

Audit Report

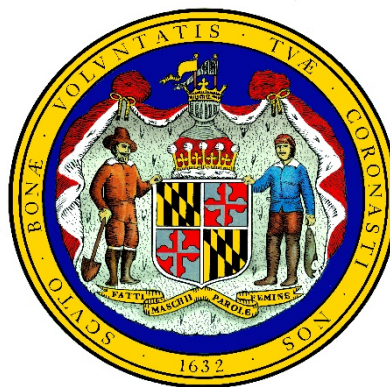
Maryland Department of Labor Division of Unemployment Insurance

Part 1 Unemployment Insurance Tax Contributions

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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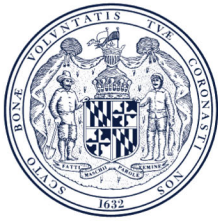
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

April 8, 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) – Division of Unemployment Insurance (DUI) for the period beginning November 16, 2020 and ending January 31, 2024. DUI administers the State's Unemployment Insurance Program, which includes the primary responsibilities of collecting unemployment insurance tax contributions from employers and processing applications for, and disbursing unemployment benefits. We have divided our audit of DUI into two parts to address the aforementioned DUI responsibilities. The focus of this report was unemployment insurance tax contributions. A report on the second part of our audit will be issued at a later date.

Our audit disclosed that DUI was not reconciling its record of all tax collections received from employers to tax payments posted to its employer accounts receivable records. Consequently, there was a lack of assurance that amounts posted to employer accounts were valid and complete. In addition, since implementation of the BEACON unemployment insurance system in September 2020, DUI has been unable to generate the reports necessary to verify that tax collections were properly deposited and recorded.

Our review also disclosed that DUI did not adequately pursue delinquent unemployment taxes which according to its records totaled approximately \$228.8 million as of March 31, 2024, most of which were over 90 days old. Similarly, DUI did not pursue reimbursement of unemployment benefits paid on behalf of employers exempt from paying unemployment taxes. Additionally, DUI had not

determined the cause and full extent of inaccurate employer accounts receivable records.

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, on behalf of DUI, 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 have edited MDL’s response to remove a vendor name and other details, as allowed by our policy. We also reviewed the response and noted general 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 DUI.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Agency Responsibilities

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Maryland Department of Labor (MDL). DUI administers the State's Unemployment Insurance Program that includes the following primary responsibilities.

- Collecting unemployment insurance tax contributions from employers
- Processing applications for, and disbursing unemployment benefits

We have divided our audit of DUI into the following two parts to address the aforementioned DUI responsibilities. This report addresses Part 1 of our audit.

Part 1 – Unemployment Insurance Tax Contributions

Includes employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, associated accounts receivable activity, and system functionality.

Part 2 – Unemployment Benefits

Includes methods individuals can use to file for unemployment insurance benefits, eligibility and monetary benefit determinations (for State unemployment insurance), payment monitoring, prevention of fraudulent claims, and system functionality.

According to the State's records, DUI's fiscal year 2023 operating expenditures (excluding unemployment benefit disbursements) totaled approximately \$110 million (see Figure 1 on the following page). During the period June 30, 2021 through June 30, 2023, DUI had vacancy rates that ranged from 6.1 percent to 14.9 percent. As of June 30, 2023, approximately 14.9 percent of the total 377 positions were vacant.¹

¹ While we were advised that the 14.9% vacancy rate was primarily for staff that conduct claim related functions which were augmented by contractual service staffing; these vacancies may have contributed, at least in part, to the findings in this report.

Figure 1
MDL – DUI Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	321	85.1%
Vacant	56	14.9%
Total	377	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 37,097,558	33.7%
Technical and Special Fees	1,775,054	1.6%
Operating Expenses	71,095,828	64.7%
Total	\$109,968,440	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
Special Fund	\$ 2,762,451	2.5%
Federal Fund	107,205,989	97.5%
Total	\$109,968,440	

Source: State financial and personnel records

Maryland Unemployment Insurance Taxes

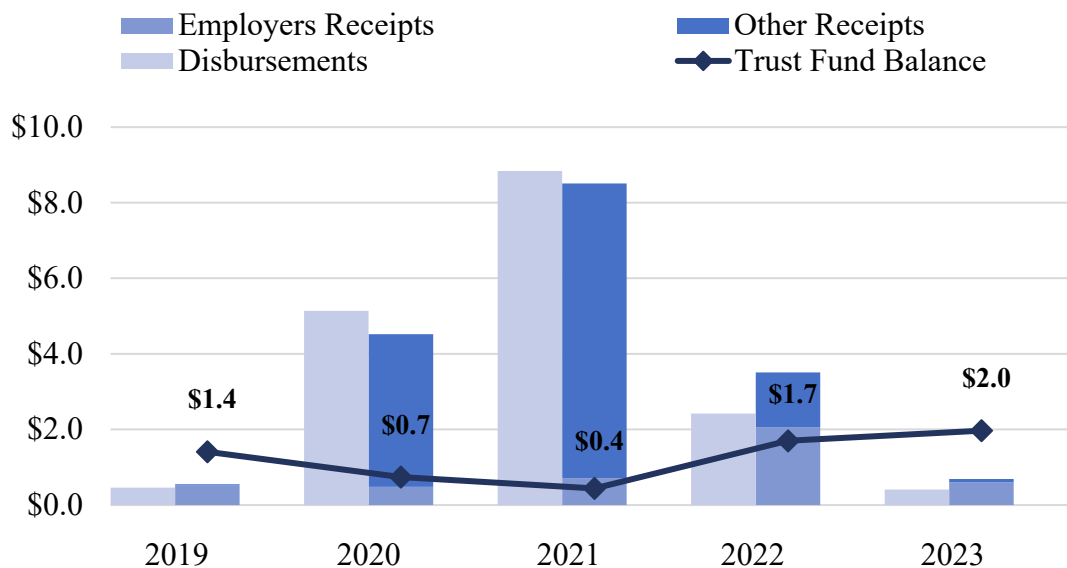
Maryland employers are required to remit Maryland unemployment insurance taxes based on a percentage of wages paid to their employees. During calendar year 2023, the employer tax rate ranged from 1 percent to 10.5 percent of the first \$8,500 of employee wages, and for calendar year 2024, the percentage ranged between 0.3 percent and 7.5 percent. The tax rates are established by State law based on an annual calculation and estimate of the funds necessary to meet federal requirements regarding the necessary minimum balance to be maintained in the Maryland Unemployment Insurance Trust Fund.

The particular tax rate paid by an employer is impacted by various factors, most notably the amount of unemployment benefits paid by DUI and charged to the employer's account during a specified period for eligible employee layoffs and terminations. Certain entities, such as nonprofit organizations and governmental entities, are exempt from these taxes and, instead, reimburse the State for any

unemployment benefits paid by the State on their behalf. As of July 2024, an unemployed individual could receive a maximum of \$430 per week for 26 weeks of State benefits in one benefit year.

According to DUI records, during fiscal year 2023, DUI collected approximately \$596.2 million from employers (\$570.1 million in unemployment insurance taxes and \$26.1 million in benefit reimbursements) and received \$56.8 million in federal funding relating primarily to the COVID-19 pandemic (see Figure 2).

Figure 2
Summary of DUI Financial Activity
Fiscal Years 2019 - 2023
(\$ in billions)



Source: DUI Records and Fiscal Year 2019-2023 Trust Fund Financial Statements

Maryland Unemployment Insurance Trust Fund

DUI maintains the Maryland Unemployment Insurance Trust Fund (UITF) for the deposit of unemployment taxes collected from employers and the payment of benefits to the unemployed. The UITF is required by federal regulation to retain a

balance to cover its expected current obligations and as of June 30, 2023, the trust fund balance was \$2 billion.²

BEACON - Unemployment Insurance Information System

BEACON is DUI's unemployment insurance information system. It was implemented in September 2020 with total contract costs of approximately \$82.4 million as of November 2024, which was primarily federal funds. Our previous audit reports of MDL, including DUI Part 1 (issued May 2022) and DUI Part 2 (issued November 2022) contained findings regarding BEACON. MDL addressed many of these findings, but certain findings remained unresolved as further described in findings 2 and 5 below.

On August 23, 2022, an indictment was filed in the U.S. District Court of West Virginia against two principals of the primary BEACON contractor. The indictment included several criminal charges such as, conspiracy to steal trade secrets related to BEACON. On March 23, 2023, a civil lawsuit was filed against the primary BEACON contractor by a company (the plaintiff) alleging that former employees of the plaintiff worked for the primary BEACON contractor and used source code and trade secrets to develop the BEACON software. We were advised by MDL's counsel that they believe the outcome of these cases may seriously impact the contractor's ability to abide by the terms and conditions of its contract with the State.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated May 4, 2022. See Figure 3 for the results of our review.

² The COVID-19 pandemic significantly impacted the balance during fiscal year 2020 and 2021 due to its unforeseen nature and the obvious exclusion of its impact from the preceding tax calculation performed by the State. As a result of the low balance, in fiscal year 2022 DUI received \$830 million in one-time federal funds from the American Rescue Plan Act of 2021 (ARPA) State Fiscal Recovery Funds to replenish the State's UITF.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Division of Unemployment Insurance (DUI) did not reconcile tax collections from employers to amounts posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.	Repeated (Current Finding 1)
Finding 2	DUI had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020, due to the inability to generate certain required reports from the BEACON system.	Repeated (Current Finding 2)
Finding 3	DUI did not regularly conduct data matches to identify employers who had not registered with DUI, as required by State law, and did not always follow up on the results of the matches that were performed.	Not repeated
Finding 4	DUI did not ensure reimbursable employers provided sufficient collateral to protect the State in the event claims are paid on their behalf.	Not repeated
Finding 5	DUI did not have formal policies for pursuing collection of delinquent employer accounts, and discontinued pursuing delinquent accounts in September 2020 due to BEACON system deficiencies.	Not repeated
Finding 6	Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.	Status Redacted ³

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

Findings and Recommendations

Employer Contributions

Finding 1

The Division of Unemployment Insurance (DUI) did not periodically reconcile its record of all tax collections received from employers to tax payments posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.

Analysis

DUI did not periodically reconcile its record of all tax collections received from employers to tax payments posted to its employer accounts receivable records. Specifically, our review disclosed that DUI did not reconcile electronic payments, which accounted for 89 percent of the collections, to the related amounts posted to employer accounts.⁴ Consequently, there was a lack of assurance that payment amounts posted and credited to employer accounts were valid and complete.

We could not readily reconcile the activity due to the lack of available records during the audit. However, we did note that DUI's suspense account, which holds payments not immediately identified for recording in a specific employer's account, increased from \$4.4 million in January 2021 to \$11.7 million in January 2024, which could indicate that payments are not being posted timely or properly.

A similar condition was commented upon in our preceding audit report. In response to that report, DUI responded that tax collections would be reconciled to the employer accounts by December 31, 2022. During our current audit, we were advised by DUI management that these actions were not implemented due to a misunderstanding of the required records needed for the reconciliations.

The Comptroller of Maryland's *Accounting Procedures Manual*⁵ requires that cash receipt totals should be periodically compared with corresponding totals of credits to accounts receivable.

⁴ DUI only reconciled amounts received by check on-site and lockbox payments to the related employer accounts, which covers approximately 11 percent of total collections.

⁵ The updated *Accounting Policies and Procedures Manual*, effective June 2024, has the same requirements.

Recommendation 1

We recommend that DUI

- a. periodically, such as monthly, reconcile its tax collection records to its employer accounts receivable records, including an investigation and resolution of significant differences noted (repeat); and**
- b. ensure that all employer payments are recorded in the accounts receivable records on a timely basis, including the amounts noted in this finding (repeat).**

Finding 2

DUI had not verified that unemployment tax collections were properly deposited and recorded since September 2020, due to the inability to generate certain required reports from the BEACON system.

Analysis

As of June 2024, DUI had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020. Unemployment tax payments from employers are deposited directly or transferred in certain cases, such as with lockbox receipts, into a bank clearing account. Those funds are subsequently transferred from the clearing account, as directed by DUI, into the Unemployment Insurance Trust Fund (the Trust Fund) for purpose of making benefit payments.

Per DUI management BEACON is unable to generate an accurate record of clearing account activity or ending account balances. Consequently, as of June 2024, DUI has not reconciled system records of clearing account activity to the related bank records since the inception of BEACON in September 2020. Periodic reconciliations between DUI's clearing account records and the corresponding bank records are needed to ensure that all collections have been deposited and that all related transactions, including the transfer of funds to the Trust Fund, are properly recorded. During fiscal year 2023, DUI reported collections deposited into the clearing account totaled \$573.8 million.

A similar condition was noted in our preceding audit report. In response to that report, DUI stated it would work with its vendor to develop an automated reconciliation process and would conduct monthly reconciliations by December 2022. DUI was unable to explain why it has been unable to develop the reconciliations.

Recommendation 2

We recommend that DUI

- a. correct the system deficiencies in BEACON that are preventing accurate compiling and reporting of clearing account activity (repeat); and**
- b. periodically, such as monthly, reconcile its clearing account activity and balance per BEACON to the corresponding account data reported by the bank, including an investigation and resolution of any significant differences noted (repeat).**

Delinquent Accounts

Finding 3

DUI did not pursue liens and wage garnishments for delinquent unemployment taxes due from employers.

Analysis

DUI did not pursue liens and wage garnishments for delinquent unemployment taxes due from employers. According to DUI records, these employers had delinquent unemployment taxes totaling approximately \$228.8 million as of March 31, 2024, most of which were over 90 days old. State laws provide several collection tools for DUI to pursue delinquent taxes including sending two delinquency notices, liens, garnishments, US Treasury and State intercepts, business charter forfeiture, and Motor Vehicle Administration license and registration flagging. DUI suspended all these collection tools due to the COVID-19 State of Emergency (March 2020 to July 2021).

Our review disclosed that as of March 2024 (32 months after the State of Emergency ended), DUI had not reinstated liens or garnishments as allowed by State law. DUI's policy includes a requirement to pursue liens and garnishments for delinquent accounts in excess of \$2,000, which according to DUI's records totaled \$22.5 million between 91 to 450 days as of March 31, 2024.⁶

Recommendation 3

We recommend that DUI resume liens and garnishments of delinquent accounts, including those noted above.

⁶ There were also employer accounts with delinquent balances over \$2,000 aged greater than 450 days totaling \$170.9 million. However, due to DUI's records we were unable to readily determine the actual age of the account or if a lien had been filed for the delinquent balance.

Finding 4

DUI did not pursue reimbursement of unemployment benefits paid on behalf of employers who were exempt from paying unemployment taxes.

Analysis

DUI did not pursue amounts due from certain employers exempt from unemployment taxes. State law provides that certain employers (for example, governmental units) are exempt from unemployment taxes and instead reimburse the State for any unemployment benefits paid on their behalf. Per DUI records, as of March 2024, there were 1,069 of these reimbursable employers with balances totaling \$56.3 million that were delinquent for 31 days or more,⁷ including 814 employers with balances totaling \$37.3 million that were more than 450 days old.

Our review disclosed that during our audit period (November 16, 2020 to January 31, 2024), DUI did not send delinquency notices to reimbursable employers. In addition, although reimbursable employers provided DUI with collateral as security for any claims, DUI did not use the collateral to satisfy any delinquent debts. We could not readily determine the number of delinquent accounts that would have been eligible for such actions. DUI management advised us that the failure to send the dunning notices were the result of problems with BEACON.

Recommendation 4

We recommend that DUI

- a. perform all available collection efforts for reimbursable employers, including sending delinquency notices and, when necessary, using collateral to satisfy the debts; and**
- b. correct any BEACON issues needed to implement collection efforts.**

⁷ As of February 2024, there were a total of 2,034 reimbursable employers.

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.**

Employer Accounts

Finding 6 **DUI had not determined the cause and full extent of inaccurate employer accounts receivable records.**

Analysis

DUI had not determined the cause and full extent of inaccurate employer accounts receivable records. We were advised by DUI management that in 2023, it noted that certain accounts receivable records were inaccurate and that its review disclosed 1,426 accounts with credit balances overstated by \$20.6 million because of duplicated transactions being posted to these accounts. Accounts with a credit balance may result in a refund being issued to the employer. DUI management advised that it believed the incorrect accounts were isolated to the aforementioned duplicated transactions and in February 2024, DUI corrected its records to eliminate the overstatements.

DUI management could not document the aforementioned review and therefore we could not determine if it was sufficiently comprehensive. In this regard, our test of four accounts receivable records with credit balances totaling approximately \$2.5 million⁸ as of September 2023, disclosed that two accounts were still overstated by \$284,000 as of March 2024. DUI could not explain the cause of these two overstatements and whether there were other inaccurate records.

⁸ We selected these accounts receivable records with credit balances for testing based on materiality.

In addition, DUI could not document whether it identified and recovered any refunds resulting from the improper account balances. In this regard, we selected five material refunds totaling approximately \$327,800 from employers on a DUI provided list of 52 employer accounts with potential incorrect credit balances. Our test disclosed that one refund totaling \$16,100 was overpaid by \$12,400, prior to the aforementioned February 2024 revision by DUI. We were advised that DUI had not recovered this overpayment as of August 2024.

Per DUI's records, as of March 31, 2024, there were 50,401 employers with credit balances totaling approximately \$64.6 million. The Comptroller of Maryland's *Accounting Procedures Manual*⁹ requires the maintenance of adequate records to account for billings and related collections.

Recommendation 6

We recommend that DUI

- a. conduct a documented investigation to determine the cause and full extent of inaccurate accounts receivable records;**
- b. take corrective actions for any inaccurate records identified to ensure accurate records of employer balances are maintained; and**
- c. recoup any improper refunds issued, including the overpayment mentioned above.**

⁹ The updated *Accounting Policies and Procedures Manual*, effective June 2024, has the same requirements.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI), for the period beginning November 16, 2020 and ending January 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 DUI'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 employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, accounts receivable, and information systems security and control. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DUI by MDL – Office of the Secretary. These support services (such as payroll, human resources, procurements and disbursements, maintenance of certain accounting records, and related fiscal functions) are included within the scope of our audit of MDL - Office of the Secretary. In addition, 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 DUI'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 DUI.

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 November 16, 2020 to January 31, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DUI'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). 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 this source were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from BEACON, as well as from certain other State records, such as those maintained by the Maryland Department of Labor, for the purpose of testing unemployment tax payments. We performed various tests of the relevant data and determined 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.

DUI'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 DUI, 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 DUI'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 DUI 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 DUI and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from MDL, on behalf of DUI, 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
1	Office of Financial Regulation	<ul style="list-style-type: none"> • Consumer credit and oversight of financial institutions • Examinations and licensing 	09/20/24
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
3	Division of Unemployment Insurance (DUI) Part II Benefits	<ul style="list-style-type: none"> • Benefit payments • DUI System implementation 	11/15/22
4	Division of Occupational and Professional Licensing (DOPL)	<ul style="list-style-type: none"> • DOPL cash receipts • Licensing • Guaranty funds 	3/11/22
5	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
6	Office of the Secretary, Division of Administration, Division of Workforce Development and Adult Learning	<ul style="list-style-type: none"> • Information system security • Grants • Payroll • Federal Funds • Procurement and disbursements activities • Support services to other divisions of MDL such as payroll, procurements and disbursements, maintenance of accounting records, and related fiscal functions 	01/7/22

APPENDIX



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

April 7, 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen,

Enclosed is the Agency Response Form (ARF) to the draft audit report on the Maryland Department of Labor – Division of Unemployment Insurance, Part 1 – Unemployment Insurance Tax Contributions for the period beginning November 16, 2020 and ending January 31, 2024.

If you have any questions or concerns, please contact our office or the Maryland Division of Unemployment Insurance.

Sincerely,

A handwritten signature in black ink, appearing to read "Portia Wu", is written over a faint, light blue circular watermark.

Portia Wu
Secretary of Labor

cc: Rachel Torres, Assistant Secretary
Division of Unemployment Insurance

**Maryland Department of Labor
Division of Unemployment Insurance
Part 1
Unemployment Insurance Tax Contributions**

Agency Response Form

Employer Contributions

Finding 1

The Division of Unemployment Insurance (DUI) did not periodically reconcile its record of all tax collections received from employers to tax payments posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.

We recommend that DUI

- a. periodically, such as monthly, reconcile its tax collection records to its employer accounts receivable records, including an investigation and resolution of significant differences noted (repeat); and**
- b. ensure that all employer payments are recorded in the accounts receivable records on a timely basis, including the amounts noted in this finding (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	6/30/25
Please provide details of corrective action or explain disagreement.	DUI has automated the BEACON system to reconcile employer accounts with the Accounts Receivable ledger since September 20, 2020. The backlog of cash reconciliation for the older, legacy Accounts Receivable ledger has been finished up to August of 2020, and DUI is currently investigating notable discrepancies. Our goal is to complete the cash reconciliation for the legacy Accounts Receivable ledger by June 30, 2025. On a daily basis, we compare the ACH reports from the bank against the BEACON system. Checks we post are then compared to BEACON employer accounts the following day to verify Employer accounts reflect deposits.		
Recommendation 1b	Agree	Estimated Completion Date:	12/31/25

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Please provide details of corrective action or explain disagreement.	<p>DUI ensured timely recording of employer payments in the accounts receivable records as follows:</p> <p>Suspense payments from September 2020 to September 30, 2023, have been thoroughly researched. Items that are recorded as zero payments identified in the account from September 2020 to December 2021 are being rectified using a PIR. This PIR fixed over 500 payments that were posted in suspense as zero-dollar amounts, including employer payments, agent payments, and intra-agency transfers. These payment amounts should match the payments we received from the Bank statements as a self-check.</p> <p>Suspense payments in the pre-BEACON (legacy) system from employers have been 100% researched and transferred, with the exception of unidentified employer payments, which are being addressed under another PIR (completed). This PIR itemized each of these suspense payments in order for us to appropriately research and allocate payments to employer accounts properly. We aim to resolve these by June 30 2025.</p> <p>DUI established a task force dedicated to working on suspense accounts and reassigned six agency accounting staff between January and March 2023. This effort reduced the suspense from 5,897 in November 2022 to 1,000 as of January 30, 2025.</p> <p>DUI assigned agency staff to collaborate directly with employers to educate them on the correct submission of payments in BEACON. This proactive approach has significantly reduced the number of suspense payments.</p> <p>DUI now receives sufficient data references from the bank, which enhances the effectiveness of researching employer payments in the suspense accounts in BEACON.</p>
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Finding 2

DUI had not verified that unemployment tax collections were properly deposited and recorded since September 2020, due to the inability to generate certain required reports from the BEACON system.

We recommend that DUI

- a. correct the system deficiencies in BEACON that are preventing accurate compiling and reporting of clearing account activity (repeat); and**
- b. periodically, such as monthly, reconcile its clearing account activity and balance per BEACON to the corresponding account data reported by the bank, including an investigation and resolution of any significant differences noted (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The system deficiencies in BEACON that were hindering accurate compilation and reporting of clearing account activity have been addressed and resolved. This update was completed on October 20, 2024. BEACON has been updated and is now functioning as required for the compilation and reporting of clearing account activity. Additionally, Clearing Bank Account Reconciliations have been successfully completed up to December 31, 2024 in BEACON.		
Recommendation 2b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The system deficiencies in BEACON that were hindering accurate compilation and reporting of clearing account activity have been addressed and resolved. This update was completed on October 20, 2024. BEACON has been updated and is now functioning as required for the compilation and reporting of clearing account activity. The Cashier's deposit batch report is reconciled with the BEACON system the following day. Additionally, Clearing Bank Account Reconciliations have been successfully completed up to December 31, 2024, in both the legacy system and BEACON.		

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Delinquent Accounts

Finding 3

DUI did not pursue liens and wage garnishments for delinquent unemployment taxes due from employers.

We recommend that DUI resume liens and garnishments of delinquent accounts, including those noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	3/15/26
Please provide details of corrective action or explain disagreement.	<p>The Legal Unit has been manually initiating lien actions since January 30, 2025. The PIR has been approved for creation, testing, and production. Due to the vendor's backlog, DUI expects it will take several months for the vendor to address the PIR and for the agency to conduct testing. This PIR will correct lien interest calculations up to the date the lien is generated. Once completed, interest must be recalculated from the due date of the identified debt up to and including the lien generation date, so it can be included on the Lien Notice.</p> <p>Liens will need to reflect the current balance for all quarters as of the lien creation date. Once this PIR is in production, lien calculations will be automated, allowing notices to be generated from BEACON instead of being processed manually.</p>		

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Finding 4

DUI did not pursue reimbursement of unemployment benefits paid on behalf of employers who were exempt from paying unemployment taxes.

We recommend that DUI

- a. perform all available collection efforts for reimbursable employers, including sending delinquency notices and, when necessary, using collateral to satisfy the debts; and**
- b. correct any BEACON issues needed to implement collection efforts.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	This action was completed on 4/30/2024. DUI is performing regular monthly review of the reimbursable employers' account collateral balances.		
Recommendation 4b	Agree	Estimated Completion Date:	3/15/26
Please provide details of corrective action or explain disagreement.	DUI is addressing BEACON deficiencies related to collection and lien activities through a PIR. We will continue to actively pursue delinquent employer accounts. DUI has finalized the updated formal written policies for the collection of delinquent employer accounts. These policies were signed and became effective on March 1, 2023.		

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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.

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Employer Accounts

Finding 6

DUI had not determined the cause and full extent of inaccurate employer accounts receivable records.

We recommend that DUI

- a. conduct a documented investigation to determine the cause and full extent of inaccurate accounts receivable records;**
- b. take corrective actions for any inaccurate records identified to ensure accurate records of employer balances are maintained; and**
- c. recoup any improper refunds issued, including the overpayment mentioned above.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	6/30/25
Please provide details of corrective action or explain disagreement.	MDUI conducted an investigation and uncovered issues with over 3,300 transactions that were sitting in a suspense account without identifiable information needed to properly credit the employer, claimant, or agent. These transactions were placed in the suspense account for further research and reallocation. A dedicated team has been assigned to review all incoming suspense transactions on a daily basis. In collaboration with other agencies, such as SDAT and the Comptroller's Office, we utilize all available information to determine the identities of employers attempting to make payments, ensuring that employer accounts are credited in a timely manner.		
Recommendation 6b	Agree	Estimated Completion Date:	6/30/25

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Please provide details of corrective action or explain disagreement.	DUI has assigned specific individuals to investigate the inaccurate posting of payments. We have a shared information agreement with SDAT and the Comptroller of Maryland to identify specific employers when that information isn't provided along with their payment.		
Recommendation 6c	Agree	Estimated Completion Date:	6/30/25
Please provide details of corrective action or explain disagreement.	DUI's records suggest that employers may have a credit balance for which they would request a refund. Once the research is completed, a charge will be placed on the employer's account, indicating a liability due to a payment inaccuracy.		

AUDIT TEAM

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