Audit Report

Maryland Department of Labor
Division of Unemployment Insurance

Part 1
Unemployment Insurance Tax Contributions

May 2022

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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Baltimore, Maryland 21201
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DEPARTMENT OF LEGISLATIVE SERVICES
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MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

May 4, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI) for the period beginning April 17, 2017 and ending November 15, 2020. DUI administers the State's Unemployment Insurance Program, which is normally funded primarily by unemployment insurance tax contributions collected from employers. However, DUI operations were significantly impacted by the COVID-19 pandemic, which greatly increased unemployment insurance activity and required the expansion and modification of various DUI operations, which were primarily federally funded. While we recognize the impact on DUI's operations, the circumstances created by the pandemic did not materially affect our decision as to inclusion of the specific findings and related recommendations in our report, which represent our determination of DUI's statutory compliance or the appropriate and necessary controls over Program elements audited. However, as a result of the significant impact of the pandemic on DUI, we did divide our audit into two parts as further described below. This report addresses the first part of our audit. A report on the second part of our audit will be issued at a later date.

Our audit disclosed that DUI was not reconciling its record of tax collections from employers to the corresponding amounts posted to its employer accounts receivable records. Consequently, there was a lack of assurance that amounts posted to employer accounts were valid and complete. Our review of several months in 2019 and 2020 disclosed unreconciled differences as high as $21.2 million. In addition, since implementation of its new unemployment insurance system, BEACON, in September 2020, DUI has been unable to generate the reports necessary to reconcile its record of the deposit and disposition of tax collections to the corresponding records maintained by the bank. As such, DUI has been unable to verify that tax collections were properly deposited and recorded.

Our audit also disclosed that DUI did not regularly conduct data matches to identify employers who had not registered with DUI and may not be remitting unemployment insurance taxes as required by State law. Furthermore, DUI did not ensure that certain employers, who by law are not subject to paying unemployment insurance taxes, provided sufficient collateral to protect the State in the event that future claims are paid on their behalf.

We also noted that DUI lacked formal policies for timely collection of delinquent employer accounts, and had discontinued pursuing delinquent accounts in September 2020 because of BEACON system deficiencies. As of that date, approximately $31.2 million in delinquent employer accounts were more than one year old. Furthermore, access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.

Finally, our audit included a review to determine the status of two of the six findings contained in our preceding audit report. We determined that DUI satisfactorily addressed these findings. The status of the remaining four findings will be determined during the second part of our audit.

MDL's response to this audit, on behalf of DUI, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of MDL's response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by DUI. We also wish to acknowledge MDL's and DUI's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Gregory A. Hook

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Maryland Department of Labor. According to the State's records, DUI's fiscal year 2020 operating expenditures (excluding unemployment benefit disbursements) totaled approximately $61.4 million. DUI administers the State's Unemployment Insurance Program that includes the following primary responsibilities.

- Collecting unemployment insurance tax contributions from employers
- Processing applications for, and disbursing unemployment benefits

As further described below, during the audit period, DUI operations were significantly impacted by the COVID-19 pandemic that greatly increased unemployment insurance activity and required the expansion and modification of various DUI operations. In addition, DUI finalized the implementation of its new information system, BEACON, which further impacted its operations. As a result, and to provide necessary audit resources and coverage, we have divided our audit into the following two parts to address the aforementioned DUI responsibilities. This report addresses Part 1 of our audit.

Part 1 – Unemployment Insurance Tax Contributions
Includes employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, associated accounts receivable activity, and related changes from a recent system implementation

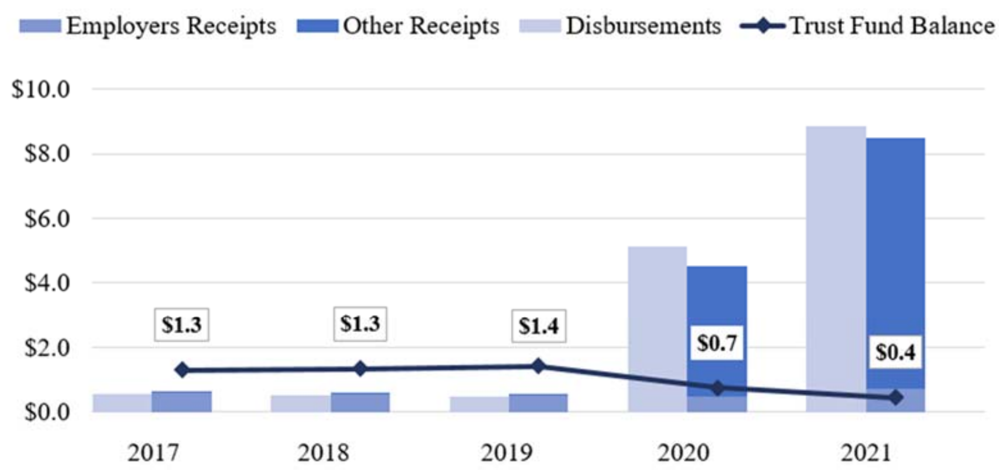
Part 2 – Unemployment Benefits
Includes methods individuals can use to file for unemployment insurance benefits, eligibility and monetary benefit determinations (for State unemployment insurance, and for additional programs in response to the COVID-19 pandemic), payment monitoring, prevention of fraudulent claims, and related changes from a recent system implementation

Maryland Unemployment Insurance Taxes

Maryland employers are required to remit Maryland unemployment insurance taxes based on a percentage of wages paid to their employees. During calendar year 2020, the employer tax rate ranged from 0.3 percent to 7.5 percent of the first $8,500 of employee wages, and for calendar year 2021, the percentage ranged between 2.2 percent and 13.5 percent. The tax rates are established by State regulation based on an annual calculation and estimate of the funds necessary to meet federal requirements regarding the necessary minimum balance to be maintained in the Maryland Unemployment Insurance Trust Fund. The particular tax rate paid by an employer is impacted by various factors, most notably the amount of unemployment benefits paid by DUI and charged to the employer's account during a specified period for eligible employee layoffs and terminations. Certain entities, such as nonprofit organizations and governmental entities, are exempt from these taxes and, instead, reimburse the State for any unemployment benefits paid by the State on their behalf. As of November 2020, an unemployed individual could receive a maximum of $430 per week for 26 weeks of State benefits in one benefit year[1].

According to DUI records, during fiscal year 2021, DUI collected approximately $710.9 million from employers ($637.0 million in unemployment insurance taxes and $73.9 million in benefit reimbursements). Additionally, during fiscal year 2021, DUI received approximately $7.6 billion in federal funding relating primarily to the COVID-19 pandemic (see Figure 1).

Figure 1
Summary of DUI Financial Activity
Fiscal Years 2017 - 2021
($ in billions)



Source: DUI Records and Fiscal Year 2017-2020 Trust Fund Financial Statements

[1] As a result of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, 52 weeks of benefits were available from the combination of standard Maryland benefits, Pandemic Emergency Unemployment Compensation (PEUC), and extended benefits.

Unemployment Benefits

According to DUI records, during fiscal year 2021, DUI paid approximately $8.8 billion in unemployment insurance benefits to more than 642,000 claimants. Benefit amounts are based on the individual applicant's earnings and other factors (such as the number of dependents). State law requires applicants to be able, available, and actively looking for work in order to be eligible for unemployment benefits. This requirement was not in place from March 2020 through July 2021 due to the COVID-19 pandemic.

On March 27, 2020, in response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The law included several provisions affecting the unemployment insurance program administered by DUI.

- Pandemic Unemployment Assistance (PUA), effective January 27, 2020 through December 31, 2020, provided up to 39 weeks of benefits to covered individuals who were not eligible for regular benefits or extended benefits (such as self-employed individuals).
- Federal Pandemic Unemployment Compensation (FPUC), effective March 29, 2020 through July 31, 2020, provided $600 in addition to the normal weekly benefit amount.
- Pandemic Emergency Unemployment Compensation (PEUC), effective March 29, 2020 through December 31, 2020, added up to 13 additional weeks for claimants who exhausted their initial 26 weeks of regular benefits.

Other federal funding was awarded in addition and subsequent to CARES.

- Lost Wage Assistance (LWA) Program (provided by Presidential Authorization), effective August 1, 2020 through December 27, 2020, provided claimants an additional $300 per week for six weeks.
- Extended benefits (EB) became available from May 31, 2020 through December 12, 2020, and provided up to 13 additional weeks of benefits. A claimant had to exhaust their 39 weeks of benefits under PEUC before becoming eligible for EB.
- Continued Assistance for Unemployed Workers Act signed into law December 27, 2020 provided up to 11 additional weeks of the CARES programs.
- The American Rescue Plan Act was signed into law March 11, 2021 further extending the CARES programs for eligible individuals through September 4, 2021.

Unemployment Insurance System

In 2011, DUI began a major information technology project to replace three of its existing automated systems used to account for unemployment activities with a single consolidated system. The new BEACON system was procured as part of a consortium of three states (Maryland, Vermont, and West Virginia) and was intended to be fully implemented in 2018. However, significant implementation delays occurred which DUI asserts were caused by unrealistic timelines, the need to address vendor quality issues, and certain issues experienced by one of the other states. As a result, at the onset of the COVID-19 pandemic BEACON had not been fully implemented in Maryland. In addition, both Vermont and West Virginia withdrew from the consortium, leaving Maryland to unilaterally implement BEACON.

As discussed above, the COVID-19 pandemic resulted in an unprecedented increase in unemployment claims. In April 2020, in response to the COVID-19 pandemic, DUI implemented BEACON One-Stop to allow claimants to file all claims online, and rigorously pursued the long-delayed implementation of BEACON, which DUI deemed fully implemented in September 2020. As of January 2021, payments to the vendor for BEACON implementation since September 2015 totaled $54.4 million, and payments to the same vendor for BEACON One-Stop totaled $2.9 million. The new system (including One-Stop) was paid for primarily with federal funds.

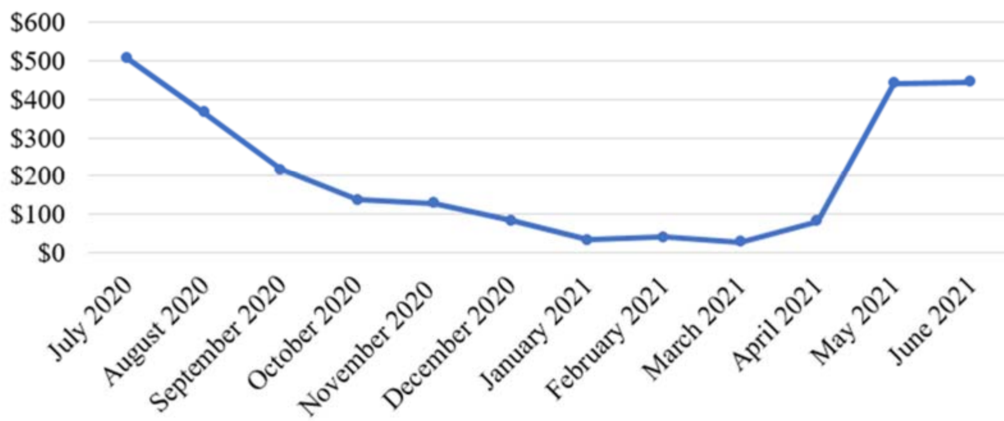
Our May 1, 2020 report on the Department of Information Technology reviewed major information technology development projects including BEACON. The report addressed several concerns regarding BEACON development and implementation, such as documentation of project monitoring. In addition, our January 7, 2022 report on our audit of the Department of Labor - Office of the Secretary included certain findings relating to BEACON contract costs. See the summary of these findings in other audit reports related to BEACON in Exhibit 1. Additional deficiencies with the system are addressed in several of the findings in this report. As of March 2022, MDL had not assessed any damages against the BEACON vendor.

Maryland Unemployment Insurance Trust Fund

DUI maintains the Maryland Unemployment Insurance Trust Fund (UITF) for the deposit of unemployment taxes collected from employers and the payment of benefits to the unemployed. The UITF is required by federal regulation to retain a balance to cover its expected current obligations. As noted in Figure 1, the average trust fund balance exceeded $1.3 billion for fiscal years 2017 through

2019. The COVID-19 pandemic significantly affected the balance during fiscal year 2021 (see Figure 2), due to its unforeseen nature and the obvious exclusion of its impact from the preceding tax calculation performed by the State. As a result of the low balances, DUI borrowed $68.9 million from the federal government to cover obligations during the period February through April 2021, which was subsequently repaid.

Figure 2
Trust Fund Balance for Fiscal Year 2021
($ in millions)



Source: Trust Fund Account Statements

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of two of the six findings contained in our preceding audit report dated February 5, 2019. As disclosed in Figure 3, we determined that DUI satisfactorily addressed these findings. The status of the remaining four findings will be addressed in Part 2 of our audit.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 5	DUI did not adequately follow up or track the results of computer matches it performed to identify employers that had not registered with DUI and may not be remitting required unemployment insurance taxes.	Not repeated
Finding 6	DUI did not have a comprehensive or effective procedure to periodically review user access to the Maryland Unemployment Insurance Tax System and the Maryland Automated Benefits System, which resulted in unnecessary or incompatible access being granted to certain individuals.	Not repeated

Findings and Recommendations

Employer Contributions

Finding 1
The Division of Unemployment Insurance (DUI) did not reconcile tax collections from employers to amounts posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.

Analysis
DUI did not periodically reconcile its record of tax collections received from employers to the aggregate of tax payments posted to its employer accounts receivable records. Consequently, there was a lack of assurance that payment amounts posted and credited to employer accounts were valid and complete.

We compared DUI's record of employer tax collections to amounts posted to employer accounts receivable records for six months in calendar years 2019 and 2020, and noted that recorded collections differed from amounts posted to employer accounts each month by between $640,000 and $21.0 million (see Figure 4).

Figure 4
Summary of Reconciliation Differences

Month	Cash Receipts	Accounts Receivable	Difference
June 2019	$ 2,996,916	$ 2,353,385	**$ 643,531**
July 2019	$ 41,821,215	$ 62,379,653	**$ (20,558,438)**
August 2019	$ 25,954,810	$ 4,944,305	**$ 21,010,505**
June 2020	$ 9,521,131	$ 6,119,019	**$ 3,402,112**
July 2020	$ 29,264,996	$ 40,655,065	**$ (11,390,069)**
August 2020	$ 20,679,254	$ 6,798,975	**$ 13,880,279**

Source: DUI cash receipts ledger and accounts receivable records

Based on the results of our comparison and review, we found that a portion of these differences may be due to untimely posting of tax collections by DUI to the receivable records. For example, our test of 10 cash collections totaling approximately $650,000 disclosed employer payments totaling $9,000 that were received in April 2020, but as of April 2021 had not been posted to the accounts receivable records. In addition, DUI's suspense account, which holds payments not immediately identified for recording in a specific employer's account, increased significantly between July 2019 ($285,000) and January 2021 ($4.4 million), which could indicate that payments are not being posted timely. DUI was not aware of these differences and delays until we brought the matter to its attention.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that cash receipt totals be periodically compared with the corresponding totals of credits to accounts receivable.

Recommendation 1
We recommend that DUI

a. **periodically, such as monthly, reconcile its tax collection records to its employer accounts receivable records, including an investigation and resolution of significant differences noted; and**
b. **ensure that all employer payments are recorded in the accounts receivable records on a timely basis, including the amounts noted in this finding.**

Finding 2
DUI had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020, due to the inability to generate certain required reports from the BEACON system.

Analysis
As of September 2021, DUI had not verified the deposit and proper disposition of tax collections as recorded in its clearing account since the implementation of BEACON in September 2020. Specifically, since September 2020, DUI has not periodically reconciled its system record of clearing account activity to the corresponding bank records. Unemployment tax payments from employers are deposited directly or transferred in certain cases, such as with lockbox receipts, into a bank clearing account. Those funds are subsequently transferred from the clearing account, as directed by DUI, into the Unemployment Insurance Trust Fund for purpose of making benefit payments.

Since September 2020, DUI has been unable to generate an accurate record of clearing account activity or ending account balances from BEACON (which had not been resolved as of January 2022). Consequently, DUI did not reconcile system activity to the related bank records. DUI advised us that difficulties with

BEACON implementation have prevented completion of these reconciliations. Periodic reconciliations between DUI's clearing account records and the corresponding bank records are critical to ensuring that all collections have been deposited and that all related transactions, including the transfer of funds to the Trust Fund, have been properly recorded and accounted for. During fiscal year 2020, the bank reported collections deposited into the clearing account totaling $460.6 million.

Recommendation 2
We recommend that DUI

a. **correct the system deficiencies in BEACON that are preventing accurate compiling and reporting of clearing account activity; and**
b. **periodically, such as monthly, reconcile its clearing account activity and balance per BEACON to the corresponding account data reported by the bank, including an investigation and resolution of any significant differences noted.**

Finding 3
DUI did not regularly conduct data matches to identify employers who had not registered with DUI, as required by State law, and did not always follow up on the results of matches that were performed.

Analysis
DUI did not regularly conduct data matches to identify employers who were not paying contributions on taxable wages for covered employment, as required by State law, and did not always follow up on the results of matches that were performed. Prior to implementation of BEACON in September 2020, DUI conducted weekly matches of the Department of Human Services' (DHS) State Directory of New Hires to data in its pre-BEACON unemployment insurance system to help identify employers that had not registered with DUI for filing unemployment insurance taxes. The State Directory of New Hires includes information on newly hired employees reported by employers independently to DHS.

Our review disclosed that no matches were conducted between September 2020 and December 2020, and although five matches were conducted between January 2021 and September 2021, as of November 2021 no follow-up action had been taken on employers identified in those five matches as unregistered. The most recent match, which was conducted in September 2021 and covered the period from September 2020 to September 2021, disclosed 1,778 employers as not registered in BEACON. According to DUI management, DUI did not follow up on match results because BEACON was unable to generate notices to employers that would alert them of the legal requirement to register; a condition which, at the time of our review, DUI was attempting to resolve with the vendor.

Recommendation 3
We recommend that DUI

a. **conduct the aforementioned matches and follow up on match results on a timely basis (at least monthly),**
b. **follow up on the 1,778 employers identified as not registered, and**
c. **work with the BEACON vendor to generate the required follow-up letters to employers.**

Reimbursable Employers

Finding 4
DUI did not ensure reimbursable employers provided sufficient collateral to protect the State in the event claims are paid on their behalf.

Analysis
DUI did not ensure reimbursable employers provided the required collateral to protect the State in the event claims are paid on their behalf. State law provides that certain not-for-profit organizations and government agencies may elect to be classified as reimbursable employers; which, in lieu of paying a quarterly unemployment insurance tax, allows them to reimburse DUI for unemployment insurance benefits paid to former employees. A reimbursable employer is required to provide DUI with collateral (generally based on the employer's taxable wages for the previous year) as security in the event the employer defaults on these reimbursements. According to an August 2020 report prepared by DUI, there were 1,788 reimbursable employers. DUI's records further indicated that, for collateral year 2021, which began October 1, 2021, 1,247 employers were required to have collateral [2] totaling approximately $114.4 million.

Our review disclosed that DUI has not verified that employers submitted the required collateral since an August 2018 review of existing reimbursable employers and applicable collateral. According to the August 2018 review, additional collateral totaling $7.4 million was needed for 113 employer accounts to be fully collateralized; however, DUI did not follow up on those reimbursable

[2] Certain governmental entities that are exempt from unemployment taxes and, instead, reimburse the State for any unemployment benefits paid by the State on their behalf are also exempt from providing collateral. Records were not available to quantify total reimbursable employers after August 2020.

employers to obtain the necessary collateral. Additionally, in that review, DUI identified 24 other employer accounts, totaling $94,000, with expired collateral, and another 51 employer accounts with an undetermined collateral type. DUI did not perform any other reviews of collateral since August 2018, because the staff responsible for the comparison was reassigned to other job duties.

Based on our inquiries, we determined that BEACON did not provide sufficient details to readily calculate collateral balances due for reimbursable employers, which would prevent DUI from performing a verification of the collateral required. In January 2021, after our inquiries, DUI submitted a request for resolution of the issue with the BEACON vendor. However, as of September 2021, BEACON was not able to display or generate reports of amounts due. As a result, we could not readily determine whether reimbursable employers had provided DUI with adequate collateral. In addition, we could not readily determine the amount of collateral on hand in total. Since certain collateral expires, for example bonds and letters of credit, such a determination would have required a time-consuming analysis by us of each employer's collateral to determine what was available – we deemed the necessary audit effort would be better spent on additional issues during this audit.

State law provides that DUI is allowed to terminate an employer's reimbursable status if the required amount of collateral is not submitted within 120 days of registration or the employer is delinquent on reimbursable payments.

Recommendation 4
We recommend that DUI

a. **ensure the BEACON issues are resolved to obtain the necessary information on collateral due from reimbursable employers;**
b. **periodically review collateral balances to ensure reimbursable accounts are fully collateralized, as required; and**
c. **timely pursue required collateral for reimbursable employers including those identified in the August 2018 review and terminate the reimbursable status for any employers that remain noncompliant.**

Delinquent Employer Accounts

Finding 5
DUI did not have formal policies for pursuing collection of delinquent employer accounts, and discontinued pursuing delinquent accounts in September 2020 due to BEACON system deficiencies.

Analysis
DUI lacked formal policies for timely collection of delinquent employer accounts, and was not collecting delinquent employer accounts due to problems with the BEACON system. Additionally, certain collection efforts during the audit period were not timely. State law allows DUI to collect contributions for unemployment insurance benefits and to assess penalties and interest on late payments or underpayments.

- DUI did not have any written policies and procedures for pursing delinquent employer accounts. The Comptroller of Maryland's *Accounting Procedures Manual* requires State agencies to have written and implemented credit and collection procedures. The lack of written procedures is significant because State law exempts DUI from sending delinquent employer accounts to the Department of Budget and Management's Central Collections Unit, meaning that DUI is solely responsible for debt collection.

- As of September 2021, DUI had not pursued delinquent employer accounts since the implementation of BEACON in September 2020. DUI management advised us that they were unable to pursue collection because of issues with the BEACON delinquency notices. Specifically, the BEACON-generated notices did not include all amounts due or assessed interest charges. In addition, we found that DUI did not adequately pursue delinquent employers prior to the implementation of BEACON.

- Procedures to review and certify the write-off of delinquent employer accounts were discontinued in July 2017. Prior to implementation of BEACON, DUI had an automated process in place to identify, on a quarterly basis, accounts for write-off that met certain established criteria, such as when collection efforts had been exhausted and the State's interest was protected by a tax lien or bankruptcy claim. Although as part of this process designated supervisory personnel were required to review and certify that the required criteria had been met for the write-off, these procedures were discontinued in July 2017. According to DUI, the sole employee responsible for initially reviewing the accounts left DUI, and a replacement individual to perform this function was never designated. According to DUI's quarterly summaries, accounts written off between July 2017 and March 2020 totaled $27.1 million. At the time of our review, similar write-off procedures had not been established with BEACON.

- Our test of nine employer accounts that had outstanding balances as of September 2020 totaling $3.0 million (prior to BEACON implementation), disclosed that DUI had not adequately pursued collection or placed the required liens on the employer's assets, in accordance with its then existing delinquency process. For eight of these accounts, with balances totaling $2.9 million, DUI sent out delinquency notices 37 to 293 days late and for seven accounts had not sent out at least one of required follow-up notices. In addition, delinquency notices that were sent to five employers did not include $1.9 million of the amount due from employers. We were advised by DUI management that they historically sent out four dunning notices at 15, 30, 45, and 90 days after the account was declared delinquent. Furthermore, eight employers, with balances totaling $2.9 million, did not have liens assessed for the total amount due. For example, as of May 2021, one employer, with an outstanding balance of $317,000 should have had a lien assessed in February 2019; however, no lien had been assessed for 2.2 years.

- DUI could not readily obtain from BEACON an accurate balance and aging schedule of outstanding employer accounts. As of February 2021, BEACON reported employer accounts totaled negative $3.7 billion. DUI management confirmed that this total was inaccurate.

Recommendation 5
We recommend that DUI

a. ensure comprehensive written procedures are established for collection of delinquent employer accounts;
b. ensure delinquent employer accounts are adequately pursued timely, including those noted above;
c. ensure that supervisory personnel verify that accounts to be written off as uncollectible meet the required criteria for write-off;
d. ensure accurate records of employer balances are maintained; and
e. require the BEACON vendor to address the aforementioned system deficiencies.

BEACON System Access

Finding 6
Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.

Analysis
Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted. As of January 2021, there were 5,169 user accounts with access to certain critical functions in BEACON, including accounts provided to DUI employees, contracted temporary staff, BEACON vendor employees, and employees at other State agencies who may require access to unemployment insurance data for their job functions. BEACON user access is controlled by roles that define the screens users can access, and whether the user can process and modify data or only read data on the screen (inquiry or read-only access). As of January 2021, there were 155 roles.

- Our review of user access granted to six critical system screens disclosed that between 83 and 212 users were given access to each screen, which allowed them to record or modify employer account and tax data even though that access was unnecessary for their job duties. For example, 136 users had access to a critical screen when it was not needed for their job duties. This screen is used to apply payments to individual employer taxpayer accounts; therefore, these individuals could improperly post employer payments without detection. Although these transactions require on-line approval, our test of 10 of these users disclosed that 8 of the users could also approve the transactions they posted.

- DUI inadvertently provided over 5,000 users modification access to two critical screens that allowed the users to modify employer tax data. This occurred because DUI assigned the users an access role that DUI believed provided inquiry access only, when it actually allowed any user assigned that role to modify data. DUI was unaware of the error until we brought the matter to its attention.

- Our review of five critical administrator access screens disclosed that between 35 and 52 users had access to each screen, which was not necessary for their job duties. BEACON provides for administrator access that can grant, modify, or delete roles or system access for individual users. Our review disclosed that administrator access was not adequately restricted. For example, 35 users could change the access roles granted to other system users even though that capability was not needed by those 35 users for their job duties. Subsequent to our inquiries, DUI advised that it made certain changes to the administrator screens, including removal of the unnecessary access held by the aforementioned 35 users.

The State of Maryland *Information Technology Security Manual* requires agencies to strictly control and audit the access to confidential information to support the concept of "least privilege."

Recommendation 6
We recommend that DUI

a. **periodically review user access to ensure that user access to add or otherwise modify critical taxpayer data, as well as all administrator access, is restricted to those individuals who require it for their job duties; and**
b. **terminate any unnecessary or incompatible access, including such access noted in this finding.**

Audit Scope, Objectives, and Methodology

We have conducted one of two parts of a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI) for the period beginning April 17, 2017 and ending November 15, 2020. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DUI's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, and related system implementation. We also determined the status of two of the six findings contained in our preceding audit report. The status of the remaining four findings will be addressed in Part 2 of our audit.

Our audit did not include certain support services provided to DUI by MDL – Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of MDL – Office of the Secretary. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DUI's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DUI.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 17, 2017 to November 15, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DUI's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing of the dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Maryland Automated Benefits System, the Maryland Unemployment Insurance Tax System, and BEACON for the purpose of testing unemployment tax payments and reimbursements related to benefit claims and payments. We performed various tests of the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DUI's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided for in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DUI, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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

The response from MDL, on behalf of DUI, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDL regarding the results of our review of its response.

Exhibit 1
Summary of Unemployment Insurance Modernization (BEACON) Findings in OLA Audit Reports Issued from July 1, 2015 to January 31, 2022

Department of Information Technology (DoIT)
Report Issued May 1, 2020

Finding 1

- **Information Technology Project Requests (ITPRs)** – DoIT did not have a documented review and approval of the annual BEACON ITPR, which our testing disclosed had not been updated from the preceding year's ITPR.

- **Monthly Project Monitoring -** DoIT did not require oversight project managers hired by a DoIT vendor, to document their review and verification of the accuracy of information provided in monthly project monitoring reports provided by the agencies. The review of these monthly monitoring reports is critical to monitoring project status including scope, schedule, cost, and risks. Our review of applicable reports discussed during fiscal year 2018 steering committee meetings disclosed that the actions to be taken to address BEACON identified risks, such as project delays, were not always included in the reports, and DoIT did not document that methods to address these risks were discussed in the related meetings.

- **DoIT Annual Major Information Technology Development Project Report** – DoIT did not properly report total estimated project costs for BEACON, which we determined were significantly underestimated.

Maryland Department of Labor (MDL)
Report Issued January 7, 2022

Finding 1

- MDL did not obtain documentation to support $11.7 million in vendor billings for modernizing DUI's unemployment insurance system. MDL approved these costs, which were essentially for the remainder of the contract, but could not provide documentation verifying the propriety of the amounts invoiced and paid.

APPENDIX

Maryland
DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY
1100 N. Eutaw Street
Baltimore, MD 21201

April 27, 2022

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:

I would like to acknowledge receipt of your draft audit report of the Maryland Department of Labor's Division of Unemployment Insurance dated April 4th, 2022. This Audit contained fact findings for which we are responding.

I want to thank auditors Mike Murdzak, Lauren Franchek, and the entire audit team for their professionalism, cooperation, and assistance during this audit. Your team provided us with valuable advice and suggestions. Please express our gratitude to your audit team for their hard work during our audit.

An electronic version of this response will be sent to response@ola.state.md.us.

Sincerely,

Tiffany P. Robinson
Secretary
Maryland Department of Labor

cc: David McGlone
Sarah Beardsley
Meena Agarwal

Maryland Department of Labor
Division of Unemployment Insurance
Part 1

Agency Response Form

Employer Contributions

Finding 1
The Division of Unemployment Insurance (DUI) did not reconcile tax collections from employers to amounts posted to employer accounts receivable records to ensure amounts posted to employer accounts were valid and complete.

We recommend that DUI
a. periodically, such as monthly, reconcile its tax collection records to its employer accounts receivable records, including an investigation and resolution of significant differences noted; and
b. ensure that all employer payments are recorded in the accounts receivable records on a timely basis, including the amounts noted in this finding.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	**Estimated Completion Date:**	12/31/2022
Please provide details of corrective action or explain disagreement.	DUI has partially reconciled its tax collection records to its employer accounts on a monthly basis, including investigation and resolution of significant differences noted during reconciliation. In its partial reconciliation, DUI has mitigated the difference identified in Figure 4 from $21 million to $1.2 million. DUI will provide backup to OLA. Additionally, DUI has been able to fully complete the reconciliation through April 2018 and a portion of the remaining months. DUI is on track to address the backlog and bring reconciliation up to date by December 31, 2022.		
Recommendation 1b	Agree	**Estimated Completion Date:**	12/31/2022
Please provide details of corrective action or explain disagreement.	DUI acknowledges that a backlog does exist and that a full reconciliation will be completed. DUI expects to address the backlog and bring reconciliation up to date by December 31, 2022, or earlier, to ensure that all employer payments are recorded in accounts receivable records on a timely basis.		

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	DUI recognizes the urgency of the matter and has brought four staff onboard to tackle the backlog. With the extra help, DUI has made significant progress, as noted above.

Maryland Department of Labor
Division of Unemployment Insurance
Part 1

Agency Response Form

Finding 2
DUI had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020, due to the inability to generate certain required reports from the BEACON system.

We recommend that DUI
a. correct the system deficiencies in BEACON that are preventing accurate compiling and reporting of clearing account activity; and
b. periodically, such as monthly, reconcile its clearing account activity and balance per BEACON to the corresponding account data reported by the bank, including an investigation and resolution of any significant differences noted.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	**Estimated Completion Date:**	12/31/2022
Please provide details of corrective action or explain disagreement.	DUI has partially reconciled its clearing account activity and balance from BEACON but has not been able to fully complete its reconciliation. Multiple factors have contributed to the extraordinarily high volume of reconciling items. Among these, the failure of employers and agents to submit ACH credit payments correctly and necessary system changes, have played major roles. DUI recognizes the urgency of the matter and has brought four staff onboard to tackle the backlog. DUI has been working on reconciling ACH credit payments and lockbox payments daily and has been able to identify several reconciling items and post those payments to the proper employer accounts. To speed up the reconciliation process, DUI is actively working with the vendor to improve the function of the payment look up screen and posted payments report. DUI is also working with IT and the bank on options of automating the reconciliation process.		

Maryland Department of Labor
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Recommendation 2b	Agree	**Estimated Completion Date:**	12/31/2022
Please provide details of corrective action or explain disagreement.	DUI will work on the backlog and bring the reconciliation up to date by December 31, 2022, and subsequently continue to conduct monthly reconciliations.		

Maryland Department of Labor
Division of Unemployment Insurance
Part 1

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Finding 3
DUI did not regularly conduct data matches to identify employers who had not registered with DUI, as required by State law, and did not always follow up on the results of matches that were performed.

We recommend that DUI

a. conduct the aforementioned matches and follow up on match results on a timely basis (at least monthly),
b. follow up on the 1,778 employers identified as not registered, and
c. work with the BEACON vendor to generate the required follow-up letters to employers.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	**Estimated Completion Date:**	5/5/2022
Please provide details of corrective action or explain disagreement.	DUI's new system, BEACON, was implemented in September 2020 and required an update of the enhanced regular crossmatch reports. DUI has reinstituted the crossmatch to identify employers who have not registered with DUI and continues to generate and review the New Hire Registry Crossmatch Weekly Reports to identify employers who have not registered with BEACON. The crossmatch reports are generated from BEACON on a weekly basis. DUI has followed up with the identified employers by telephone calls. Additionally, DUI has updated its letter to notify employers about their registration status for reporting new hires along with employers' possible other employees. The vendor will have the new template in production by May 5, 2022.		
Recommendation 3b	Agree	**Estimated Completion Date:**	5/5/2022
Please provide details of corrective action or explain disagreement.	DUI has followed up by a review of the agency records and telephone calls on the 1,778 employers identified as not registered from the old New Hire Registry Crossmatch reports. DUI continues to review and		

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	follow up by telephone calls on the subsequent New Hire Registry Crossmatch Weekly Reports.		
Recommendation 3c	Agree	**Estimated Completion Date:**	5/5/2022
Please provide details of corrective action or explain disagreement.	As noted in parts (a) and (b), DUI has updated its letter to notify employers about their registration status for reporting new hires along with employers' possible other employees. The updated letter is in the testing phase. The updated letter will be implemented and mailed out to identified employers by May 5, 2022.		

Maryland Department of Labor
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Part 1

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Reimbursable Employers

Finding 4
DUI did not ensure reimbursable employers provided sufficient collateral to protect the State in the event claims are paid on their behalf.

We recommend that DUI
a. ensure the BEACON issues are resolved to obtain the necessary information on collateral due from reimbursable employers;
b. periodically review collateral balances to ensure reimbursable accounts are fully collateralized, as required; and
c. timely pursue required collateral for reimbursable employers including those identified in the August 2018 review and terminate the reimbursable status for any employers that remain noncompliant.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	**Estimated Completion Date:**	10/31/2021
Please provide details of corrective action or explain disagreement.	DUI logged two system changes to adequately calculate collateral balances due for reimbursable employers. These were completed in October 2021.		
Recommendation 4b	Agree	**Estimated Completion Date:**	10/31/2022
Please provide details of corrective action or explain disagreement.	With the system updates identified in 4(a), DUI can review collateral balances to ensure reimbursable accounts are fully collateralized. DUI began reviewing collateral balances in Q1 of 2022. In its review, DUI encountered a system issue which prevented DUI from posting the received collateral to the employer's account. DUI has logged a Problem Incident Report with the vendor to address this problem. DUI is still on track to meet the estimated completion date of October 31, 2022.		

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Recommendation 4c	Agree	**Estimated Completion Date:**	6/30/2022
Please provide details of corrective action or explain disagreement.	DUI will timely pursue the required collateral for reimbursable employers. DUI is reinstituting the delinquency process in Q2 of 2022 to collect outstanding collateral balances by issuing 30-, 60-, and 90-day notices to offending reimbursable employers. In doing so, DUI will also pursue the outstanding collateral identified in the September 2018 review and terminate any reimbursable status for any employers that remain noncompliant.		

Delinquent Employer Accounts

Finding 5
DUI did not have formal policies for pursuing collection of delinquent employer accounts, and discontinued pursuing delinquent accounts in September 2020 due to BEACON system deficiencies.

We recommend that DUI

a. **ensure comprehensive written procedures are established for collection of delinquent employer accounts;**
b. **ensure delinquent employer accounts are adequately pursued timely, including those noted above;**
c. **ensure that supervisory personnel verify that accounts to be written off as uncollectible meet the required criteria for write-off;**
d. **ensure accurate records of employer balances are maintained; and**
e. **require the BEACON vendor to address the aforementioned system deficiencies.**

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Analysis	
Please provide additional comments as deemed necessary.	

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Recommendation 5a	Agree	**Estimated Completion Date:**	5/31/2022
Please provide details of corrective action or explain disagreement.	DUI is finalizing its written policy for the collection of delinquent debts and write-offs. The written policy will be finalized and implemented in the coming weeks.		

Recommendation 5b	Agree	**Estimated Completion Date:**	03/31/2022
Please provide details of corrective action or explain disagreement.	The issues with delinquency notices have been resolved and DUI has returned to its regular delinquency schedule during Quarter 1 2022 and has issued 15- and 30-day notices. DUI is updating the 45-day letter template and will issue the 45-day notice once the updated template is implemented. DUI has consistently worked with the vendor and is now able to run delinquency cycles and continues to get all account reconciliations up to date.		

Recommendation 5c	Agree	**Estimated Completion Date:**	5/31/2022
Please provide details of corrective action or explain disagreement.	Prior write-offs between July 2017 and March 2020 will be reviewed by a supervisor, and going forward, all write-offs will be reviewed by a supervisor. This critical function will be addressed in the written procedures DUI is finalizing its written policy for audit finding 5(a) and implemented by the target date of May 31, 2022.		

Recommendation 5d	Agree	**Estimated Completion Date:**	9/3/2022
Please provide details of corrective action or explain disagreement.	DUI acknowledges that the report has some inaccuracies and DUI is working actively with its vendor to resolve all issues associated with its aging report.		

Recommendation 5e	Agree	**Estimated Completion Date:**	9/30/2022
Please provide details of corrective action or explain disagreement.	DUI will continue to work with its vendor to address system deficiencies or necessary changes. DUI will set a target date of September 30, 2022, to address all outstanding issues dealing with delinquent employer debt.		

Maryland Department of Labor
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BEACON System Access

Finding 6
Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.

We recommend that DUI
- **a. periodically review user access to ensure that user access to add or otherwise modify critical taxpayer data, as well as all administrator access, is restricted to those individuals who require it for their job duties; and**
- **b. terminate any unnecessary or incompatible access, including such access noted in this finding.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	**Estimated Completion Date:**	06/30/2022
Please provide details of corrective action or explain disagreement.	By June 30, 2022, DUI will institute a bi-annual review of all roles assigned within the previous six months to ensure modification, as well as administrator access, is restricted to those individuals who require it for their job duties. DUI will conduct its first bi-annual review of assigned roles in June of 2022.		
Recommendation 6b	Agree	**Estimated Completion Date:**	06/30/2022
Please provide details of corrective action or explain disagreement.	Upon review of security access, DUI discovered security roles that needed to be modified and took corrective action to further restrict security access. These correction actions were completed in September 2021 and DUI terminated unnecessary and incompatible access as required by the audit finding. Going forward, DUI will complete a bi-annual review which will be instituted on June 30, 2022. DUI will terminate any unnecessary user access within five days of discovery.		

AUDIT TEAM

Michael J. Murdzak, CPA
Audit Manager

Lauren E. Franchak, CPA
Senior Auditor

Monisha A. Barnes
Mariyum Gill
Owen M. Long
Staff Auditors

David R. Fahnestock, CPA
Data Analytics Manager

Charles H. Hinds IV, CPA
Data Analytics Senior Auditor