

Audit Report

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**Department of Budget and Management  
Office of the Secretary and Other Units**

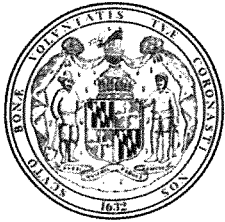
June 2012

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

June 12, 2012

Bruce A. Myers, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone., Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Secretary and certain other units of the Department of Budget and Management (DBM) for the period beginning October 1, 2008 (including the Central Collection Unit (CCU) beginning as of March 1, 2008) and ending May 22, 2011. DBM assists the Governor in the preparation and monitoring of the State's annual operating and capital budgets. CCU is responsible for collecting all delinquent debts due to the State, except those excluded by law (such as, taxes and child support).

Our audit disclosed that CCU did not adequately pursue wage garnishments against certain debtors for whom eligible wages were identified. Additionally, certain debtor accounts were improperly excluded from automated collection efforts such as the Tax Refund Intercept Program. Our audit also disclosed that CCU did not ensure the validity of signatures of referring agency personnel who were responsible for authorizing debtor account adjustments. Finally, controls over system access and transfers of critical CCU data were not adequate.

DBM's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DBM.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

Bruce A. Myers, CPA  
Legislative Auditor



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

# **Background Information**

## **Agency Responsibilities**

The Department of Budget and Management (DBM) is mainly responsible for assisting the Governor in the preparation and monitoring of the State's annual operating and capital budgets. The Office of the Secretary coordinates the functions of DBM's divisions which, in addition to the budget process, include overseeing certain statewide procurements and providing fiscal and personnel services to State agencies. This audit report includes the operations of the following three divisions:

- Office of the Secretary, which includes the Central Collection Unit (CCU),
- Office of Budget Analysis, and
- Office of Capital Budgeting.

DBM's Office of Personnel Services and Benefits (OPSB), which directs State personnel policies and administers the health care benefits programs for State employees and retirees, is audited and reported upon separately.

CCU's primary responsibility is to collect all delinquent debts due the State, except those excluded by law (such as taxes and child support). Collections on debt, less CCU's assessed collection fees, are generally paid to either the State Treasury or the unit of State government where the debt originated. CCU's operations include its Baltimore headquarters office and five satellite offices established at selected Motor Vehicle Administration locations to assist primarily in the collection of uninsured motorist penalty fees assessed by the Administration. Previously, CCU was audited and reported on separately by our Office. The audit report for the previous audit of CCU, which was dated April 13, 2009, covered the period July 1, 2005 to February 29, 2008.

According to the State's records, DBM's expenditures totaled approximately \$31.7 million during fiscal year 2011, of which \$12.9 million related to OPSB.

## Central Collection Unit Financial Information

The balance of outstanding debt referred to CCU was approximately \$1.6 billion as of June 30, 2011, as noted in the accompanying chart.

<b>Fiscal Year</b>	<b>Outstanding Debts (at June 30)</b>		<b>Total Collections*</b>
	<b>Accounts</b>	<b>Balance</b>	
<b>2008</b>	1,350,481	\$1,271,599,187	\$129,235,773
<b>2009</b>	1,422,833	\$1,397,532,057	\$136,806,956
<b>2010</b>	1,490,604	\$1,627,404,256	\$131,651,220
<b>2011</b>	1,692,285	\$1,637,330,152	\$135,024,904

\*Collection amounts are net of account adjustments (such as, refunds).  
Source: CCU records

State law authorizes CCU to assess and collect for each debt a fee sufficient to cover all collection and administrative costs. The fee may not exceed 20 percent of the outstanding principal and interest. Currently, CCU's collection fee is 17 percent which is added to the original debt amount. Collection fees are deposited into the Central Collection Fund, a continuing, non-lapsing special fund used to pay CCU's operating expenses. During fiscal years 2008 to 2011, CCU reverted approximately \$64.3 million to the State's General Fund based on annual collection fees exceeding CCU's operating expenses. As of June 30, 2011, according to CCU's records, the balance in the Fund totaled approximately \$1.8 million.

## Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of three of the four findings contained in our preceding audit report, dated April 21, 2009, on DBM's Office of the Secretary and Other Units. We determined that DBM satisfactorily addressed these three findings. Our audit did not include a review of the remaining finding contained in our preceding audit report as this finding pertained to, and will be included in the audit of, the Department of Information Technology.

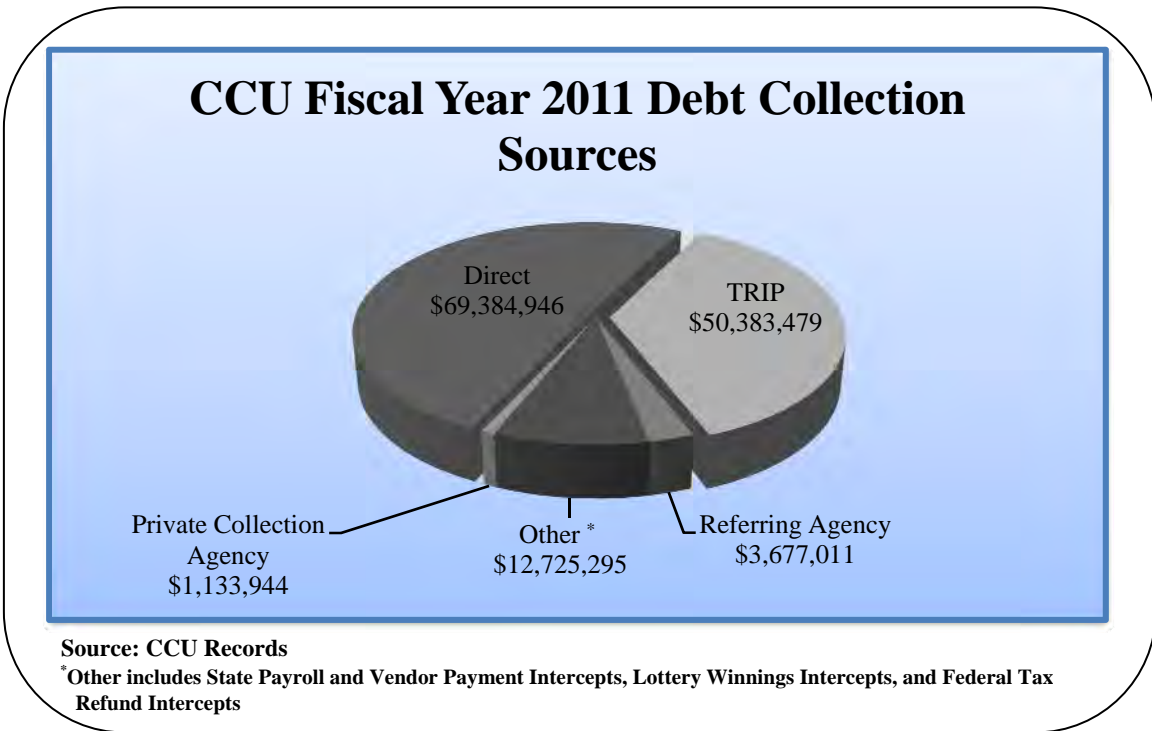
Our audit also included a review to determine the status of the ten findings contained in our preceding audit report, dated April 13, 2009, on DBM's Central Collection Unit. We determined that DBM satisfactorily addressed eight of these findings. The remaining two findings are repeated in this report.

# Findings and Recommendations

## Debt Collection Efforts

### Background

The Department of Budget and Management (DBM) – Central Collection Unit (CCU) uses a variety of methods and resources to facilitate the collection of delinquent accounts including automated, manual, and outsourced collection efforts. Automated collection efforts involve the use of the State’s Tax Refund Intercept Program (TRIP), which captures debtor tax refunds. This process is used in conjunction with the other CCU collection efforts. Manual collection efforts involve CCU collectors who attempt to identify debtors and related assets and pursue collection of the delinquent accounts. Collectors will pursue voluntary payments via phone and written correspondence and also forward certain accounts to CCU’s legal unit for proactive non-voluntary collection actions such as wage garnishments and property liens. Lastly, CCU forwards accounts with balances less than \$750, accounts with no identifiable wages or assets, or accounts with no collections for six months to a private collection agency. If the aforementioned collection efforts are unsuccessful, CCU can abate the delinquent account based on the decision of an internal abatement committee. If an account is abated, CCU may still subject the accounts to the automated collection efforts or may terminate all collection efforts. See the chart below for a breakdown of fiscal year 2011 gross collections (prior to account adjustments of approximately \$2.3 million) totaling approximately \$137.3 million by collection method.



**Finding 1****CCU did not adequately pursue potential wage garnishments from debtors.****Analysis**

CCU did not adequately pursue potential wage garnishments from debtors. CCU collection agents are required to refer cases to the CCU Legal Measures Unit to pursue wage garnishments when adequate wages are identified and the debtor refuses to pay the debt or the debtor is delinquent on a payment plan agreement. Specifically, our review disclosed the following conditions:

- CCU did not always pursue wage garnishments when eligible wages were identified through quarterly computer matches of its records with wage data from the Department of Labor, Licensing, and Regulation. CCU's July 2011 match identified approximately 40,600 debtors with account balances totaling approximately \$111.4 million and wages earned of approximately \$344.8 million during the first quarter of calendar year 2011 that could potentially have been subject to garnishment. We tested 15 of these debtors with accounts totaling approximately \$536,400 and who had not made any voluntary debt payments or had been delinquent on making voluntary debt payments for periods ranging from 9 to 40 months. Our test identified 14 of the debtors had earned wages during calendar year 2010 totaling \$414,000 and consequently, could have been subject to wage garnishment yet, as of August 1, 2011, CCU had not initiated wage garnishment nor referred the cases to the Legal Measures Unit. A similar condition has been commented upon in our five preceding audit reports dating back to January 1997.
- Beginning in calendar year 2011, CCU established a process to quarterly review debtors late on payment plans to determine if the account should be pursued via wage garnishment. Although quarterly reports were generated in January 2011 and April 2011, CCU could not document that it had performed complete reviews of the debtors listed on the reports as of September 2011. The April 2011 report identified approximately 12,000 debtors with late payment plan payments who had earnings totaling \$119 million. Our test of 10 debtors from these reports with accounts totaling approximately \$66,600 disclosed CCU had not initiated garnishments for 5 of the debtors tested owing approximately \$39,300 who met CCU's criteria for wage garnishment under this process and had earned wages totaling approximately \$222,200 for calendar year 2010.

**Recommendation 1**

**We recommend that DBM ensure timely follow-up collection efforts are made with regard to wage garnishment and all collection efforts are documented (repeat).**

**Finding 2**

**CCU improperly identified accounts as inactive resulting in certain accounts being excluded from the tax refund intercept program and not being actively pursued for collection.**

**Analysis**

CCU did not ensure accounts were properly identified as inactive in its automated collection system. Accounts have several identifiers in the system including an account number and a separate collection status code. CCU primarily relies on the account number to manage its caseload. The account numbering system designates whether an account is inactive or active, and should reflect the collection status code recorded in the system (for example, pursue for collection, abate).

Upon our request, CCU generated a report of accounts that had balances of \$10,000 or more and that were assigned inactive account numbers during the period October 8, 2010 to July 18, 2011. Of the 769 accounts with balances totaling approximately \$78 million, we determined, and CCU confirmed, that 141 accounts with balances totaling approximately \$9.1 million were improperly identified as inactive since the accounts still had collection status codes recorded in the automated system indicating that the account should still be pursued for collection. Since these accounts had improperly been assigned inactive account numbers, they were not actively pursued for collection. Further, 59 of these accounts totaling approximately \$4.4 million were excluded from the tax refund intercept program, although the accounts had status codes that were eligible for the program.

**Recommendation 2**

**We recommend that DBM**

- a. ensure all accounts are properly coded as active or inactive in its automated collection system, and**
- b. take immediate action to correct all improperly coded accounts.**

**Accounts Receivable****Finding 3**

**CCU did not ensure the validity of signatures authorizing account adjustment requests.**

**Analysis**

CCU did not ensure the validity of signatures authorizing debtor account adjustment requests received from State agencies. Specifically, although

adjustment request forms are required to be signed by two referring agency employees, the signatures were not compared to a list of authorized signatures maintained by CCU before the adjustments were processed. In this regard, our test of ten adjustments totaling approximately \$1.3 million disclosed that one of the two authorizing signatures on four adjustments totaling approximately \$144,500 did not match those on file with CCU. A similar condition was commented upon in our preceding audit report.

Although CCU instituted a process of providing the agencies with monthly summary reports of adjustment requests for their subsequent review, this process was not an adequate mitigating control because these reports were not always retained, and CCU did not require agencies to acknowledge receiving and reviewing the reports. Specifically, while CCU retained reports for three of the four aforementioned adjustments, there was no documentation from the agencies to acknowledge receipt and review of the reports. We subsequently verified the propriety of all four of the aforementioned adjustments with the referring agencies.

According to CCU's records, approximately 41,000 adjustment forms totaling approximately \$43.7 million were received and processed in fiscal year 2011.

### **Recommendation 3**

**We recommend that DBM develop procedures to ensure that properly authorized adjustment forms are received prior to making adjustments to its accounts (repeat).**

## **Information Systems Security and Control**

### **Finding 4**

**Controls over system access and transfers of critical data were not adequate.**

### **Analysis**

Controls over system access and transfers of critical data were not adequate. CCU operates the Revenue Plus Collection System (RPCS) which is an automated application system supporting its collection operation. Functions performed include the maintenance of key data including delinquent account details, account balances, account collection status, and details of collection actions. Our review disclosed the following conditions:

- Approximately 190 users had direct file modification access to critical RPCS program and data files on the server. As a result of this condition erroneous or unauthorized changes to critical production data could occur without

management's knowledge. Although the vendor supporting this system advised us that such access was necessary for the application to function, this still represents a significant security exposure to the system.

- The vendor responsible for a system which interfaced payment data to the RPCS transferred certain payment information to CCU daily via an email which was not encrypted. This payment information included each payee's social security number, phone number, zip code, and limited credit card information. This sensitive personal information and financial information is commonly sought by criminals for use in identity theft and therefore should be properly protected.

The State's Department of Information Technology *Information Security Policy* requires that agencies ensure that only authorized individuals have access to confidential information and that such access is strictly controlled, audited, and that it supports the concept of "least possible privilege". The *Policy* also requires that information systems protect the confidentiality of confidential information during electronic transmission and that agencies must encrypt all media containing confidential information during transmission.

#### **Recommendation 4**

**We recommend that DBM implement procedures and controls to help ensure that adequate safeguards exist to protect RPCS critical data and program files. For example, supervisory personnel could monitor all changes to critical program and data files. We also recommend that all sensitive personal payment information sent to CCU be properly protected (for example encrypted).**

## **Audit Scope, Objectives, and Methodology**

We have audited the following units of the Department of Budget and Management (DBM) for the period beginning October 1, 2008 and ending May 22, 2011:

Office of the Secretary (including the Central Collection Unit beginning as of March 1, 2008)  
Office of Budget Analysis  
Office of Capital Budgeting

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 DBM's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The primary areas addressed by our audit included cash receipts, collection practices, accounts receivable records, payroll, and procurement and disbursement activities. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DBM's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit included DBM's administration of the Cigarette Restitution Fund and State Reserve Fund that consisted of the Dedicated Purpose Account, the Revenue Stabilization Account, the Economic Development Opportunities Program Fund, and the Catastrophic Event Fund.

Our audit also included certain support services (such as payroll, maintenance of certain accounting records) provided by DBM's Division of Finance and Administration to the Office of Personnel Services and Benefits.

DBM'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.

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

DBM's response 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 DBM regarding the results of our review of its response.



**MARYLAND**  
DEPARTMENT OF  
BUDGET & MANAGEMENT

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Governor

*ANTHONY BROWN*  
Lieutenant Governor

*T. ELOISE FOSTER*  
Secretary

*DAVID C. ROMANS*  
Deputy Secretary

June 11, 2012

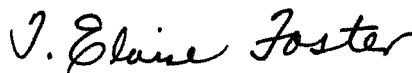
Mr. Bruce A. Myers, CPA  
Legislative Auditor  
State of Maryland  
Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Budget and Management has reviewed your draft audit report on the Office of the Secretary and certain other units of the Department of Budget and Management (DBM) for the period beginning October 1, 2008 (including the Central Collection Unit (CCU) beginning as of March 1, 2008) and ending May 22, 2011. As requested, our responses to the findings in the report are attached.

If you have any questions or need additional information, you may contact me at 410-260-7041 or Dick Ihrle, the Department's compliance auditor, at 410-260-6058.

Sincerely,



T. Eloise Foster  
Secretary

cc: David C. Romans, Deputy Secretary, DBM  
Bruce P. Martin, Principal Counsel  
Chad Clapsaddle, Executive Director, Office of Capital Budgeting, DBM  
Anthony Fugett, Director, Central Collection Unit, DBM  
Mary Naramore, Director, Division of Procurement & Policy Analysis, DBM  
David Treasure, Director, Office of Budget Analysis, DBM

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**Department of Budget and Management**  
**Office of the Secretary and certain other units**  
**Response to Legislative Audits Findings and Recommendations**  
**Audit Period: October 1, 2008 (including the Central Collection Unit (CCU)**  
**beginning as of March 1, 2008) and ending May 22, 2011**

**Debt Collection Efforts**

**Finding 1**

**CCU did not adequately pursue potential wage garnishments from debtors.**

**Recommendation 1**

We recommend that DBM ensure timely follow-up collection efforts are made with regard to wage garnishment and all collection efforts are documented (repeat).

**DBM-CCU Response 1**

DBM agrees that wage garnishment is an important tool for collecting debts, but does not find that referring every case with a wage match is a judicious use of resources.

Wage garnishment is a complex and labor intensive process that does not always lead to additional collections. The wage garnishment process includes: gathering proper evidence of the debt (i.e. applications, agreements, and documented correspondence to and from the debtor), the filing of complaints and affidavits with the court, serving the debtor, obtaining a judgment, filing the garnishment with the employer and sending a courtesy letter (30 day notice) to allow the debtor one additional chance to make a payment arrangement before garnishment begins. CCU frequently obtains judgments in order to proceed with garnishment only to learn that the debtor no longer has attachable wages (e.g. the debtor quits their job upon finding out that their wages are being garnished). Rather than refer every account with a wage match for garnishment, CCU will analyze the individual merits of each case to determine the likelihood of positive results from wage garnishment. Key considerations in this analysis include child support and payment of taxes (both of which have priority over CCU debts) and minimum amounts that must be earned in the quarter in order to establish a wage garnish. All efforts will be documented in the account notes.

Implementation of the new collection system will allow CCU to improve the wage garnishment process by automating the related business process including wage match, document collection and the flow of suits to Legal Services.

**Finding 2**

**CCU improperly identified accounts as inactive resulting in certain accounts being excluded from the tax refund intercept program and not being actively pursued for collection.**

**Recommendation 2**

We recommend that DBM

- a. ensure all accounts are properly coded as active or inactive in its automated collection system, and
- b. take immediate action to correct all improperly coded accounts.

**DBM-CCU Response 2**

DBM agrees with the recommendation. In order to ensure that this issue does not occur again, CCU will run a report of inactive status codes on a quarterly basis and review the report for propriety. All of the accounts in question have been changed to the correct status code, thus allowing them to be collectible through future TRIP collections.

**Accounts Receivable****Finding 3**

**CCU did not ensure the validity of signatures authorizing account adjustment requests.**

**Recommendation 3**

We recommend that DBM develop procedures to ensure that properly authorized adjustment forms are received prior to making adjustments to its accounts (repeat).

**DBM-CCU Response 3**

DBM agrees with the recommendation. As of February 2012, CCU requested updated authorized signatures from all state agencies and documented procedures requiring the CCU employees involved in recording client requested account adjustments to ensure that each adjustment form is signed by the authorized agency employees on file prior to making the adjustment to the related account.

Any debt adjustment form received that does not have properly authorized signatures will be returned to the agency.

## Information Systems Security and Control

### **Finding 4**

**Controls over system access and transfers of critical data were not adequate.**

### **Recommendation 4**

We recommend that DBM implement procedures and controls to help ensure that adequate safeguards exist to protect RPCS critical data and program files. For example, supervisory personnel could monitor all changes to critical program and data files. We also recommend that all sensitive personal payment information sent to CCU be properly protected (for example encrypted).

### **DBM-CCU/DoIT Response 4**

We agree with the recommendation as follows:

Failure to provide “modify rights” to the RPCS application user within the critical data and program files results in system failures. This is a known risk of the RPCS application. CCU has reviewed this risk and determined that a significant programming effort by the vendor would be required to resolve this issue. DBM is in the process of developing a new CCU collection system which will include the necessary safeguards. In the meantime, DBM and DOIT are exploring whether a low-cost temporary solution is available.

CCU is utilizing a software tool that allows secure and automatic transfer of files as well as file encryption software to ensure encryption of critical, nonpublic personal payment information.

AUDIT TEAM

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