Special Report

Statewide Review of Budget Closeout Transactions for Fiscal Year 2025

December 2025

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

To Obtain Further Information

Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: webmaster@ola.maryland.gov
Website: ola.maryland.gov

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

December 18, 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 for the fiscal year ended June 30, 2025. 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 focused on fiscal year 2025 closeout entries processed by eight State agencies:

1. Maryland Department of Health
2. Department of Human Services
3. Maryland State Department of Education
4. Maryland Transit Administration
5. State Highway Administration
6. Maryland Port Administration
7. Maryland Department of Emergency Management
8. Maryland Department of Labor

Our review disclosed unsupported revenue entries made by seven of these agencies, including certain agencies with longstanding issues. To the extent these unsupported revenue entries are uncollectible, they may represent deficit balances that require State general funds or other State funds to resolve. This review also disclosed other entries made by two agencies were either not in compliance with the GAD instructions, or otherwise represented significant conditions that warrant disclosure in this report.

A summary of our findings and the related liabilities to the State, by agency, is included in **Exhibit 1**. In total, we identified $3.42 billion in unsupported revenue

THE WAREHOUSE AT CAMDEN YARDS
351 WEST CAMDEN STREET · SUITE 400 · BALTIMORE, MARYLAND 21201
410-946-5900 ■ ola.maryland.gov ■ Fraud Hotline 877-FRAUD-11

accruals, $888 million in potential unfunded liabilities, and $67 million in known unfunded liabilities.

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

Brian S. Tanen, CPA, CFE
Legislative Auditor

Table of Contents

Background Information 5

Introduction, Objectives, and Scope 6

Findings 8

Accrued Revenue Entries

* Finding 1 – The Maryland Department of Health (MDH) could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $425 million or the subsequent recovery of certain funds. 10

* Finding 2 – The Department of Human Services (DHS) could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $1.31 billion or the subsequent recovery of the funds. 12

* Finding 3 – The Maryland State Department of Education could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $176 million or the subsequent recovery of certain of these funds. 13

Finding 4 – The State Highway Administration could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $600 million or the subsequent recovery of the funds, including at least $330.4 million related to project costs that were not authorized by the federal granting agency. 14

Finding 5 – The Maryland Transit Administration could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $755 million or the subsequent recovery of the funds, including $687.9 million for which there was not an executed federal grant as of June 30, 2025. 15

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

* Finding 6 – The Maryland Department of Emergency Management could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $86 million or the subsequent recovery of the funds. 16

* Finding 7 – The Maryland Department of Labor (MDL) could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $63 million or the subsequent recovery of $61 million, which MDL determined was not recoverable because it exceeded the related authorized federal funding. 17

Other Liabilities

* Finding 8 – MDH reported $280.9 million in unfunded liabilities as of June 30, 2025. 18

Finding 9 – MDH did not properly report unprovided for general fund payables totaling at least $7.2 million to the General Accounting Division (GAD). 20

* Finding 10 – DHS did not report $28 million in potential unprovided for general fund payables resulting from federal penalties to GAD, as required. 20

* Finding 11 – DHS had a $103.6 million deficit balance in a non-budgeted fund clearing account that may require general funds to resolve. 21

Special Funds

* Finding 12 – DHS had year-end deficit balances totaling approximately $205 million in certain special funds that may require general funds to resolve. 21

Exhibit 1 – Summary of Fiscal Year 2025 Closeout Review Findings by State Agency 23

* **Denotes item repeated in full or part from preceding 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 December 1, 2025, had not yet been finalized for fiscal year 2025. 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, 2025, 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, Objectives, and Scope

We conducted a review of the State's budget closeout entries for the fiscal year ended June 30, 2025. This review was conducted under the authority of the State Government Article, Section 2-1220 of the Annotated Code of Maryland.

The objectives of our review were to determine whether federal fund accrued revenue transactions processed by certain agencies for the fiscal year ended June 30, 2025, 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 the end of fiscal year 2025. Our review focused on fiscal year 2025 closeout entries processed by eight State agencies:

1. Maryland Department of Health (MDH)
2. Department of Human Services (DHS)
3. Maryland State Department of Education (MSDE)
4. State Highway Administration
5. Maryland Transit Administration
6. Maryland Department of Emergency Management
7. Maryland Department of Labor
8. Maryland Port Administration

We chose these agencies based on our professional judgment as to the overall significance and potential impact on the State's General Fund of these agencies' year-end closing activity in relation to the State as a whole. Specifically, these eight agencies collectively accounted for approximately $18.1 billion (91 percent) of the State's $20 billion in federal fund expenditures during fiscal year 2025.

Our review consisted of tests of significant year-end federal fund accrued revenue transactions for the aforementioned eight agencies, as well as other significant closeout activity for MDH, DHS, and MSDE. These selections were made based on our assessment of risk and materiality. We reviewed, on a limited basis, entries processed subsequent to June 30, 2025 to determine if the entries were properly recorded (such as charged or credited to the proper fiscal year).

This report includes the results of our review of these agencies, including nine findings repeated from our January 29, 2025 report entitled *Statewide Review of Budget Closeout Transactions for Fiscal Year 2024* (see Exhibit 1). We conducted our review during the period from September 2025 to November 2025 and the conclusions contained in this report are based on the documentation we obtained during this period from, and interviews with, applicable staff at the respective State agencies.

Our review was limited to the procedures necessary to accomplish the aforementioned objectives. 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 management of the respective agencies of our findings. Formal responses were not requested since this report contains no recommendations. The issues identified during this review, as well as relevant recommendations, will be fully addressed, as appropriate, in our fiscal compliance audit reports on the applicable agencies.

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 detailed documentation to support the entries be maintained.

At the end of fiscal year 2025, State agencies recorded accrued federal fund revenue entries totaling approximately $8.78 billion, comprised of positive accrued revenue entries totaling $5.96 billion (recording a receivable for anticipated future funds due) and negative accrued revenue entries totaling $2.82 billion (deferring revenue received to the subsequent year [see Figure 2]).

Figure 2
Fiscal Year (FY) 2025 Federal Fund Expenditures and Accrued Revenue Entries by Agency ($ in millions)

Agency	Total FY 2025 Expenditures	Accrued Revenue Entries				
		Positive		Negative		Absolute Value
		Count	Amount	Count	Amount	
Maryland Department of Health (MDH)	$12,199	1,045	$1,151	199	($398)	$1,549
Department of Human Services (DHS)	2,683	45	2,230	10	(1,615)	3,845
Maryland State Department of Education (MSDE)	1,580	96	429	0	-	429
State Highway Administration (SHA)	808	5	600	0	-	600
Maryland Transit Administration (MTA)	375	6	755	5	0	755
Maryland Department of Emergency Management (MDEM)	234	6	88	3	(1)	89
Maryland Department of Labor (MDL)	215	55	271	9	(76)	347
Maryland Port Administration (MPA)	55	11	31	4	(26)	57
Other	1,837	1,108	410	441	(701)	1,111
Total	**$19,986**	**2,377**	**$5,965**	**671**	**($2,817)**	**$8,782**

Source: State accounting records

Our review focused on accrued federal fund revenue entries processed by the 8 agencies listed in Figure 2. Specifically, we tested 57 accrued revenue entries totaling $4.24 billion processed by these agencies based on materiality. For each transaction, we requested the agency to provide support that the amount accrued reflected funds collectable from the federal government and that the amount accrued was received in the subsequent fiscal year.

Figure 3
Summary of Federal Fund Revenue Accruals Tested for Fiscal Year 2025 ($ in millions)

Agency	Entries Tested		Unsupported Entries		Revenue Outstanding
	Count	Amount (Absolute Value)	Count	Amount (Absolute Value)	
MDH	20	$1,043	10	$ 425	$ 460
DHS	5	1,316	5	1,316	1,316
MSDE	10	319	6	176	163
SHA	5	600	5	600	600
MTA	4	755	4	755	755
MDEM	5	86	5	86	86
MDL	3	63	3	63	61
MPA	5	57	0	-	1
Totals	**57**	**$4,239**	**38**	**$3,421**	**$3,442**

Our testing disclosed unsupported accruals totaling $3.42 billion recorded by 7 of the agencies, and that the agencies either had not received or could not document receipt of $3.44 billion of the amount accrued as of October 2025. Findings 1 through 7 of this report explain the results of our review of each agency.

Finding 1
MDH could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $425 million or the subsequent recovery of certain funds.

Analysis
MDH was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, MDH recorded 1,244 accrued federal fund revenue entries totaling $1.55 billion, including 1,045 positive accrued revenue entries totaling $1.15 billion and 199 negative accrued revenue entries totaling $398 million. The net amount accrued ($753 million) is 6.2 percent of MDH's fiscal year 2025 federal fund expenditures.

MDH Could Not Support Accrued Revenue Entries Tested

Our test of 20 positive accrued revenue entries totaling approximately $1 billion disclosed that MDH could not readily document that 10 entries totaling $425 million accurately reflected amounts collectable from the federal government. Although MDH provided us with documentation for each entry tested, it did not adequately support some or all of the amounts accrued. For example, for a $14.7 million accrual, MDH only provided support that it requested reimbursement of $7.4 million and could not support the funds were received or that the remainder of the accrual was collectable.

MDH did not identify certain questionable accrued revenue entries. For example, our analysis of all 1,244 federal fund accrued revenue entries disclosed MDH made 10 positive entries totaling $283.7 million to eliminate deficit balances despite no expenditure activity being recorded during fiscal year 2025. Accrued revenue entries 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.

MDH Could Not Document Recovery of Certain Accrued Revenues

MDH could not document that 16 entries totaling $466.9 million, of the aforementioned 20 accrued revenue entries tested, had been fully recovered from the federal government. As of September 2025, MDH could only document that it recovered $6.9 million related to 2 accruals totaling $13.4 million. MDH could not readily support that the remaining $460 million had been recovered at the time of our review. This condition was caused, at least in part, because MDH had not reconciled the $2.5 billion in federal funds received in fiscal year 2026 to the amounts accrued. As a result, we could not readily determine the extent these amounts related to fiscal year 2026 activity or the accruals tested.

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 preceding *Statewide Review of Budget Closeout Transactions* reports for fiscal year 2022, 2023, and 2024 and our most recent fiscal compliance audit report of the *MDH – Office of the Secretary and Other Units* (dated October 19, 2023).

In July 2023, MDH contracted with an accounting firm to help address the longstanding issues with its accrued revenues and underlying records. As of October 2025, MDH has paid the firm $10.1 million and at the time of our review MDH management advised they believed corrective actions were in place to address these findings.

Finding 2
DHS could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $1.31 billion or the subsequent recovery of the funds.

Analysis
DHS was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, DHS recorded 55 accrued federal fund revenue entries totaling $3.84 billion, comprised of 45 positive accrued revenue entries totaling $2.23 billion and 10 negative accrued revenue entries totaling $1.61 billion. The net amount accrued ($615 million) is 22.9 percent of DHS's fiscal year 2025 federal fund expenditures.

<u>DHS Could Not Support Accrued Revenue Entries Tested</u>
Our test of five positive accrued revenue entries totaling approximately $1.31 billion recorded to offset the deficit account balances at year end disclosed that DHS could not document that the entries accurately reflected amounts collectable from the federal government. In this regard, DHS did not identify certain questionable accrued revenue entries, including a $339.1 million revenue accrual to an account that only had $33.2 million in federal expenditures recorded during fiscal year 2025. As noted in the prior review, similar questionable entries were recorded in this account in fiscal years 2020 through 2024, during which the year-end revenue accrual increased from $10.9 million to $306.9 million despite annual expenditures never exceeding $27 million.

<u>DHS Could Not Document Recovery of Accrued Revenues</u>
DHS could not document that the aforementioned $1.31 billion had been recovered from the federal government. As of September 2025, DHS had received $386.3 million in federal funds during fiscal year 2026. DHS could not readily determine the extent that the amounts received related to fiscal year 2026 or the aforementioned accruals. 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 regarding DHS' federal fund accruals dating back to fiscal year 2020 were previously commented upon in our *Statewide Review of Budget Closeout Transactions* for fiscal years 2023 and 2024 and our most recent fiscal compliance audit report of the *Department of Human Services – Office of the Secretary* (dated February 28, 2025). At the time of our review DHS management advised that it was still working to implement corrective action in response to these prior findings.

Finding 3
MSDE could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $176 million or the subsequent recovery of certain of these funds.

Analysis
MSDE could not provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, MSDE recorded 96 positive accrued federal fund revenue entries totaling $429 million (there were no negative accrued revenue entries recorded). The amount accrued is 27.2 percent of MSDE's fiscal year 2025 federal fund expenditures.

<u>MSDE Could Not Support Accrued Revenue Entries Tested</u>
Our test of 10 accrued revenue entries totaling approximately $319 million disclosed that MSDE could not readily document that 6 of these entries totaling $176 million accurately reflected total amounts collectable from the federal government. Specifically, the total unreimbursed expenditures for these federal grants collectively exceeded the amounts accrued by $51.3 million. For example, MSDE recorded an accrual for $11.3 million for the school breakfast program even though the unreimbursed expenditure balance totaled $16.4 million at June 30, 2025. MSDE could not readily explain these variances. Accordingly, we could not determine the propriety of the amounts accrued.

<u>MSDE Could Not Document Recovery of Accrued Revenues</u>
As of October 2025, MSDE could not document that it had recovered 7 accrued revenue entries tested totaling $242.1 million. Specifically, for 4 accruals totaling $78.6 million, MSDE provided documentation of $161.8 million in revenue received which exceeded the amount accrued by $83.2 million. We could not determine the extent to which this revenue was related to the amounts accrued and MSDE could not readily explain these discrepancies. For the remaining 3 accruals totaling $163 million accrued for federal COVID grants, MSDE had not received any funds. MSDE advised the recovery of these funds had been delayed because in March 2025, the U.S. Department of Education rescinded the extension period for certain COVID-related grants. Maryland and other states filed a lawsuit regarding these funds and in May 2025, the U.S. District Court issued an injunction which was upheld in June 2025 by the U.S. Court of Appeals allowing Maryland to submit reimbursement requests for these funds.

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. Similar conditions were noted during our two preceding *Statewide Review of Budget Closeout Transactions* for fiscal years 2023 and 2024. MSDE management acknowledged that it had issues with its federal fund accounting records that they were still working to correct.

Finding 4
SHA could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $600 million or the subsequent recovery of the funds, including at least $330.4 million related to project costs that were not authorized by the federal granting agency.

Analysis
SHA was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, SHA recorded five accrued federal fund revenue entries totaling $600 million. The net amount accrued has more than tripled in the past several years, from $172.9 million in fiscal year 2020 to $600 million in fiscal year 2025. The current accrual represents 74.3 percent of SHA's fiscal year 2025 federal fund expenditures, which raises questions about the collectability of the amounts accrued.

<u>SHA Could Not Support Accrued Revenue Entries Tested</u>
Our test of all five accrued revenue entries disclosed that SHA could not readily document that these entries accurately reflected amounts collectable from the federal government. The amount accrued is questionable considering that SHA records indicated that $330.4 million related to project costs that were not authorized by the federal granting agency and therefore may not be recoverable. Furthermore, our September 2025 audit report of SHA noted that the unauthorized amount increased to $358.7 million as of August 2025. In its response to that report, SHA advised that it was working to recover these funds and that State funds would not be needed to cover any unrecoverable amounts, but it could not readily estimate how much would be recovered. This practice is inconsistent with GAD guidelines and raises concerns that the amounts may not be recovered.

<u>SHA Could Not Document Recovery of Recorded Accrued Revenue</u>
SHA could not document that the any of the $600 million had been recovered from the federal government. As of September 30, 2025, SHA had received $426.2 million in federal funds during fiscal year 2026. SHA did not have a process to track the recovery of its accrued revenues and, consequently, could not

readily determine the extent that the amount received related to fiscal year 2026 activity or the aforementioned accruals. While some or all of the remaining funds may ultimately be recovered, to the extent that the federal funds are not available, special funds (specifically, the Transportation Trust Fund) or State general funds may be needed to cover any related deficits.

Similar conditions were noted in our September 2025 audit report of the *Maryland Department of Transportation – State Highways Administration*. At the time of our review SHA management advised that it was still working to implement corrective action in response to these findings.

Finding 5
MTA could not provide documentation to support the propriety of accrued federal fund revenue entries totaling \$755 million or the subsequent recovery of the funds, including \$687.9 million for which there was not an executed federal grant as of June 30, 2025.

Analysis
MTA was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, MTA recorded 11 accrued federal fund revenue entries totaling \$755 million, comprised of six positive accrued revenue entries totaling \$755 million and five negative accrued revenue entries totaling \$350,000. The net amount accrued (\$755 million) is 201.5 percent of MTA's fiscal year 2025 federal fund expenditures, which raises questions about the collectability of the amounts accrued.

<u>MTA Could Not Support Accrued Revenue Entries Tested</u>
Our test of four positive accrued revenue entries totaling \$755 million disclosed that MTA could not readily document that these entries accurately reflected amounts collectable from the federal government. This amount is questionable given that \$687.9 million (91 percent) of the amount accrued related to expenditures for which MTA did not have an executed federal grant as of June 30, 2025. For example, \$18.8 million accrued for one project without an executed federal grant included unreimbursed expenditures which appeared to date back to fiscal year 2022. Although MTA advised that the Federal Transit Administration allowed it to retroactively recover eligible expenditures made prior to executing a grant agreement, this practice is inconsistent with GAD guidelines and raises concerns that the amounts may not be recoverable.

MTA Could Not Document Recovery of Recorded Accrued Revenue
As of September 30, 2025, MTA could only document that it recovered $64.8 million of the $755 million (8.6 percent) from the federal government. As noted above, the majority of the amounts accrued cannot be recovered until MTA executes a federal grant agreement. While some or all of the remaining funds may ultimately be recovered, to the extent that the federal funds are not available, special funds (specifically, the Transportation Trust Fund) or State general funds may be needed to cover any related deficits.

Finding 6
The Maryland Department of Emergency Management (MDEM) could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $86 million or the subsequent recovery of the funds.

Analysis
MDEM was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2025, MDEM recorded nine accrued federal fund revenue entries totaling $89 million, comprised of six positive accrued revenue entries totaling $88 million and three negative accrued revenue entries totaling $1 million. The net amount accrued ($87 million) is 37.2 percent of MDEM's fiscal year 2025 federal fund expenditures.

MDEM Could Not Support Accrued Revenue Entries Tested
Our test of five positive accrued revenue entries totaling $86 million disclosed that MDEM could not readily document that these entries accurately reflected amounts collectable from the federal government. For example, MDEM advised that four of these accruals totaling $77.9 million related to expenditures made on behalf of other State agencies[1] that needed to be approved by those agencies to enable MDEM to request federal reimbursement. As of September 2025, these agencies had not approved the expenditures which dated back to July 2020, raising questions about whether these amounts are still collectable.

MDEM Could Not Document Recovery of Recorded Accrued Revenue
As of September 2025, MDEM had not requested or received the aforementioned $86 million from the federal government. While some or all of these amounts may be recovered, to the extent that the federal funds are not available, State

[1] According to MDEM records, these outstanding approvals related to MDH ($66.4 million), MSDE ($84,000), the Department of Public Safety and Correctional Services ($323,000), and the Department of Budget and Management ($11.1 million).

general funds may be needed to cover any related deficits. In this regard, for the aforementioned four accruals totaling $77.9 million, the deadline to request reimbursement is December 29, 2025.

Similar conditions were noted during our preceding *Statewide Review of Budget Closeout Transactions for Fiscal Year 2024,* and our most recent fiscal compliance audit report of the *Maryland Department of Emergency Management* (dated May 12, 2025). MDEM management advised they believed corrective actions were in place to address these findings.

Finding 7
The Maryland Department of Labor (MDL) could not provide documentation to support the propriety of accrued federal fund revenue entries totaling $63 million or the subsequent recovery of $61 million, which MDL determined was not recoverable because it exceeded the related authorized federal funding.

Analysis
MDL was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of certain funds. At the end of fiscal year 2025, MDL recorded 64 accrued federal fund revenue entries totaling $347 million, comprised of 55 positive accrued revenue entries totaling $271 million and 9 negative accrued revenue entries totaling $76 million. The net amount accrued ($195 million) is 90.7 percent of MDL's fiscal year 2025 federal fund expenditures.

<u>MDL Could Not Support Accrued Revenue Entries Tested</u>
Our test of three accrued revenue entries totaling $63 million disclosed that MDL could not readily document that these entries accurately reflected amounts collectable from the federal government. For example, the age and collectability of a $61 million entry is questionable considering the balance in this account was an accumulation of deficits dating back to fiscal year 2020. MDL could not document any specific actions taken to address this deficit including how it addressed a $67.6 million deficit at the end of fiscal year 2024 that MDL had previously determined was not recoverable because it had exceeded the available federal funding. As a result, the $61 million accrued at the end of fiscal year 2025 does not appear to reflect amounts that are actually recoverable.

<u>MDL Could Not Document Recovery of Recorded Accrued Revenue</u>
Our test of the three accrued revenue entries disclosed that MDL could not document that the aforementioned $61 million had been recovered from the

federal government. As of September 2025, MDL had received $34.6 million in federal funds during fiscal year 2026 but had only recorded $139 in this account and could not readily document the extent these amounts related to fiscal year 2026 activity or the $61 million accrued.

Similar conditions were noted during our preceding *Statewide Review of Budget Closeout Transactions* report for fiscal year 2024 and our most recent fiscal compliance audit report of the *Maryland Department of Labor - Office of the Secretary, Division of Administration, and the Division of Workforce Development and Adult Learning* (dated April 16, 2025). While some or all of this amount may be recovered, to the extent that the federal funds are not available, State general funds may be needed to cover any related deficits.

Other Liabilities

Finding 8
MDH reported $280.9 million in unfunded liabilities as of June 30, 2025.

Analysis
MDH reported $280.9 million in unfunded liabilities as of June 30, 2025.

<u>DDA Unprovided for Payables</u>
MDH reported $189.6 million in unfunded payables related to Developmental Disability Administration (DDA) expenditures that exceeded its fiscal 2025 appropriation. Accordingly, this amount may have to be funded with subsequent year appropriations (or through a deficiency appropriation).

<u>Disallowed DDA Claims</u>
MDH reported an unfunded federal fund liability totaling $39.3 million related to 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. MDH's appeal of CMS' decision was denied in October 2024.

As a result, MDH is required to repay the $34.2 million in disallowed claims and $5.1 million in interest accrued since the initial disallowance in June 2018. Comments regarding this federal liability have been made in our 10 preceding *Statewide Review of Budget Closeout Transactions* reports dating back to our review of fiscal year 2015. DDA's fiscal year 2026 general fund appropriation included $39.3 million to pay for the disallowance.

Disallowed Nursing Facility Enhanced Rates

MDH reported an unfunded federal fund liability totaling $27.3 million related to enhanced rates paid during fiscal year 2025 to Maryland Medicaid nursing facilities that were not approved by the federal government. In July 2025, CMS notified MDH that it would need to return funds obtained based on the unapproved rates. In this regard, MDH determined that the disallowance totaled $89.7 million which exceeded the available remaining general fund appropriation in fiscal year 2025 by $27.3 million. Accordingly, this amount may have to be funded with subsequent year appropriations (or through a deficiency appropriation).

Potential Liability for Unspent MFP Funds

MDH reported a potential federal liability of approximately $24.7 million for an obligation related to enhanced funding received under the Medical Care Programs Administration's 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, 2023, and 2024* reports, MDH has continuously failed to spend the enhanced funding received on qualified MFP program expenditures resulting in a potential liability. In this regard, the potential liability reported by MDH during this period ranged between $22.3 million to $25.7 million, and was still $24.7 million as of June 30, 2025. MDH has until September 30, 2027 to spend these savings on MFP program expenditures or the funds will need to be returned to the federal government.[2] Consequently, this amount may have to be funded with subsequent years' appropriations (or through a deficiency appropriation).

[2] The date to spend these savings was extended from September 2025 to September 2027 based on the federal Consolidated Appropriations Act, 2023.

Finding 9
MDH did not properly report unprovided for general fund payables totaling at least $7.2 million to GAD.

Analysis
MDH did not properly report unprovided for general fund payables totaling at least $7.2 million to GAD. Our test of 10 disbursements[3] totaling approximately $337.3 million processed during July and August 2025, disclosed 6 disbursements included payments totaling $7.2 million for Medicaid claims dating back to August 2019 that were charged against MDH's fiscal year 2026 appropriation. MDH advised these payments related to longstanding suspended Medicaid claims. As of October 2025, MDH was still investigating the matter and could not readily determine the appropriate funding source for these payments and whether additional Medicaid claims from prior years had been paid with fiscal 2026 appropriations.

Since MDH used fiscal year 2026 general funds to pay for these expenses, to the extent the 2026 appropriation is needed to pay current year expenses, MDH may require a deficiency appropriation.

The GAD year-end closing instructions require any material payables that are not recorded in the State's accounting records or that are charged to the next fiscal year to offset a current year deficit, be reported.

Finding 10
DHS did not report $28 million in potential unprovided for general fund payables resulting from federal penalties to GAD, as required.

Analysis
DHS did not report $28 million in potential unprovided for general fund payables resulting from federal penalties to GAD, as required. In June 2024, the U.S. Department of Agriculture's Food and Nutrition Service (FNS) determined that Maryland's Supplemental Nutrition Assistance Program (SNAP) error rate[4] for fiscal years 2022 and 2023 exceeded the national average and assessed DHS a $16.6 million penalty. A similar penalty of $11.4 million was assessed in June

---

[3] We selected disbursements from the beginning of fiscal year 2026 based on materiality.
[4] The SNAP error rate measures a state's ability to properly determine eligibility and issue benefits in the correct amount. According to federal regulations, States that exceed the national average error rate for two consecutive years are assessed a penalty.

2025 for fiscal year 2023 and 2024. DHS has appealed FNS' decision; however, as of November 2025, FNS had not responded to these appeals.

FNS will assess interest accrued on any penalties that are ultimately upheld, beginning from the date of the initial assessment. Consequently, the total federal liability may ultimately exceed $28 million. The GAD year-end closing instructions require any material payables that are not recorded in the State's accounting records be reported.

Finding 11
DHS had a $103.6 million deficit balance in a non-budgeted fund clearing account that may require general funds to resolve.

Analysis
DHS had a $103.6 million deficit balance in a non-budgeted[5] fund account that may require general funds to resolve. The account is a clearing account used to initially record general and federal fund expenditures related to various assistance payments, such as Temporary Cash Assistance. These expenditures must be transferred to the correct budgetary unit and be allocated between federal and general funds to finance these expenditures.

A similar condition was commented upon in our preceding *Statewide Review of Budget Closeout Transactions* report for fiscal year 2024. As of October 2025, DHS had not researched this fund balance to 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 12
DHS had year-end deficit balances totaling approximately $205 million 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 4, DHS accounted for five special funds using one or more accounts. At fiscal year 2025 year-end, these five special

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

funds had accounts with deficit balances totaling $205 million, including a $9.4 million deficit in one account that was identical to the balance at the end of fiscal year 2024. While other special fund accounts had positive balances, as of October 2025,[6] DHS had not investigated these balances or determined the extent to which the deficit and positive balances were related. To the extent that special funds are not available or permitted[7] to cover these deficits, State general funds may be needed.

Figure 4
Certain DHS Special Fund Account Balances as of June 30, 2025

Special Funds	Deficit Account Balances		Surplus Account Balances		Net Balance
	Number of Accounts	Amount	Number of Accounts	Amount	Amount
Other Special Funds	1	($175,704,443)	-	-	($175,704,443)
Recovery Now Fund	1	(9,430,115)	-	-	(9,430,115)
Local Contributions	6	(6,396,548)	-	-	(6,396,548)
Child Support Reinvestment Fund	2	(13,317,173)	10	14,294,969	977,796
IT Development Projects Fund	1	(114,774)	-	-	($114,774)
Totals	**11**	**($204,963,053)**	**10**	**$14,294,969**	**($190,668,084)**

Source: State Accounting Records

[6] In addition to the positive balance noted in Figure 4, the Universal Service Program Special Fund also had a positive balance of $191 million.
[7] Special funds may only be used for the purposes designated by law.

Exhibit 1

Summary of Fiscal Year 2025 Closeout Review Findings by State Agency ($ in millions)

Agency	Finding Number	Unsupported Accruals	Potential Unfunded Liability	Known Unfunded Liability	Finding Description
MDH	1*	$425			MDH could not support accrued federal fund revenue entries totaling approximately $425 million or the subsequent recovery of the funds.
	8*		$214	$67	Unprovided for general fund payables totaled $281 million, including $67 million that must be returned to the federal government.
	9		$7		MDH payments using subsequent fiscal year general fund appropriations related to services provided in previous fiscal years 2020 through 2025.
DHS	2*	$1,316			DHS could not support accrued federal fund revenue entries totaling $1.31 billion or the subsequent recovery of the funds.
	10*		$28		DHS did not report potential unprovided general fund payables totaling $28 million to GAD as required.
	11*		$104		DHS could not explain a $104 million deficit balance in a non-budgeted fund clearing account.
	12*		$205		Special fund deficit balances totaling $205 million may require general funds to resolve.
MSDE	3*	$176			MSDE could not support accrued federal fund revenue entries totaling $176 million or the subsequent recovery of the funds.
MDEM	6*	$86			MDEM could not support accrued federal fund revenue entries or subsequent recovery totaling $86 million.
MDL	7*	$63			MDL could not support accrued federal fund revenue entries totaling $63 million or the subsequent recovery of $61 million of these funds.
MTA	5	$755			MTA could not support accrued federal fund revenue entries totaling $755.1 million or the subsequent recovery the funds.
SHA	4	$600	$330		SHA could not support accrued federal fund revenue entries or the subsequent recovery totaling $600.2 million, including $330.4 million that had not been authorized by the federal government.
Total		**$3,421**	**$888**	**$67**	

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

Audit Team

James J. Podhorniak, CPA, CFE
Audit Manager

David R. Fahnestock, CPA
Data Analytics Manager

Patrick J. Cavanaugh, CPA
Walter L. Horan, IV
Sandra C. Medeiros
Senior Auditors

Ian T. Pontius
Data Analytics Senior Auditor

Kevin M. Billard
Tari J. Covington
Thomas J. Kraemer
Chau D. Mai
Jessica G. McRobie
Samantha J. Rhea
Jonathan D. Souders
Brian M. Webbert, CIA
Staff Auditors