Special Report

Statewide Review of Budget Closeout Transactions for Fiscal Year 2024

January 2025

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

Victoria L. Gruber
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Legislative Auditor

January 29, 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 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, 2024. The Comptroller of Maryland - General Accounting Division (GAD) provides instructions to State agencies for completing the fiscal year-end budget closeout process which includes recording transactions (entries) in the State's accounting records.

Our review disclosed certain entries made by each of the three agencies were either not in compliance, or otherwise represented significant conditions that warrant disclosure in this report. This report also includes the results of our review of certain accrued federal fund revenue entries recorded by the Maryland Department of Emergency Management (MDEM) and the Maryland Department of Labor (MDL) which were identified during the respective audits of these agencies.

A summary of our findings and the related liabilities to the State, by agency, is included in **Exhibit 1**. In total, we identified \$3.7 billion in unsupported accruals, \$597 million in potential unfunded liabilities, and \$166 million in known unfunded liabilities. Many of these transactions relate to the recovery of federal funds, some or all of which may ultimately be recovered by the departments. However, to the extent that federal funds are not available or the related matters are not resolved, State general funds may be needed to cover any related deficits.

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In addition, subsequent to our review, the Department of Legislative Services (DLS) notified the Spending Affordability Committee that MDH had a projected $350 million budget deficit for fiscal year 2025 related to activity that was not subject to this review.

The primary objective of this annual review is to alert the Maryland General Assembly to significant financial and budgetary closeout entries 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. We advised the appropriate agencies of our findings, but formal responses were not requested since this report contains no recommendations.

Many of the issues identified in this report are the result of underlying systemic deficiencies with the procedures and controls for accounting for the related activity. These deficiencies have been and/or will be addressed in audits of the respective agencies and will include recommendations.

We wish to acknowledge the cooperation extended to us during the review by each of the agencies.

Respectfully submitted,

Brian S. Tanen

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Legislative Auditor

Table of Contents

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

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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 entries 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 15, 2025, had not yet been finalized for fiscal year 2024. 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, 2024, 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).

Projected Fiscal Year 2025 Deficit Disclosed by the Maryland Department of Health (MDH)

Subsequent to our review, the Department of Legislative Services (DLS) notified the Spending Affordability Committee that MDH had a projected $350 million budget deficit for fiscal year 2025. Based on information provided by MDH to DLS, the deficit primarily relates to advanced payments to providers that had not been recouped. In this regard, during fiscal year 2024 MDH recorded accounts receivable entries totaling $342.3 million related to advanced payments to 202 providers that had not been recovered as of June 30, 2024.

Since these entries were not recorded as part of the fiscal year 2024 closing process, they were not included in the scope of our current review. To the extent these payments cannot be recovered, general funds will be needed to cover any related deficits.

Introduction, Objective, and Scope

We conducted a review of the State's budget closeout entries for the fiscal year ended June 30, 2024. This review was conducted under the authority of the State Government Article, Section 2-1220 of the Annotated Code of Maryland.

Our review focused on entries processed by the Maryland Department of Health (MDH), the Department of Human Services (DHS), and the Maryland State Department of Education (MSDE). We chose these agencies based on 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. Specifically, these agencies collectively accounted for $15.7 billion (80 percent) of the State's $19.5 billion in federal fund expenditures during fiscal year 2024.

The objective of our review was primarily to determine whether budget closeout entries processed by MDH, DHS, and MSDE, for the fiscal year ended June 30, 2024, were properly supported and made in accordance with State budgetary laws, regulations, and accounting policies. We also determined if other significant liabilities or conditions relating to closeout existed at fiscal year-end.

Our review consisted of tests of significant year-end entries for MDH, DHS, and MSDE, based on our assessment of risk and materiality, to ascertain if the entries 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, entries processed subsequent to June 30, 2024 to determine if the entries were properly recorded (such as charged or credited to the proper fiscal year).

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. Our fieldwork was conducted during the period from August 2024 to December 2024.

This report includes the results of our review of these three agencies including five findings repeated from our January 19, 2024 report entitled *Statewide Review of Budget Closeout Transactions for Fiscal Year* 2023 (see Exhibit 1). In addition, this report includes the results of our review of certain accrued federal fund revenue entries recorded by the Maryland Department of Labor and the Maryland Department of Emergency Management which were identified during recent audits of these agencies.

We advised each of the agencies of our findings. Formal responses were not requested since this report contains no recommendations.

Findings

Accrued Revenue Entries

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 entry) 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 entries 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 entries be maintained.

At the end of fiscal year 2024, Maryland Department of Health (MDH), Department of Human Services (DHS), and Maryland State Department of Education (MSDE) recorded accrued federal fund revenue entries totaling $7.7

billion, comprised of positive accrued revenue entries totaling $4.7 billion (recording a receivable for anticipated future funds due) and negative accrued revenue entries totaling $3 billion (deferring revenue received to the subsequent year (see Figure 2).

Figure 2
Fiscal Year (FY) 2024 Federal Fund Expenditures and Accrued Revenue Entries by Agency ($ in millions)

Agency	Total FY 2024 Expenditures	Accrued Revenue Entries					
		Positive		Negative		Net Amount	Percent of FY 2024 Expenditures
		Count	Amount	Count	Amount		
MDH	$11,494	560	$2,985	434	($2,491)	$494	4.3%
DHS	2,608	19	877	3	(500)	377	14.5%
MSDE	1,591	101	879	0	-	879	55.2%
Total	**$15,693**	**680**	**$4,741**	**437**	**($2,991)**	**$1,750**	

Source: State accounting records

Finding 1
MDH could not provide documentation to support the propriety of accrued federal fund revenue totaling approximately $1.7 billion or the subsequent recovery of the funds.

Analysis
MDH was unable to provide documentation to support the propriety of approximately $1.7 billion in accrued federal fund revenue or the subsequent recovery of the funds. At the end of fiscal year 2024, MDH recorded 994 accrued federal fund revenue entries totaling $5.5 billion, including 560 positive accrued revenue entries totaling $3 billion (recording a receivable for anticipated future funds due) and 434 negative accrued revenue entries totaling $2.5 billion (deferring revenue received to the subsequent year).

MDH Could Not Support Accrued Revenue Entries Tested

Our test of 10 positive accrued revenue entries totaling $2 billion[1] disclosed that MDH could not readily document that 8 of the positive entries totaling $1.7 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, one $900.8 million unsupported entry was recorded to a federal fund clearing account in the Medical Care Program Administration (MCPA) to eliminate a deficit balance in the account at year end. The 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 shortfall in Medicaid reimbursements as of June 30, 2024.

Furthermore, we noted that a significant portion of MDH's accrued revenue entries were recorded to accounts that had no current year expenditures. Specifically, our analysis of all 994 accrued revenue entries disclosed that 265 entries (27 percent) related to accounts that had no expenditure activity recorded during fiscal year 2024, including 116 positive entries made to eliminate deficit balances totaling $2 billion. In addition, 121 (46 percent) of the 265 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). 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.

[1] We selected these test items based on materiality.

Figure 3
Accrued Federal Fund Revenue Entries For Accounts With No Expenditure Activity Recorded in Fiscal Year 2024

First Fiscal Year Entry Recorded	Positive Entries (Deficit Account Balances)		Negative Entries (Surplus Account Balances)	
	Entries	Amount	Entries	Amount
2015	2	$ 916	3	$ (248,364)
2016	3	17,381	4	(71,614)
2017	1	128,385	2	(129,873)
2018*	-	-	-	-
2019	9	1,077,356	7	(434,650)
2020	2	812,011	4	(204,684)
2021	6	39,940	12	(706,327)
2022	3	495,882	10	(73,585)
2023	27	1,879,109	26	(9,726,397)
2024	63	1,978,591,487	81	(2,213,265,487
Totals	**116**	**$1,983,042,467**	**149**	**$(2,224,860,981)**

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

Source: State accounting records

<u>MDH Could Not Document Recovery of Certain Accrued Revenues</u>
MDH could not document that 8 of the aforementioned 10 accrued revenue entries tested totaling $1.7 billion had been recovered from the federal government. For example, 4 of the accrued revenue entries totaling $700 million offset deficit balances at the Developmental Disabilities Administration (DDA). However, as of November 2024, MDH could not document that any of the amounts accrued had been recovered by DDA.

While some or all of these amounts may have been or will 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 two preceding *Statewide Review of Budget Closeout Transactions* reports for fiscal years 2022 and 2023, and our most recent fiscal compliance audit report of the *MDH – Office of the Secretary and Other Units* (dated October 19, 2023). At the time of our review MDH management advised that it was still working to implement corrective action in response to these prior findings.

Finding 2
DHS could not provide documentation to support the propriety of accrued federal fund revenue totaling $877.2 million in positive entries and $500.4 million in negative entries or the subsequent recovery of the funds.

Analysis
DHS was unable to provide documentation to support the propriety of accrued federal fund revenue entries. At the end of fiscal year 2024, DHS recorded 22 accrued federal fund revenue entries totaling $1.4 billion consisting of 19 positive accrued revenue entries totaling $877.2 million and 3 negative accrued revenue entries totaling $500.4 million.

<u>DHS Could Not Support Accrued Revenue Entries</u>
Our test of all accrued revenue entries (both positive and negative) disclosed that DHS could not readily document that these entries were accurate and/or reflected amounts collectable from the federal government. 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 recorded accrued revenue entries in the State's accounting records to bring each federal account balance to zero, and advised us that these entries equaled the net amount receivable for all of its federal grants according to this database.

Our review disclosed that, DHS did not analyze the accrued revenue entries to ensure the amounts were related to fiscal year 2024 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.

In this regard, DHS did not identify certain questionable accrued revenue entries, including a $306.9 million entry to eliminate the deficit balance in an account that only had expenditures of $20 million during fiscal year 2024. Similar questionable year-end entries in this account dating back to fiscal year 2020 were previously commented upon in our *Statewide Review of Budget Closeout Transactions for Fiscal Year 2023*. We noted that the accrued revenue entries for the account increased from $10.9 million in fiscal year 2020 to $292.1 million in fiscal year 2023, even though annual expenditures in the account never exceeded $27 million.

DHS Could Not Document Recovery of the Recorded Accrued Revenue
DHS could not readily support that the year-end accrued revenues recorded for fiscal year 2024 were received in the subsequent fiscal year. In this regard, as of October 2024, DHS had not allocated funds received in fiscal year 2025 from the accounts where the revenues were credited by the Office of the State Treasurer[2] to the accounts where the related accrued revenue entries were recorded. DHS also could not readily document that the funds in these other accounts related to the amounts accrued. DHS management advised that the lack of documentation was due to the retirement of a key fiscal employee.

As a result of these conditions, 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 have been or will 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 accrued federal fund revenue entries totaling $525.4 million or the subsequent recovery of the funds.

Analysis
MSDE could not provide documentation to support the propriety of its accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2024, MSDE recorded 101 positive accrued federal fund revenue entries totaling $878.8 million (there were no negative accrued revenue entries recorded).

MSDE Could Not Support Accrued Revenue Entries Tested
Our test of 11 accrued revenue entries[3] totaling $525.4 million disclosed that MSDE could not readily document that these entries accurately reflected amounts collectable from the federal government. Specifically, MSDE recorded accrued revenue entries to bring each federal account balance to zero at year-end without verifying that the amounts recorded were valid and collectable. MSDE did not analyze the accrued revenue entries (some of which may have reflected combined activity for multiple federal grants) to ensure the amounts were related to current

[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.
[3] We selected these test items based on materiality.

expenditures and to identify any variances indicative of errors in the underlying account balances.

Consequently, MSDE did not ensure that the accrued revenue entries were proper and represented amounts that were actually collectable in the subsequent year. This is significant because the net receivable balance represents approximately 55 percent of MSDE's $1.6 billion in fiscal year 2024 expenditures (see Figure 2 on page 9). Given that the federal government allows MSDE to recover federal funds monthly, the amount recorded may be indicative of untimely recovery or uncollectable federal funds.

In this regard, our review disclosed that certain amounts accrued appeared questionable. For example, MSDE recorded a $61.4 million accrued revenue in a clearing account that was intended to be used solely to record and account for federal revenues and therefore, should not have a negative balance. In this context, the entry recorded for this account represents a $61.4 million shortfall in various grant reimbursements from the federal government as of June 30, 2024.

MSDE Could Not Document the Recovery of Recorded Accrued Revenue
Our aforementioned test disclosed that MSDE had not requested, or could not document recovery of 9 accrued revenue entries totaling $278 million from the federal government as of November 1, 2024.

- As of November 1, 2024, MSDE has not requested reimbursement for 5 accrued revenue journal entries totaling $145.3 million. MSDE advised that between January and April 2024 it stopped requesting reimbursement for federal grant expenditures because it needed to correct certain deficiencies with its grant accounting records. MSDE could not provide an estimate of when it would request reimbursement for these expenditures.

- Although MSDE advised that it received $110.7 million related to three entries totaling $122 million, it could not support that the revenue received related to the entries.

- MSDE had not received $2.5 million related to another entry totaling $10.7 million.

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 2023*.

Accrued Revenue Findings Identified During Other OLA Audits

Background
During our routine fiscal compliance audits of the Maryland Department of Emergency Management (MDEM) and Maryland Department of Labor (MDL) we identified certain issues with their respective year-end accrued revenue entries. We determined that the significance of the issues identified warranted inclusion in this report. These findings will also be included with recommendations in the forthcoming MDEM and MDL audit reports.

Finding 4
The Maryland Department of Emergency Management (MDEM) could not support an accrued federal fund revenue entry totaling approximately $882.1 million or the subsequent recovery of certain of these funds.

Analysis
MDEM was unable to provide documentation to support the propriety of one accrued federal fund revenue entry totaling approximately $882.1 million or the subsequent recovery of the funds. At the end of fiscal year 2024, MDEM recorded five accrued federal fund revenue entries totaling $903.6 million, consisting of three positive accrued revenue entries totaling $891.3 million and two negative accrued revenue entries totaling $12.3 million.

<u>MDEM Could Not Support an Accrued Revenue Entry</u>
Our test of one accrued revenue entry[4] totaling $882.1 million disclosed that MDEM recorded the entry to offset the negative balance in one account without verifying that the amount recorded was valid and collectable from the federal government. The amount accrued seemed questionable because MDEM management advised us that it pursued federal reimbursement quarterly, and the amount accrued at year-end exceeded total fiscal year 2024 expenditures of $698.8 million.

<u>MDEM Could Not Document Recovery of Recorded Accrued Revenue</u>
MDEM also could not readily document that it had requested and collected certain of the amounts accrued. As of December 6, 2024, MDEM had only recovered $520.9 million of the $882.1 million (59 percent). As of January 15, 2025, MDEM was still in the process of investigating the remaining $361.2 million. While some or all of the remaining funds 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.

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[4] We selected this test item based on materiality.

Finding 5
The Maryland Department of Labor (MDL) could not support accrued federal fund revenue entries totaling $204.7 million, including a $67.6 million entry which MDL was aware was not recoverable because it had exceeded the related federal grant. In addition, MDL could not document the subsequent recovery of the accrued funds.

Analysis
MDL could not provide documentation to support the propriety of its accrued federal fund revenue entries or the subsequent recovery of funds, including at least $67.6 million that MDL had determined was not collectable from the federal government. At the end of fiscal year 2024, MDL recorded 21 accrued federal revenue entries totaling $210.2 million, consisting of 18 positive accrued revenues totaling $204.7 million and 3 negative accrued revenue entries totaling $5.5 million.

<u>MDL Could Not Support Accrued Revenue Entries</u>
Our review disclosed that MDL recorded 18 positive accrued revenue entries totaling $204.7 without ensuring the amounts were related to current expenditures and collectable. Specifically, MDL recorded accrued revenues based on the balances for each budgetary appropriation number, which generally reflected combined activity for multiple federal grants. This process did not ensure that the accrued revenue entries were proper and represented amounts that were actually collectable in the subsequent year. An evaluation of year-end account balances is critical because of the significant amount of federal funds MDL receives each year, which may mask unrecovered expenditures or errors in MDL's accounting records.

<u>MDL Could Not Support That it Received the Accrued Revenue</u>
MDL could not readily support that accrued revenues were subsequently received. We selected three accrued revenues[5] totaling $114.3 million accrued to see whether the revenue was subsequently recovered. MDL advised us that it had recovered some of two of the accruals, but could not specify how much was recovered or support that the funds received were related to these accruals. For the third accrual, MDL recorded a $71.7 million entry to eliminate a deficit balance in one account even though MDL was aware that $67.6 million of the amount accrued was not recoverable from the federal government because it had exceeded the available federal funding.

[5] We selected these test items based on materiality.

Our review disclosed that the $67.6 million was an accumulation of deficits dating back to fiscal year 2020. MDL management advised that it was in consultation with the Department of Budget and Management (DBM) to address the deficit. To the extent that federal funds are not available for this and the other accrued revenue entries , State general funds may be needed to cover these deficits.

Expenditure Entries

Finding 6
Year-end expenditure entries recorded by DHS were not always supported, certain of which resulted in the improper reversion of $64.3 million in general funds.

Analysis
DHS could not support certain year-end expenditure entries, resulting in the improper reversion of $64.3 million in general funds. DHS initially records most of its expenditures in holding accounts and then uses expenditure information tracked in a separate database to periodically transfer the expenditures from the holding accounts to the appropriate budgetary unit, fiscal year, and fund type. DHS recorded 144 expenditure entries with an effective date of June 30, 2024 which transferred expenditures totaling $3.9 billion, including increases of expenditures of $2.8 billion and decreases of $1.1 billion.

Our test of 10 of these expenditure entries[6] totaling $2 billion disclosed that DHS could not support the propriety of 8 entries totaling $484.4 million. Specifically, DHS could not provide documentation to support the basis for the entries. This is significant because in September 2024, DHS notified GAD that it had incorrectly recorded general fund expenditures in one account. As a result, the year-end balance in this account improperly reflected a surplus balance of $64.3 million even though DHS had expended the entire appropriation.

Due to the incorrect balance, DHS reverted the $64.3 million at fiscal year-end and therefore the funds are no longer available to cover the incurred fiscal year 2024 expenditures. Consequently, the $64.3 million may have to be funded with subsequent year appropriations or through a deficiency appropriation. DHS management advised that it was working with DBM and the Governor's Office to determine the necessary corrective actions.

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[6] Test items were selected based on materiality.

Other Liabilities

Finding 7
MDH reported $273.6 million in unprovided for general fund payables and other general fund liabilities as of June 30, 2024.

Analysis
MDH reported unprovided for general fund payables and other potential general fund liabilities totaling approximately $273.6 million as of June 30, 2024.

Disallowed DDA Claims
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 but the appeal was denied in October 2024. In addition to the aforementioned $34.2 million in disallowed claims, CMS will assess interest accrued since the initial disallowance in June 2018. Consequently, the total federal liability will likely exceed $34.2 million. Comments regarding this federal liability have been made in our nine preceding *Statewide Review of Budget Closeout Transactions* reports dating back to our review of fiscal year 2015.

Unprovided For Medicaid Payments
MDH reported a $213.7 million unprovided for general fund payable related to estimated reimbursements to Medicaid providers for services rendered during fiscal year 2024 that had still not been billed to Medical Care Programs Administration (MCPA) as of June 30, 2024. Since this amount exceeded MDH's 2024 appropriation, to the extent these expenditures are realized during fiscal year 2025, this amount may have to be funded with subsequent year appropriations (or through a deficiency appropriation). This amount reflects a significant increase in the unfunded liability from the $32.8 million commented upon in our *Statewide Review of Budget Closeout Transactions for Fiscal Year 2023*.

Potential Liability for Unspent MFP Funds
MDH reported a potential federal liability of approximately $25.7 million for an obligation related to enhanced funding received under the MCPA Money Follows the Person (MFP) program. The State obtained 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 additional 25 percent in enhanced federal reimbursements is required to be spent on additional MFP program expenditures.

As noted in our *Statewide Review of Budget Closeout Transactions for Fiscal Years 2021, 2022, and 2023* reports, MDH has continuously failed to spend the enhanced funding received on qualified MFP program expenditures resulting in a growing potential liability. Specifically, the potential liability reported by MDH for fiscal years ending 2021, 2022, and 2023 totaled $22.3 million, $24.4 million, and $24.9 million, respectively.[7] This amount grew to $25.7 million as of June 30, 2024. MDH has until September 30, 2025 to spend these savings on MFP program expenditures or they will need to be returned to the federal government. Consequently, this amount may have to be funded with subsequent year appropriations (or through a deficiency appropriation).

Finding 8
DHS did not report potential unprovided for general fund payables totaling $26 million to GAD.

Analysis
DHS identified potential unprovided for general fund payables totaling $26 million subsequent to the fiscal year 2024 closing process that have not been disclosed to GAD. Specifically, DHS identified fiscal year 2024 expenditures in two accounts related to Temporary Cash Assistance (TCA) and foster care maintenance payments coordinated by DHS' Social Services Administration which exceeded its general fund appropriations by $18.6 million and $7.4 million,[8] respectively.

DHS management advised that it was working with DBM and the Governor's Office to determine the necessary corrective actions, but that it was still in the process of reconciling the expenditures for these accounts. To the extent that expenditures exceeded the fiscal year 2024 appropriation for this account, these expenditures may have to be funded with subsequent year appropriations or through a deficiency appropriation.

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[7] MDH advised that the amounts reported in previous fiscal years incorrectly reflected the total MFP savings rather than the portion that MDH is required to spend before September 30, 2025. MDH corrected this error when reporting the unobligated balance for fiscal year 2024. Therefore, the potential liability for fiscal years 2021, 2022, and 2023 presented above does not agree to the amounts presented in our preceding closeout reports of $49.3 million, $52 million, and $56 million, respectively.

[8] This amount is in addition to the $64.3 million deficit identified in Finding 6.

Finding 9
DHS had a $100.2 million deficit balance in a non-budgeted clearing account that may require general funds to resolve.

Analysis
DHS had a $100.2 million deficit balance in a non-budgeted[9] fund account that may require general funds to resolve. The account is a clearing account used by DHS to initially record general and federal fund expenditures related to various assistance payments, such as TCA. These expenditures must be transferred to the correct budgetary unit and be allocated between federal and general funds to finance these expenditures.

DHS management was not aware of this negative account balance until we brought it to its attention in December 2024. DHS advised it would need to research this fund balance and determine the appropriate corrective action to resolve the deficit. To the extent that general and federal funds are not available, these expenditures may have to be funded with subsequent year general fund appropriations (or through a deficiency appropriation).

Special Funds

Finding 10
MSDE had year-end deficit balances in certain special funds that may require general funds to resolve.

Analysis
MSDE had year-end deficit balances in certain special funds that may require general funds to resolve. MSDE accounted for each of its special funds in one or more accounts and at year-end reported net balances totaling approximately $3.24 billion to GAD. We reviewed six of these special fund balances with a net balance of $3.20 billion (see Figure 4 on the following page).

[9] Non-budgeted accounts are cash accounts without an appropriation.

Figure 4
MSDE Special Fund Account Balances at June 30, 2024

Special Funds	Deficit Account Balances		Surplus Account Balances		Net Balance
	Number of Accounts	Amount	Number of Accounts	Amount	Amount
Blueprint for Maryland's Future	0	$ 0	12	$1,381,185,858	$1,381,185,858
Maryland Education Trust Fund	0	0	24	1,849,640,407	1,849,640,407
Dedicated Purpose Fund	3	(21,952,507)	0	-	(21,952,507)
Cigarette Restitution Fund	4	(15,866,646)	6	14,736,970	(1,129,675)
Teacher Development Fund	3	(1,321,257)	0	-	($1,321,257)
Education Related Fund	5	(2,362,057)	4	53,023	(2,309,034)
Totals	**15**	**$(41,502,467)**	**46**	**$3,245,616,258**	**$3,204,113,791**

Source: State accounting records

We noted that four funds had net negative balances totaling $26.7 million that could not be readily explained. Similar unexplained deficit balances in these accounts were noted in our *Statewide Review of Budget Closeout Transactions for Fiscal Year 2023.* MSDE advised that it was in the process of investigating and resolving these balances. To the extent that special funds are not available to cover these deficits, State general funds may be needed.

Finding 11
DHS had year-end deficit balances in certain special funds that may require general funds to resolve.

Analysis
DHS had year-end deficit balances in certain special funds that may require general funds to resolve. As shown in Figure 5, DHS accounted for each of its 6 special funds using one or more accounts and at fiscal 2024 year-end had net balances totaling approximately $9.8 million.

Figure 5
DHS Special Fund Account Balances as of June 30, 2024

Special Funds	Deficit Account Balances		Surplus Account Balances		Net Balance
	Number of Accounts	Amount	Number of Accounts	Amount	Amount
Other Special Funds	12	($203,784,603)	5	$9,126,254	($194,658,349)
Recovery Now Fund	1	(9,430,115)	-	-	(9,430,115)
Local Contributions	2	(682,036)	4	3,406,602	2,724,566
Universal Service Program Fund	-	-	7	191,598,075	191,598,075
Child Support Reinvestment Fund	2	(3,699,794)	10	23,341,309	19,641,515
IT Development Projects Fund	1	(117,774)	-	-	(117,774)
Totals	**18**	**($217,714,322)**	**26**	**$227,472,240**	**$9,757,918**

Source: State accounting records

DHS advised that the net deficit account balances (totaling $204.2 million) were offset by the net positive balances in the other accounts (totaling $214 million). However, as of December 2024, DHS had not investigated these balances to determine the extent to which they were related nor processed any journal entries to eliminate the deficits. To the extent that special funds are not available to cover these deficits, State general funds may be needed.

Exhibit 1
Summary of Fiscal Year 2024 Closeout Review
Findings by State Agency ($ in millions)

Agency	Finding Number	Unsupported Accruals	Potential Unfunded Liability	Known Unfunded Liability	Finding Description
MDH	**1***	**$1,700**			MDH could not support accrued federal fund revenue entries totaling approximately $1.7 billion or the subsequent recovery of the funds.
	7*		**$240**	**$34**	MDH reported unprovided for general fund payables totaling $273.6 million.
DHS	**2***	**$877**			DHS could not support accrued federal fund revenue entries totaling $877.2 million or the subsequent recovery of the funds.
	6			**$64**	DHS improperly reverted $64.3 million in fiscal year 2024 general funds that are needed to cover expenditures.
	8		**$26**		DHS did not report unprovided for general fund payables totaling $26 million to GAD.
	9		**$100**		DHS could not explain a $100.2 million deficit balance in a non-budgeted fund clearing account.
	11		**$204**		Special fund deficit balances totaling $204.2 million may require general funds to resolve.
MSDE	**3***	**$525**			MSDE could not support accrued federal fund revenue entries totaling $525.4 million or the subsequent recovery of the funds.
	10*		**$27**		Special fund deficit balances totaling $26.7 million may require general funds to resolve.
MDEM	**4**	**$361**			MDEM could not support accrued federal fund revenue entries totaling approximately $882.1 million or the subsequent recovery of $361.2 million of these funds.
MDL	**5**	**$205**		**$68**	MDL could not support accrued federal fund revenue entries totaling approximately $204.7 million or the subsequent recovery of the funds, including $67.6 million that it determined was uncollectable.
Total		**$3,668**	**$597**	**$166**	

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

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