedures performed are documented (repeat);
- b. that all uncollected accounts are returned from the contractor when required; and
- c. that the PCA has adequate procedures to safeguard collections of State funds and sensitive client information by obtaining and reviewing copies of the PCA's audited financial statements and management letters.

DBM-CCU Response 9:

We agree with the recommendations. CCU did not conduct periodic on-site visits as required in the existing PCA contract. However, effective May 1, 2009, a new PCA contract will be in place. This new contract includes specific monthly monitoring requirements, which CCU will follow and document.

Due to staff shortages the PCA did not revert accounts to CCU in a timely manner, nevertheless, the collection process continued on those accounts. In September, 2008, CCU performed a mass recall of accounts from the PCA after six months of no collection activity and kept supporting documentation. Account reversion from the PCA is now performed on a monthly basis.

CCU did receive Audited Financial Statements for calendar year 2003, 2004 and 2006 and subsequently obtained the 2005 and 2007 statements. Going forward, CCU annually will obtain and review the PCA's audited financial statements and management letters.

Information Systems Security and Control

Finding 10

CCU did not adequately address backup and transfer of critical data.

Recommendation 10

We recommend that

- a. the weekly backups of RCS servers be maintained at a secure offsite location, and
- b. CCU encrypt backup data sent to offsite storage and to other State agencies.

DBM-CCU Response 10:

We agree. Starting in November 2008, RCS data has been stored at an off site facility weekly at 45 Calvert St. in Annapolis.

CCU, working with DoIT, implemented encryption of backup data sent to offsite storage in January 2009. In addition, procedures for the password encryption of file data sent to other State agencies were implemented in December 2008. A broader "industry best practices standard" for the encryption of a variety of media (e.g. e-mail, FTP, CD, etc.) utilizing a single technology is being explored.

AUDIT TEAM

Brian S. Tanen, CPA, CFE

Audit Manager

A. Jerome Sokol, CPA

Information Systems Audit Manager

Keonna M. Wiley

Senior Auditor

Veronica Arze

Richard L. Carter, CISA

Information Systems Senior Auditors

John F. Nogel

Marva M. Sutherland

Staff Auditors