

Audit Report

Maryland Department of Labor Division of Labor and Industry

January 2023



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

January 6, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, 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 Labor and Industry (DLI) for the period beginning March 19, 2018 to February 15, 2022. DLI is responsible for the safety inspections of boilers, pressure vessels, elevators, amusement rides, and railroads. It also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act.

Our audit disclosed that DLI had not established adequate accountability and control over certain collections. Specifically, these collections were not endorsed prior to deposit, nor were they recorded and deposited in a timely manner.

Our audit also included a review to determine the status of the five findings contained in our preceding audit report. While we determined that DLI made improvement by satisfactorily addressing four of those prior findings, the remaining finding is repeated in this report.

MDL's response to this audit, on behalf of DLI, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations. 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 course of this audit by DLI. We also wish to acknowledge MDL's and DLI's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Division of Labor and Industry (DLI) is a separate unit within the Maryland Department of Labor.¹ The mission of DLI is to protect and promote the health, safety, and employment rights of Maryland citizens. Specifically, DLI administers State laws that deal with employment issues, work-related safety and health issues, and prevailing wages, as well as safety inspections of amusement rides, boilers and pressure vessels, elevators, and railroads. According to the State's records, DLI's expenditures for fiscal year 2021 totaled approximately \$18.6 million.

Organizational Change

Chapter 673, Laws of Maryland 2018, effective July 1, 2018, transferred the Maryland Building Codes Administration and related duties from the Department of Housing and Community Development to DLI, and was renamed the Buildings Code Unit (BCU). The activities of the BCU since that date were subject to review in this audit.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated November 28, 2018. As disclosed in Figure 1 on the following page, we determined that DLI satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

¹ Chapter 91, Laws of Maryland 2019 renamed the Department of Labor, Licensing, and Regulation to be the Maryland Department of Labor.

Figure 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Division of Labor and Industry (DLI) did not have a process to ensure the consistent issuance of citations to, or assessments of allowed penalties on, entities that failed to obtain and pass the required elevator, boiler, or pressure vessel inspections.	Not repeated
Finding 2	DLI lacked assurance that the outsourced management system was protected against operational and security risks.	Not repeated
Finding 3	DLI did not perform periodic reviews of user access capabilities for the regulatory management system, resulting in several users with inappropriate access.	Not repeated
Finding 4	DLI was not effectively monitoring and enforcing contractor compliance with the State's prevailing wage requirements.	Not repeated
Finding 5	DLI had not established adequate accountability and control over certain collections.	Repeated (Current Finding 1)

Findings and Recommendations

Cash Receipts

Finding 1

The Division of Labor and Industry (DLI) had not established adequate accountability and control over certain collections.

Analysis

DLI had not established adequate accountability and control over certain collections. Consequently, errors or other discrepancies could occur without timely detection. According to its records, DLI receipts totaled approximately \$3.9 million during fiscal years 2021 and 2022. All DLI units use a lockbox for receiving collections except one, which continues to receive checks directly due to the submission of numerous documents that frequently accompany checks. Our review of collections received by that unit, which totaled approximately \$2.1 million in fiscal years 2021 and 2022 disclosed the following conditions:

- DLI did not restrictively endorse checks received. Specifically, checks were processed by two employees and remotely deposited without being endorsed.
- Collections were not recorded immediately upon receipt. Rather, checks were stored in a safe until the proper disposition of the checks could be determined² before being recorded on a check log.
- Collections were not always deposited timely. Our review of collections received for 10 days during fiscal years 2021 and 2022, totaling approximately \$229,000, disclosed that collections from 7 days, totaling approximately \$162,000, were deposited from 2 to 13 business days after receipt. Collections for 3 of those 7 days totaling approximately \$94,000 took 5 to 13 days.

Similar conditions regarding the lack of initial recordation and timely deposits were commented upon in our two preceding audit reports.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including initial accountability over collections received, timely deposits, and proper verification of collections to deposit.

Recommendation 1

We recommend that DLI

- record (repeat) and restrictively endorse checks immediately upon receipt, and**
- deposit all collections in a timely manner (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Labor and Industry (DLI) for the period beginning March 19, 2018 and ending February 15, 2022. 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

² As noted previously, checks for this unit are often accompanied by other documents. In certain cases, a review of the check and documents may result in DLI returning the check to the sender (this is referred to by us as determining the proper disposition of the check).

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 DLI'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 accounts receivable, cash receipts, and DLI's monitoring of compliance with certain laws pertaining to prevailing wages, as well as safety inspections for boilers, pressure vessels, and elevators. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DLI by the MDL - Office of the Secretary. These support services (such as procurement, payroll, processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Secretary.

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 March 19, 2018 to February 15, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DLI'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 DLI's automated systems used for monitoring safety inspections and certified payrolls for prevailing wages for the purpose of testing compliance with State laws and regulations. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DLI'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 DLI, 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 a finding relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DLI's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. These conditions are also significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DLI that did not warrant inclusion in this report.

The response from MDL, on behalf of DLI, to our findings and recommendations 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 MDL regarding the results of our review of its response.



Office of the Secretary
1100 N. Eutaw Street
Baltimore, MD 21201

December 14, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook,

The Department of Labor respectfully submits the enclosed response to the Office of Legislative Auditor's (OLA) report of the Division of Labor and Industry for a period beginning March 18, 2018 and ending February 15, 2022.

For the one (1) audit finding, the department has initiated measures to strengthen internal controls and improve processes to mitigate deficiencies identified in the November, 2022 audit report. We also appreciate the OLA's determination that the Division of Labor and Industry satisfactorily addressed the other four findings from the 2018 audit.

The Department of Labor would like to thank the audit staff who conducted the audit of the Division of Labor and Industry. Their professionalism and respect to our staff and processes is much appreciated. The audit helped identify deficiencies and we are appreciative of their diligence and dedication.

Should you have any questions, feel free to contact me or our Commissioner of Labor, Matthew Helminiak.

Best Regards,

A handwritten signature in black ink that reads "Tiffany P. Robinson". The signature is written in a cursive style with a large, stylized "T" and "P".

Tiffany P. Robinson
Secretary

**Maryland Department of Labor
Division of Labor and Industry**

Agency Response Form

Cash Receipts

Finding 1
The Division of Labor and Industry (DLI) had not established adequate accountability and control over certain collections.

We recommend that DLI

- a. record (repeat) and restrictively endorse checks immediately upon receipt, and
- b. deposit all collections in a timely manner (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	12/16/2022
Please provide details of corrective action or explain disagreement.	We have purchased stamps for endorsement of the checks. The process requires endorsement to take place as soon as the check has been opened. Mail received after 2 pm will be processed the following business day.		
Recommendation 1b	Agree	Estimated Completion Date:	10/1/2022
Please provide details of corrective action or explain disagreement.	We have started depositing checks within 24-48 hours of receipt.		

AUDIT TEAM

Michael J. Murdzak, CPA
Audit Manager

Mindy R. Garrett
Senior Auditor

Kareem R. Jackson
Staff Auditor