



Department of Legislative Services
Office of Legislative Audits

Department of Budget and Management (DBM) Office of the Secretary and Other Units

Report Dated October 29, 2019

Presentation to Joint Audit and Evaluation Committee

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December 17, 2019



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Audit Overview

- DBM is primarily responsible for assisting the Governor in the preparation and monitoring of the State's annual operating and capital budgets. The scope of our audit included the Office of the Secretary, which includes the State's Central Collection Unit (CCU), the Office of Budget Analysis, and the Office of Capital Budgeting.
 - DBM's expenditures for fiscal year 2018, excluding DBM's Office of Personnel Services and Benefits, which we audit and report upon separately, totaled \$24.5 million.
 - Eight of the 14 findings in this report relate to the operations of CCU, which is primarily responsible for the collection of delinquent debts owed to the State. As of June 30, 2018, outstanding debts referred to CCU totaled \$2.6 billion, and CCU's collections in fiscal year 2018 totaled \$131 million.
 - Findings 4 and 10 in this report are repeated from our preceding audit report.
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Key Findings

➤ CCU System Controls

- User access to CCU's cash register system and debt collection system, which includes personally identifiable information, was not adequately restricted.
- Collection fees of at least \$17.8 million were not assessed and certain valid debts were improperly rejected for collection because of deficiencies in the debt collection system.

➤ CCU Collection Efforts

- Potential wage garnishments were not adequately pursued.
- Controls over account abatements, which totaled \$39.1 million during our audit period, were inadequate.
- Deviations from CCU regulations granted to State agencies were not periodically reviewed for continued necessity.



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Key Findings (cont.)

- CCU Tax Refund Intercept Program (TRIP)
 - Significant debt amounts were excluded from TRIP because of system omissions and errors.
 - CCU improperly collected TRIP revenues of \$11.6 million for a private entity.

- Other Key Findings
 - Personally identifiable information recorded in the State's Financial Management Information System was not adequately restricted.
 - Network security risks existed as a result of information technology contractors having unnecessary network access.



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CCU - System Controls – Findings 1 and 2

➤ **Finding 1**

Periodic reviews of employee access to CCU's legacy debt collection system, and to its cash register system were not performed. As a result, CCU lacked assurance that access to process transactions on these critical systems was properly restricted.

- A review of 123 active debt collection system users and 37 active cash register system users disclosed 51 and 20 users, respectively, with unnecessary or inappropriate access. For example, of the 21 employees who had access to change an account status to inactive on the debt collection system and stop all collection activity for the account, only 2 required the access for their job duties.

➤ **Finding 2**

Access to personally identifiable information (PII), such as names and social security numbers, for 5.8 million accounts in CCU's debt collection system was not adequately restricted. For example, 974 user accounts with access to view PII had not been used since they were created, up to 6 years prior to our review.



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CCU - System Controls – Finding 3

Deficiencies in CCU's debt collection system resulted in the failure to assess collections fees of at least \$17.8 million, and the rejection of certain valid debts submitted by State agencies for collection. These system deficiencies occurred when agencies submitted the principal and interest portion of delinquent debts to CCU separately rather than as a combined total. When this occurred:

- The collection system applied CCU's standard 17% collection fee to the principal portion of the debt, but not the interest portion, as required. The \$17.8 million we noted relates only to debts outstanding as January 2018.
- The collection system was programmed to consider only the principal field when determining whether the dollar value of the debt met CCU's \$30 threshold for accepting a debt for collection. Principal balances below the threshold were incorrectly rejected even if principal and interest combined exceed the \$30 threshold.



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CCU - Collection Efforts – Findings 4 and 5

➤ **Finding 4**

CCU did not always pursue wage garnishments from debtors when viable wages were identified through quarterly computer matches of its accounts with wage data from the Maryland Department of Labor.

- A review of 20 debtors appearing on the 2017 second quarter match, and who had debts of \$3.9 million as of September 2017, disclosed 16 debtors with wages of \$798,800 for whom no garnishment had been initiated as of January 2018 and there was no documentation as to why garnishment had not been pursued.

➤ **Finding 5**

CCU lacked procedures for ensuring that only accounts authorized for abatement were moved to abated status. Approximately 24,000 accounts totaling \$39.1 million were abated during our audit period. Our test of 20 accounts totaling \$8 million disclosed 4 totaling \$349,000 without evidence of the required abatement committee approval.



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CCU - Collection Efforts – Finding 6

CCU did not periodically review existing deviations from State regulations granted to State agencies regarding the submission of delinquent accounts to CCU.

- Deviations include, for example, granting an extension of time to submit to CCU certain types of delinquent accounts receivable held by an agency.
- At the time of our review, 35 agencies had 117 active deviations initially authorized by CCU between December 1979 and October 2017, with the majority (88) established prior to 1999. Deviations are granted without expiration dates or renewal requirements.
- OLA believes that a process for monitoring, reevaluation, and renewal is necessary to determine if existing deviations are still warranted and effective.



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CCU – Tax Refund Intercept Program (TRIP) – Finding 7

Certain significant debt amounts were excluded from submission to the Comptroller of Maryland for TRIP because of deficiencies in how CCU identified and prepared the accounts for submission.

- Individual debts over \$100,000 were submitted for \$99,999, excluding the remaining balance, because CCU had not timely addressed a longstanding account balance limitation in its debt collection system.
 - For tax year 2017, CCU used a new debt system to combine for submission, multiple accounts due from a single individual or entity. However, a programming error in the system caused all accounts to be rejected if one account in the group was not eligible for TRIP.
 - A test of 30 debtor accounts totaling approximately \$74.7 million that were eligible for TRIP for the 2017 tax year, disclosed that debts totaling only \$1.6 million were submitted for TRIP because of the two deficiencies.
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CCU – Tax Refund Intercept Program – Finding 8

CCU improperly collected revenues totaling approximately \$11.6 million for a private entity through TRIP after the law authorizing such collections to be handled by CCU was repealed July 1, 2005. Of this amount, \$1.8 million was collected during our audit period.

- Under State law, defaulted loans guaranteed by the Maryland Higher Education Loan Corporation (MHELC), a State-recognized nonprofit, could be submitted to CCU for collection through TRIP.
 - When MHELC was dissolved in 1996 and its debts and guarantees transferred to a private entity, the law continued to allow defaulted MHELC loans held by the private entity to be submitted to CCU for TRIP. However, when that law was repealed in 2005, CCU continued to collect debts on behalf of the private entity.
 - DBM was not aware of this matter until we brought the matter to its attention in January 2018.
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Other Findings

➤ **Finding 9 – Financial Management Information System**

DBM, in conjunction with the Comptroller of Maryland and the Department of Information Technology did not ensure that access to vendor PII, specifically social security numbers, on the State's Financial Management Information System (FMIS) was adequately restricted.

- As of August 2018, approximately 5,200 State employees had access to FMIS, and therefore, depending on their access level, potentially had access to this sensitive PII.

➤ **Findings 10, 11 and 12 – Information Systems Security and Control**

- PII was stored without adequate safeguards.
 - Network security risks existed because IT contractors had certain unnecessary access to the DBM network.
 - A complete IT disaster recovery plan was lacking.
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Other Findings (cont.)

➤ **Finding 13 – Interagency Agreements**

DBM did not require State agencies to include their agreements with local community colleges (other than the Baltimore City Community College) in their annual reporting of interagency agreements to the Department. Since 2005, State budget law has required agencies to report to DBM their interagency agreements with public institutions of higher education that exceed \$100,000. Agreements with Maryland community colleges are to be considered interagency agreements according to BPW. Proper reporting is essential since interagency agreements are exempt from State procurement laws.

➤ **Finding 14 – Motor Vehicle Fleet**

DBM lacked documented justification for excluding certain vehicle types from its annual review of vehicle usage, and certain cost assessments used in the evaluation of vehicle usage were not properly calculated.



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Conclusions

DBM should:

- conduct documented periodic reviews of user access to CCU's debt collection and cash register systems to ensure propriety;
 - take the recommended steps to restrict and safeguard personally identifiable information (PII) in the debt collection system and in FMIS;
 - correct the identified programming deficiencies in the debt collection system;
 - pursue potential wage garnishments;
 - establish adequate controls over the abatement of accounts;
 - periodically review existing deviations from State regulations for continued necessity;
 - ensure that all eligible debt amounts, but only eligible debt amounts, are submitted for inclusion in TRIP;
 - implement the recommendations to improve information systems security and controls;
 - require State agencies to report interagency agreements with community colleges; and
 - take the recommended steps to improve its annual review of State vehicle usage.
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