Special Report

Statewide Review of Budget Closeout Transactions for Fiscal Year 2023

January 2024

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly

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January 19, 2024

Senator Clarence K. Lam, M.D., 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 review of budget closeout transactions at the Maryland Department of Health (MDH), the Department of Human Services (DHS), and the Maryland State Department of Education (MSDE) for the fiscal year ended June 30, 2023. Our review disclosed certain transactions made by each of the three agencies were either not in compliance, or otherwise represented significant conditions that warrant disclosure in this report. A summary of our findings, by agency, is included in Exhibit 1.

Our review disclosed that MDH, DHS, and MSDE could not provide documentation to support the propriety of significant accrued federal fund revenue transactions. As explained further in this report, the agencies recorded the accrued revenues based on the balance in the accounts at year-end without verifying that the transactions accurately represented amounts collectible from the federal government and could not readily demonstrate that the funds were subsequently recovered.

Certain of the amounts accrued did not seem reasonable. For example, the net accrued federal revenues recorded by MSDE represented more than 30 percent of its 2023 federal expenditures when they recovered federal funds on a monthly basis. In addition, MDH’s accrued revenues for certain accounts were identical to those in one or more prior years. While some or all of these amounts may ultimately be recovered by the three departments, to the extent that the federal funds are not available, State general funds may be needed to cover any related deficits.

We also identified certain transactions recorded by DHS and MSDE whereby these agencies avoided reverting unused general fund appropriations totaling $17 million and $1.4 million, respectively.

MDH had unprovided for payables and other general fund liabilities totaling $123 million as of June 30, 2023, which included obligations related to certain disallowed claims for federal funds and unfulfilled spending requirements. These potential liabilities represent longstanding unresolved conditions that were disclosed in one or more of our preceding closeout reports. Depending on the resolution of these matters with the federal government, the expenditures related to these liabilities may have to be funded with subsequent year appropriations, or through a deficiency appropriation. MDH also did not properly disclose unrecoverable federal funds potentially totaling $8.8 million, as required.

Finally, MSDE did not always properly account for special fund revenue. Consequently, MSDE reported inaccurate fund balances to the Comptroller of Maryland's General Accounting Division (GAD) at year-end, including several significant deficit balances that could not be readily explained, such as a $230 million deficit for the Maryland Education Trust Fund.

The primary objective of this annual review is to alert the Maryland General Assembly to significant financial and budgetary closeout transactions that do not comply with applicable laws, regulations, and policies or otherwise represent significant matters relating to closeout that we noted and which we believe warrant disclosure in this report. Nevertheless, we advised the appropriate agencies of our findings, and formal responses were not requested since this report contains no recommendations. The issues identified during this review will be fully addressed, as appropriate, in our fiscal compliance audit reports on the applicable agencies, which will include relevant recommendations.

Since this report contains no recommendations, formal responses were not requested. However, given the significance and repeat status of certain MDH findings from the prior fiscal year 2022 report, MDH requested the opportunity to provide written comments to be included in the current report. Although this was an unusual request and was contrary to our historical presentation, we agreed to include MDH's comments as an addendum to this report. Since MDH's comments do not constitute a formal response, we did not review the comments further.

We wish to acknowledge the cooperation extended to us during the review by GAD, MDH, DHS, and MSDE.

Respectfully submitted,

Gregory A. Hook, CPA
Legislative Auditor

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*** Denotes item repeated in full or part from preceding audit report**

Background Information

The Comptroller of Maryland – General Accounting Division (GAD) annually provides State agencies with instructions for completing the fiscal year-end budget closeout process. State agencies individually report to GAD their fiscal year-end closeout transactions that have not been previously recorded in the State's accounting records. GAD is responsible for closing the State's accounting records on a statewide basis and for preparing the State's *Annual Comprehensive Financial Report*.

GAD contracts with an independent accounting firm for the purpose of expressing an opinion on the State's basic financial statements contained in the *Annual Comprehensive Financial Report*, which, as of January 3, 2024, had not yet been finalized for fiscal year 2023. The firm will determine whether the State's financial statements have been presented fairly, in all material respects, the respective financial position of the State of Maryland as of June 30, 2023, and the respective changes in the financial position and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America (referred to as GAAP).

Introduction, Objective, and Scope

We conducted a review of the State's budget closeout transactions for the fiscal year ended June 30, 2023. This review was conducted under the authority of the State Government Article, Section 2-1220 of the Annotated Code of Maryland.

The objective of our review was to determine whether budget closeout transactions processed by the Maryland Department of Health (MDH), the Department of Human Services (DHS), and the Maryland State Department of Education (MSDE), for the fiscal year ended June 30, 2023, were properly supported and made in accordance with State budgetary laws, regulations, and accounting policies and to determine if other significant liabilities or conditions relating to closeout existed at fiscal year-end.

Our review consisted of tests of significant year-end transactions for MDH, DHS, and MSDE, based on our assessment of risk and materiality, to ascertain if the transactions were properly supported and made in accordance with State budgetary laws, regulations, and accounting policies and to determine if other significant liabilities or conditions relating to closeout existed at fiscal year-end. We reviewed, on a limited basis, transactions processed subsequent to June 30, 2023 to determine if the transactions were properly recorded (such as charged or credited to the proper fiscal year).

Our review was limited to MDH, DHS, and MSDE based our professional judgment as to the overall significance and potential impact on the State's General Fund of those three departments' year-end closing activity in relation to the State as a whole. We also determined that two of the findings included in this report were conditions repeated from our January 26, 2023 report entitled *Statewide Review of Budget Closeout Transactions for Fiscal Year 2022* (see Exhibit 1).

Our review was limited to the procedures necessary to accomplish the aforementioned objective. These procedures did not constitute an audit conducted in accordance with generally accepted government auditing standards (GAGAS). Had we conducted an audit in accordance with GAGAS, those standards would require the issuance of recommendations as part of our reporting process. In addition, other matters may have come to our attention that would have been reported. We advised MDH, DHS, and MSDE of our findings. Formal responses were not requested since this report contains no recommendations. MDH's comments were included as an addendum to this report, but do not constitute a formal response. Our fieldwork was conducted during the period from September 2023 to December 2023.

Change in Scope and Methodology

During our current review we focused on MDH, DHS, and MSDE closeout transactions. This change in approach was the result of concerns related to MDH's federal fund accounting procedures raised during our *Statewide Review of Budget Closeout Transactions for Fiscal Year 2022* and subsequent fiscal compliance audit report of the *MDH - Office of the Secretary and Other Units* (dated October 19, 2023). Accordingly, we chose to focus our current year's review on MDH, DHS, and MSDE, which collectively accounted for $16.4 billion (81 percent) of the State's $20.3 billion in federal fund expenditures during fiscal year 2023.

Federal fund expenditures are generally recovered on a reimbursable basis (the State incurs the costs and then is reimbursed by the federal government). As a result, agencies generally have a federal fund receivable at year end for amounts expended for which the related federal revenue has not yet been recovered.

Findings

Accrued Revenue Transactions

Background
The Comptroller of Maryland - General Accounting Division (GAD) requires all federal fund accounts to be zeroed out at year-end. To accomplish this, agencies must record an accrued revenue for any amounts due or defer any balances to the next year (such as by recording a negative accrued revenue transaction) as further described in Figure 1.

Figure 1
Year-End Accrued Revenue Calculation

Starting Balance (Carry-Over From Prior Year) + **Current Expenditures Recorded to Account** - **Revenues Allocated to Account** = **Amount Accrued**

Year-End Balance	Accrued Revenue	Explanation
Deficit	**Positive**	• Expenditures exceed the revenue recorded in the account. • A **positive** accrued revenue entry is recorded to close the account at zero, with the expectation that the funds will be received in the next fiscal year.
Surplus	**Negative**	• Revenues exceed the expenditures recorded in the account. • A **negative** accrued revenue entry is recorded to close the account at zero, deferring the recognition of revenues, for funds already received, to the next fiscal year.

GAD year-end closing instructions provide that these transactions should reflect amounts that are collectable within 60 days of the end of the fiscal year and that revenue should be recognized in the same fiscal year the expenditure is made. The closing instructions also require that detail documentation to support the transactions be maintained.

At the end of fiscal year 2023, MDH, DHS, and MSDE recorded accrued federal fund revenue entries totaling $10.5 billion, comprised of positive accrued revenue entries totaling $6 billion (recording a receivable for anticipated future funds due) and negative accrued revenue entries totaling $4.5 billion (deferring revenue received to the subsequent year) (see Figure 2 on the following page). The net entries, totaling $1.5 billion, represent the amount needed to offset deficit account balances at year-end.

Figure 2
Fiscal Year 2023 Federal Fund Expenditures and Accrued Revenue Entries by Agency ($ in millions)

Agency	Expenditures	Accrued Revenue Entries					
		Positive		Negative		Net Amount	Percent of Expenditures
		Count	Amount	Count	Amount		
MDH[1]	$11,765	794	$4,304	427	($3,640)	$664	5.6%
DHS	2,885	18	781	3	(543)	238	8.2%
MSDE	1,730	24	952	17	(347)	605	35.0%
Total	**$16,380**	**836**	**$6,037**	**447**	**($4,530)**	**$1,507**	

Source: State accounting records

Finding 1
MDH could not provide documentation to support the propriety of accrued federal fund revenue totaling approximately $2.3 billion or the subsequent recovery of the funds.

Analysis
MDH was unable to provide documentation to support the propriety of approximately $2.3 billion in accrued federal fund revenue or the subsequent recovery of the funds. At the end of fiscal year 2023, MDH recorded 1,221 accrued federal fund revenue entries totaling $7.9 billion, including 794 positive accrued revenue entries totaling $4.3 billion (recording a receivable for anticipated future funds due) and 427 negative accrued revenue entries totaling $3.6 billion (deferring revenue received to the subsequent year).

[1]The net accrued revenue recorded at the end of fiscal year 2023 decreased significantly from 2022. The decrease was the result of MDH recovering approximately $973 million after we notified them of missing reconciliations subsequent to the 2022 closeout. In addition, MDH, with the support and assistance of the Department of Budget and Management, transferred funds between accounts with longstanding surplus balances to accounts with longstanding deficit balances. While MDH could not provide definitive documentation that the funds in these accounts were related, the transfers did have the desired effect of eliminating longstanding account balances. We acknowledge that obtaining such support may not be possible or cost effective due to the longstanding nature of the associated balances.

MDH Could Not Support Accrued Revenue Entries Tested

We selected 8 of the positive journal entries totaling $2.5 billion, including a $230.7 million accrued revenue journal entry posted to a federal funds clearing account in the Medical Care Programs Administration (MCPA). MDH could not readily document that 5 of the positive entries (totaling $2.3 billion) accurately reflected amounts collectable from the federal government. MDH used an automated script to record year-end revenue entries to offset positive and negative account balances at year-end without verifying that the amounts recorded were valid and collectable.

An evaluation of these year-end account balances at year-end is critical because of the significant amount of federal funds MDH receives each year, which may mask unrecovered expenditures. Deficit balances would be expected at year-end (or on any given date) since MDH program costs are generally recovered on a reimbursable basis. However, the aforementioned $230.7 million deficit balance in the clearing account is questionable since the account is only used to record and account for federal revenues until allocation to the appropriate accounts and therefore, should not have a negative balance. In this context, the entry recorded for this account represents a $230.7 million shortfall in Medicaid reimbursements as of June 30, 2023.

Furthermore, our analysis of all 1,221 accrued revenue entries disclosed that 408 entries (33 percent) related to accounts that had no expenditure activity recorded during fiscal year 2023, including 202 positive entries made to eliminate deficit balances totaling $619.3 million. In addition, 48 percent (197) of the 408 entries were identical to automated entries made in one or more prior fiscal years dating as far back as June 30, 2015 (see Figure 3 on the following page).

Figure 3
Accrued Federal Fund Revenue Entries For Accounts With No Expenditure Activity Recorded in Fiscal Year 2023

First Fiscal Year Entry Recorded	Positive Entries (Deficit Account Balances)		Negative Entries (Surplus Account Balances)	
	Entries	Amount	Entries	Amount
2015	5	$ 37,198	7	$ (3,478,047)
2016	11	6,599,179	9	(309,727)
2017	8	12,470,340	5	(991,918)
2018*	0	-	0	-
2019	19	9,071,519	29	(1,001,464,361)
2020	11	8,129,306	19	(1,716,171)
2021	14	9,928,910	17	(876,337)
2022	17	3,237,941	26	(94,477,440)
2023	117	569,867,664	94	(1,936,096,310)
Totals	**202**	**$619,342,057**	**206**	**$(3,039,410,311)**

*We excluded fiscal year 2018 from our analysis because GAD recorded the year-end revenue accruals on MDH's behalf.

Source: State accounting records

Accrued revenue entries that are identical to entries made in previous fiscal years or for accounts without related current year expenditures raise concerns that federal reimbursement for previous State payments may not have been requested or may no longer be available. Although MDH senior fiscal management personnel advised that many of these positive entries (deficit account balances) were offset by negative entries (surplus account balances), as of December 2023, MDH had not offset these amounts and could not document the extent to which the underlying account balances were related.

<u>MDH Could Not Document it Recovered the Recorded Accrued Revenue</u>
As of December 2023, MDH could not document that 5 of the aforementioned accrued revenue entries tested had been recovered from the federal government. For example, two of the accrued revenues totaling $1.99 billion were to offset longstanding Developmental Disabilities Administration (DDA) balances for which MDH believes the funds had been collected and allocated to other accounts but could not provide documentation for this assertion. Another entry was for an account used for COVID relief funds that were advanced to MDH and per MDH management had been overspent by $53 million. MDH management believe this amount is recoverable under a federal FEMA grant but had not yet attempted to recover the funds. For another $44.9 million accrued revenue entry related to Medicaid funds, MDH management acknowledged that $15.6 million is related to

prior years and needs further analysis to determine whether funds were collected and misallocated, or if the amount was not recovered.

While some or all of these amounts may ultimately be recovered, to the extent that the federal funds are not available, State general funds may be needed to cover any related deficits. Similar conditions were noted during our *Statewide Review of Budget Closeout Transactions for Fiscal Year 2022* and our subsequent fiscal compliance audit report of the *MDH – Office of the Secretary and Other Units* (dated October 19, 2023). MDH advised that it had not fully implemented corrective action in response to these prior findings.

Finding 2
The Department of Human Services (DHS) could not provide documentation to support the propriety of its accrued federal fund revenue entries or the subsequent recovery of the funds.

Analysis
DHS was unable to provide documentation to support the propriety of its accrued federal fund revenue entries. At the end of fiscal year 2023, DHS recorded 21 accrued federal fund revenue entries totaling $1.3 billion, consisting of 18 positive accrued revenue entries totaling $781.4 million and 3 negative accrued revenue entries totaling $543.3 million.

DHS Could Not Support Accrued Revenue Entries
DHS maintains a database (outside of the State's accounting records) to track expenditures and revenues received for each of its federal grant programs. DHS advised us that the accrued revenue entries recorded in the State's accounting records equaled the net amount receivable for all of its federal grants according to this database. However, DHS did not analyze the accrued revenue entries (which reflected combined activity for multiple federal grants) to ensure the amounts were related to current (fiscal year 2023) expenditures and to identify variances indicative of errors in the underlying account balances.

An evaluation of the balances at year-end is critical because of the significant amount of federal funds DHS receives each year, which may mask unrecovered expenditures or errors in DHS' accounting records. Specifically, we noted that DHS did not identify certain questionable accrued revenue transactions, including a $292.1 million entry to eliminate the deficit balance in an account that only had expenditures of $22.2 million during fiscal year 2023. We compared this entry to the accrued revenue entries for the account during prior years and noted that the amount had increased from $10.9 million in fiscal year 2020 to $223.4 million in fiscal year 2022, even though the annual expenditures for this account on DHS' accounting records never exceeded $27 million.

DHS did not consider these questionable balances until we brought the matter to its attention during our current closeout review. In response to our inquiry, DHS advised that the deficit balance in this account was the result of certain journal entries recorded since fiscal year 2021 that erroneously allocated revenue from the account to offset expenditures in other unrelated accounts. DHS further advised that it had received the entire amount accrued and that the $292.1 million entry was offset by one of the negative entries (surplus account balance) for another account. However, as of December 7, 2023, DHS had not corrected the erroneous journal entries and consequently could not readily document the extent to which the underlying account balances were related.

<u>DHS Could Not Document it Recovered the Recorded Accrued Revenue</u>
DHS could not readily support that the June 30, 2023 fiscal year-end accrued revenues were received in the subsequent fiscal year. DHS advised that approximately half of the amount accrued was received in fiscal year 2024 and the remaining accrued revenue was related to accrued expenditures recorded at year end that will be recovered once the expenses are realized. As of December 2023, DHS had not allocated funds from the accounts where the revenues were initially credited by the Office of the State Treasurer[2] to the accounts where the related accrued revenue entries were recorded.

As a result, we could not readily determine whether the funds received in the subsequent year were related to the amounts accrued. While some or all of these amounts may ultimately be recovered, to the extent that the federal funds are not available, State general funds may be needed to cover any related deficits.

Finding 3
MSDE could not provide documentation to support the propriety of approximately $1.3 billion in accrued federal fund revenue or the subsequent recovery of the funds.

Analysis
MSDE could not support the propriety of approximately $1.3 billion in accrued federal fund revenue. At the end of fiscal year 2023, there were 41 accrued federal fund revenue transactions recorded in MSDE financial records totaling $1.3 billion, consisting of 24 positive accrued revenue entries (recording a

[2] The Office of the State Treasurer receives funds from the federal government and credits the related State agency's accounts to reflect the receipt of funds.

receivable for anticipated future funds due) totaling $951.9 million, and 17 negative accrued revenue entries (deferred revenue) totaling $346.5 million. Even if the aforementioned balances are related, the net receivable of $604.6 million represents 35 percent of MSDE's fiscal year 2023 expenditures that totaled $1.73 billion (see Figure 2). Given that MSDE's practice is to recover federal funds monthly, the amount recorded could indicate untimely recovery or uncollectable federal funds.

<u>MSDE Could Not Support Accrued Revenue Entries Tested</u>
MSDE recorded accrued revenues based on the balances for each budgetary appropriation number, each of which included multiple federal grants, without reviewing the entries to ensure the accruals represented amounts due for each grant. MSDE did not analyze the accrued revenue entries (which reflected combined activity for multiple federal grants) to ensure the amounts were related to current expenditures and to identify any variances indicative of errors in the underlying account balances. Consequently, this process did not ensure that the accrued revenue entries were proper and represented amounts that were actually collectable in the subsequent year.

Our review of certain of these accrued revenue entries identified amounts that appeared improper or otherwise unsupportable. For example, in one clearing account, MSDE recorded a negative accrued revenue which deferred federal fund revenues totaling $181.7 million to fiscal year 2024. However, MSDE management could not document that the $181.7 million in federal revenue was related to fiscal year 2024 expenditures to justify the transaction. Since federal funds are generally received subsequent to the expenditures being incurred, MSDE should have allocated the funds to offset any deficit balances in other accounts in fiscal year 2023.

<u>MSDE Could Not Document it Recovered the Recorded Accrued Revenue</u>
MSDE could not readily demonstrate that the accrued revenues were received in the subsequent fiscal year. MSDE management advised us that they track revenue by federal grant rather than the specific accrual. We selected federal fund recoveries associated with six grants to see whether the amounts accrued, totaling $519.2 million, were subsequently recovered. Our review disclosed that as of December 1, 2023 MSDE had only recovered $263.1 million during fiscal year 2024 related to these accrued revenues[3] and was unable to provide support for the remaining $256.1 million (see Figure 4 on the following page).

[3] Other federal funds received were related to fiscal year 2024 expenditures.

Figure 4
Test of June 30, 2023 Accrued Federal Fund Revenues Not Collected as of December 1, 2023
(amounts in millions)

Count	Grant Description	Accrued Revenue	Amount Collected	Amount Not Collected
1	COVID Emergency Grant[4]	$132.7	$93.6	$39.1
2	COVID Emergency Grant[4]	98.0	62.7	35.3
3	Grant for equal education opportunity	87.9	44.6	43.3
4	COVID Grant - Healthy School Facilities Fund	80.0	-	80.0
5	Grant for low-income families to obtain childcare	62.8	28.1	34.7
6	Grant for special education to children with disabilities	57.8	34.1	23.7
	Totals	**$519.2**	**$263.1**	**$256.1**

Source: MSDE Records

Certain of the amounts that had not been collected date back to fiscal year 2022. For example, $40 million of the $80 million outstanding for COVID Grant - Healthy School Facilities Fund was carried over from the fiscal year 2022 closeout. MSDE management advised us that this grant is administered by the Department of Budget and Management (DBM) for the Interagency Commission on School Construction (IAC).[5] Although this entry was made by MSDE, MSDE had not pursued the matter with DBM to determine the reason for the lack of recovery of these funds from the federal grantor. While some or all of these amounts may ultimately be recovered, to the extent that the federal funds are not available, general funds may be needed to cover any related deficits.

[4] MSDE accounted for this grant in separate phases.

[5] Chapter 679, Laws of Maryland 2023, established the IAC as an independent unit of State Government effective July 1, 2023. Previously, the IAC operated as an independent unit of the Maryland State Department of Education.

Expenditure Transactions

Finding 4
DHS did not revert unused general fund appropriations totaling $17 million as required by State law.

Analysis
DHS did not revert unused general fund appropriations totaling $17 million in accordance with State law.

- At fiscal year-end, DHS recorded accrued expenditures totaling $20.4 million related to estimated foster care payments for the fourth quarter of fiscal year 2023 and subsequently realized all of these expenditures in fiscal year 2024. However, our review disclosed that according to DHS records actual foster care expenditures for the fourth quarter totaled only $18.6 million and therefore, the remaining $1.8 million should have been reverted to the State's General Fund. Our further review disclosed a similar transaction made in fiscal year 2023 whereby DHS improperly retained $506,000 of its fiscal year 2022 foster care appropriation.

- DHS could not provide support for the transfers of unspent general funds from fiscal years 2021 ($2.3 million) and 2022 ($12.4 million) totaling $14.7 million that were used to offset fiscal year 2023 budget shortfalls in various programs such as child welfare services. DHS advised that the expenditures were related to accrued expenditures or encumbrances recorded during those prior fiscal years; however, as of December 2023, DHS could not provide documentation to support this assertion.

Finding 5
MSDE transferred federal fund expenditures totaling approximately $1.4 million to the General Fund to avoid reverting unspent general fund appropriations at fiscal year-end.

Analysis
MSDE transferred federal fund expenditures totaling approximately $1.4 million to the General Fund to avoid reverting unspent general fund appropriations at year-end. MSDE received a federal grant in fiscal year 2023 for the development or subsequent implementation of standards-based State academic assessments. MSDE recorded related grant expenditures as federal expenditures as they occurred during the year. However, rather than use the federal grant funds for the

purpose intended, and to avoid reverting any unspent general fund appropriation to the State at fiscal year-end, MSDE processed a journal entry to reclassify approximately $1.4 million of these federal expenditures as general fund expenditures. The use of general funds when federal funds are available is a violation of State law. Specifically, Chapter 484, Laws of Maryland 2022 (Fiscal Year 2023 Budget Bill) states that federal funds shall be charged before State funds are charged.

Other Liabilities

Finding 6
MDH reported $123 million in unprovided for general fund payables and other general fund liabilities as of June 30, 2023.

Analysis
MDH reported unprovided for payables and other potential general fund liabilities totaling approximately $123 million as of June 30, 2023. As detailed below, this amount consists of three different components: $34.2 million in unresolved longstanding disallowed federal fund claims related to the DDA residential habilitation add-on services under its Community Pathways waiver program (a Medicaid funded program), $32.8 million related to estimated reimbursements to Medicaid providers that exceeded the appropriation for MCPA, and a potential liability to the federal government of approximately $56 million for an obligation relating to the Rebalancing Fund Demonstration which is associated with the MCPA Money Follows the Person (MFP) program.

<u>Disallowed DDA Claims</u>
In June 2018, the federal Centers for Medicare and Medicaid Services (CMS) notified MDH that it was disallowing claims made between July 1, 2010 and June 30, 2013, totaling $34.2 million, related to add-on services for certain consumers that DDA approved without considering the consumers' level of need. The Maryland Office of Attorney General, on behalf of MDH and DDA, appealed CMS' decision to the federal Department of Health and Human Services (DHHS) Departmental Appeals Board; however, as of November 2023, DHHS had not responded to this appeal.

CMS will assess interest accrued on any amounts it determines were properly disallowed beginning on the date of initial disallowance (June 2018). Consequently, the total federal liability may exceed $34.2 million. Comments regarding this matter have been made in our eight preceding *Statewide Review of Budget Closeout Transactions* reports.

Unprovided For Medicaid Payments
MDH reported an unprovided for payable of $32.8 million related to estimated reimbursements to Medicaid providers for services rendered during fiscal year 2023 that had not been billed to MCPA as of June 30, 2023. Consequently, these expenditures may have to be funded with subsequent year appropriations (or through a deficiency appropriation).

Potential Liability for Unspent MFP Funds
MDH reported a potential liability to the federal government of approximately $56 million as of June 30, 2023 for an obligation related to enhanced funding received under the MCPA MFP program. Specifically, the State agreed to accept federal funds covering 75 percent of its MFP program expenditures instead of the more traditional 50 percent federal funding arrangement used in many other federal assistance programs. The 25 percent savings that the State realized from the enhanced federal reimbursement rate is required to be spent on additional MFP program expenditures.

As noted in in our *Statewide Review of Budget Closeout Transactions for Fiscal Years 2021* and *2022* reports, MDH had continuously failed to spend the savings on MFP program expenditures resulting in a growing potential liability. Specifically, the potential liability reported by MDH for fiscal years ending 2021, and 2022 totaled $49.3 million and $52 million, respectively, and as of June 30, 2023 was $56 million. MDH has until September 30, 2025 to spend the savings on MFP program expenditures or the remaining unspent savings will need to be returned to the federal government.

Finding 7
MDH did not properly report unrecoverable federal funds totaling up to $8.8 million to GAD.

Analysis
MDH did not properly report unrecoverable federal funds potentially totaling $8.8 million to GAD. Our October 26, 2022 DDA report noted that DDA did not recover federal fund expenditures totaling $8.8 million related to provider payments made in fiscal years 2019 and 2020. In April 2023, MDH, on behalf of DDA, advised that these funds were no longer recoverable. [6.] However, in response to our inquires during the current closeout review, MDH advised that DDA was still investigating the matter and had determined that certain payments included in the $8.8 million were never eligible for federal reimbursement based

[6] Federal regulations require claims to be submitted for reimbursement within two years after the calendar quarter in which the expenditures were made.

on the type of service provided. MDH maintains that these costs were properly charged as general fund expenditures so the amount of actual unrecoverable federal funds is less than $8.8 million.[7]

MDH advised that it would disclose the results of the investigation to the Department of Budget and Management and GAD when it was completed, but acknowledged that at least some of the aforementioned $8.8 million is no longer recoverable. As a result, State general funds may have been used to cover any related deficits.

Special Funds

Finding 8
MSDE did not always properly allocate special fund revenue, resulting in inaccurate fund balances being reported to GAD at year-end, including deficit balances that could not be readily explained.

Analysis
MSDE did not always properly allocate special fund revenue, resulting in inaccurate fund balances being reported to GAD at year-end, including deficit balances that could not be readily explained. Consequently, to the extent that special funds are not available for the aforementioned deficit balances, general funds may be required. MSDE accounted for each of its special funds in one or more appropriation numbers and at year end reported net balances totaling approximately $2.43 billion. We reviewed four special fund balances (see Figure 5 on the following page) that were accounted for under several appropriation numbers.

[7] Due to the timing constraints of this review, our Office will analyze any additional support provided by MDH or DDA on this matter during our next fiscal compliance audit of DDA.

Figure 5
Review of Special Fund Account Balances at June 30, 2023

Special Funds	Deficit Account Balances		Surplus Account Balances		Net Balance
	Appropriation Numbers	Amount	Appropriation Numbers	Amount	Amount
Blueprint for Maryland's Future	17	$(1,354,643,456)	1	$2,851,108,724	$1,496,465,268
Maryland Education Trust Fund	7	(230,231,965)	3	1,110,037,198	879,805,233
Dedicated Purpose Fund	3	(10,187,471)	0	-	(10,187,471)
Cigarette Restitution Fund	19	(20,431,251)	13	19,709,955	(721,296)
Totals	**46**	**$(1,615,494,143)**	**17**	**$3,980,855,877**	**$2,365,361,734**

Source: State accounting records

Our review disclosed that MSDE did not allocate special fund revenues resulting in deficit account balances in certain appropriation numbers for the Blueprint for Maryland's Future and the Maryland Education Trust Fund totaling $1.35 billion and $230 million, respectively. Subsequent to our review, MSDE investigated the Blueprint for Maryland's Future balances and processed a journal entry in December 2023 to eliminate the deficits. MSDE advised us that it still needs to research the reported activity for the Maryland Education Trust Fund to determine if similar entries can be made to eliminate the deficit balances.

For two other special funds, Dedicated Purpose Fund and Cigarette Restitution Fund, the net ending balance resulted in a deficit that could not readily be explained. Our review disclosed deficit year-end net balances totaling approximately $10.9 million in these two special funds (Dedicated Purpose Fund totaling $10.2 million and the Cigarette Restitution Fund totaling $721,000). MSDE receives revenue for these funds from other State agencies to support MSDE activities. After we brought this to MSDE's attention, it began investigating these balances, but as of November 2023 it had not determined a resolution.

Exhibit 1

Summary of Fiscal Year 2023 Closeout Review
Findings by State Agency

Agency	Finding Number	Finding Description
Maryland Department of Health	**1***	Support could not be provided for accrued federal fund revenue totaling approximately $2.3 billion.
	6*	Unprovided for general fund payables totaled $123 million as of June 30, 2023.
	7	Unrecoverable federal funds totaling up to $8.8 million were not properly reported to the General Accounting Division.
Department of Human Services	**2**	Support could not be provided for accrued federal fund revenue entries or the subsequent recovery of the funds.
	4	Unused general fund appropriations totaling $17 million were not reverted to the General Fund in accordance with State law.
Maryland State Department of Education	**3**	Support could not be provided for accrued federal fund revenue totaling approximately $1.3 billion.
	5	Federal fund expenditures totaling approximately $1.4 million was transferred to the General Fund to avoid reverting unspent general fund appropriations in accordance with State law.
	8	Special fund revenue was not always properly accounted for, resulting in inaccurate fund balances being reported at fiscal year-end.

*** Denotes item repeated in full or part from preceding report**

Maryland
DEPARTMENT OF HEALTH

Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

January 17, 2024

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

Dear Mr. Hook:

The Maryland Department of Health (Department) appreciates the steadfast work of the Office of Legislative Audits (OLA) to identify critical fiscal processes and controls in need of improvement at the Department. We remain committed to addressing the severe audit findings contained in this report, as well as OLA's findings and recommendations issued in calendar 2023.

The Department recognizes that the fiscal year 2023 closeout findings document continued fiscal challenges, and we have made strides to improve fiscal accountability in several areas. The Department has engaged an external accounting firm to support the Department's efforts to improve fiscal practices. Working with this external firm, the Department has made progress in several areas, including:

- Performing a reconciliation between the Department's main payment and fiscal systems. A standardized reconciliation methodology is being used across all relevant fiscal years.
- Updating fiscal standard operating procedures (SOPs) and business process flows.
- Performing a current state assessment to identify operational and organizational opportunities to optimize the future state of the Department's Office of Finance. This will strengthen our ability to quickly identify and mitigate future risks including improvement of internal controls and increase the accuracy of financial reporting.

Next steps will include updating and enhancing business processes that enable consistency in execution and generate auditable supporting documentation. We also plan to develop dashboards and analytical reports to monitor reconciliations more easily and identify variances.

The Moore-Miller Administration is committed to service, transparency, and accountable stewardship of taxpayer dollars. My leadership team is dedicated to improving processes within the Department that will ultimately result in better service to Marylanders.

We look forward to our continued work with OLA to correct these findings. If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,

Laura Herrera Scott, MD, MPH

Secretary

cc: Erin K. McMullen, R.N., Chief of Staff, MDH
Marie Grant, Assistant Secretary for Health Policy, MDH
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security, MDH
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