

## Audit Report

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# **Maryland Department of Labor Division of Unemployment Insurance**

## **Part 2 Unemployment Benefits**

January 2026

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### **Public Notice**

**In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.**



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

January 6, 2026

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 fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI) for the period beginning November 16, 2020 and ending January 15, 2025. DUI administers the State’s Unemployment Insurance Program and is responsible for collecting unemployment insurance tax contributions from employers and processing applications for, and disbursing unemployment benefits. The focus of this report was unemployment insurance benefits which addresses the second part of our audit. A report on the collection of tax contributions was issued April 8, 2025.

Our audit disclosed that DUI did not timely pursue recovery of claimant overpayments totaling \$807.4 million resulting in up to \$760.7 million that is no longer collectable as of May 2025. The delay in sending the notifications was due in part to a lawsuit filed against MDL that caused it to suspend collection efforts beginning in January 2022 which did not resume until September 2023 (22 months after the lawsuit). Furthermore, collection efforts were not sufficiently comprehensive after the suspension ended resulting in an additional \$33.6 million in overpayments not being adequately pursued.

In addition, our audit disclosed that DUI did not require supervisory reviews of claims and adjudications processed by DUI and staffing vendor employees. This condition was commented upon in our two preceding audit reports dating back to February 2019 but not corrected. In June and July 2024, two staffing vendor employees pled guilty to aggravated identity theft for their roles in manipulating claims in the unemployment insurance information system (BEACON) to defraud DUI of more than \$3.5 million over an approximately two-year period. The lack of comprehensive supervisory reviews may have contributed to the untimely detection of this activity.

Our audit further disclosed that DUI did not adjust claimant account balances in BEACON for \$493.9 million in potentially fraudulent funds removed from claimants' debit cards and could not document the disposition of \$3 million of these funds. This condition was commented upon in our preceding audit report but not corrected. Moreover, DUI did not have comprehensive procedures to timely investigate the results of BEACON data matches of individuals receiving unemployment benefits against individuals with reported wage income.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3.5-301(c), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

MDL's response to this audit, on behalf of DUI, is included as an appendix to this report. Consistent with State law, we have redacted the elements of MDL's response related to the cybersecurity audit findings. In accordance with State law, we have reviewed the response and, while MDL generally agrees with the recommendations in this report, we identified certain instances in which statements in the response disagree or appear to be inconsistent with a report finding and recommendation. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor's comments" within MDL's response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with MDL. We wish to acknowledge the cooperation extended to us during the audit by MDL and DUI, and the agreement to implement the audit recommendations.

Respectfully submitted,

*Brian S. Tanen*

Brian S. Tanen, CPA, CFE  
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 (MDL). 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

We have divided our audit of DUI into the following two parts to address the aforementioned DUI responsibilities. This report addresses Part 2 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 system functionality.

#### **Part 2 – Unemployment Benefits**

Includes methods individuals can use to file for unemployment insurance benefits, eligibility and monetary benefit determinations (for State unemployment insurance), payment monitoring, prevention of fraudulent claims, and system functionality.

According to the State's records, DUI's fiscal year 2024 operating expenditures (excluding unemployment benefit disbursements) totaled approximately \$109.1 million (see Figure 1 on the following page). Also during the same period, DUI paid approximately \$387.5 million in unemployment insurance benefits to more than 78,000 claimants.

During the period June 30, 2021 through June 30, 2024, DUI had vacancy rates that ranged from 6.1 percent to 14.9 percent. As of June 30, 2024, approximately 12.5 percent of the total 377 positions were vacant. We were advised that vacancies were primarily for staff that conducted claim related functions which were augmented by contractual service staffing; these vacancies may have contributed, at least in part, to the findings in this report.

**Figure 1**  
**MDL – DUI Positions, Expenditures, and Funding Sources**

| Full-Time Equivalent Positions as of June 30, 2024 |                      |
|--|----------------------|
|  | <b>Positions</b>     |
| Filled   | 330                  |
| Vacant   | 47                   |
| <b>Total</b>                                       | <b>377</b>           |
| Fiscal Year 2024 Expenditures                      |                      |
|  | <b>Expenditures</b>  |
| Salaries, Wages, and Fringe Benefits               | \$ 38,576,235        |
| Technical and Special Fees                         | 2,306,825            |
| Operating Expenses                                 | 68,254,548           |
| <b>Total</b>                                       | <b>\$109,137,608</b> |
| Fiscal Year 2024 Funding Sources                   |                      |
|  | <b>Funding</b>       |
| Special Fund                                       | \$ 3,387,908         |
| Federal Fund                                       | 105,749,700          |
| <b>Total</b>                                       | <b>\$109,137,608</b> |

Source: State financial and personnel records

## **BEACON - Unemployment Insurance Information System**

BEACON is DUI's unemployment insurance information system that was implemented in September 2020. On August 23, 2022, an indictment was filed in the U.S. District Court of West Virginia against two principals of the primary BEACON contractor. The indictment included several criminal charges such as, conspiracy to steal trade secrets related to BEACON. On March 23, 2023, a civil lawsuit was filed against the primary BEACON contractor by a company (the plaintiff) alleging that former employees of the plaintiff worked for the primary BEACON contractor and used source code and trade secrets to develop the BEACON software. We were advised by MDL's counsel that they believe the outcome of these cases may seriously impact the contractor's ability to abide by the terms and conditions of its contract with the State.

Our previous audit reports of MDL contained findings regarding BEACON. MDL addressed many of these findings, but a certain finding remained unresolved as further described in finding 3.

## **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of 12 of the 13 findings contained in our preceding audit report dated November 15, 2022. See Figure 2 for the results of our review.

In our preceding audit report, we reported that DUI's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of our current audit, we have concluded that DUI has improved its fiscal and compliance operations to the point that DUI's accountability and compliance level is no longer unsatisfactory.

**Figure 2**  
**Status of Preceding Findings**

| <b>Preceding Finding</b> | <b>Finding Description</b>  | <b>Implementation Status</b> |
|--------------------------|---|------------------------------|
| Finding 1                | The Division of Unemployment Insurance (DUI) did not conduct certain critical matches used to identify potentially fraudulent or improper claims. We conducted three matches to replicate four of the discontinued DUI matches and identified at least \$32.3 million in potentially improper payments. | Not repeated                 |
| Finding 2                | DUI did not have comprehensive procedures to ensure that individuals filing claims using a foreign Internet Protocol address were eligible to receive benefits, including 3,724 claimants that received benefit payments totaling \$3.6 million.  | Not repeated                 |
| Finding 3                | DUI did not ensure claimants who were full-time students were eligible for benefits, and that all claimants were enrolled in the Maryland Workforce Exchange System, as required.   | Not repeated                 |
| Finding 4                | DUI did not have procedures to help prevent and detect duplicate benefit payments. Our analysis disclosed \$43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021 that were not identified or investigated by DUI.                               | Not repeated                 |

**Figure 2**  
**Status of Preceding Findings**

| <b>Preceding Findings</b> | <b>Finding Description</b>   | <b>Implementation Status</b>           |
|---------------------------|--|--|
| Finding 5                 | DUI did not conduct timely verifications of income reported by applicants for Pandemic Unemployment Assistance benefits and did not ensure manual adjustments processed by DUI and contract employees were proper.                   | Not repeated (Not followed up on)      |
| Finding 6                 | DUI did not adequately review regular claims and adjudications processed by claims center DUI employees and temporary staff, and output reports of manual wage entries could not be generated from BEACON for verification purposes. | <b>Repeated</b><br>(Current Finding 2) |
| Finding 7                 | DUI did not establish sufficient controls over reissued debit cards, and did not ensure the proper disposition of funds remaining on expired debit cards.  | Not repeated                           |
| Finding 8                 | DUI did not properly account for potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' debit cards.   | <b>Repeated</b><br>(Current Finding 3) |
| Finding 9                 | DUI did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments.   | Not repeated                           |
| Finding 10                | Redacted cybersecurity-related finding. <sup>1</sup>   | Status Redacted <sup>1</sup>           |
| Finding 11                | Redacted cybersecurity-related finding. <sup>1</sup>   | Status Redacted <sup>1</sup>           |
| Finding 12                | Redacted cybersecurity-related finding. <sup>1</sup>   | Status Redacted <sup>1</sup>           |
| Finding 13                | Redacted cybersecurity-related finding. <sup>1</sup>   | Status Redacted <sup>1</sup>           |

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<sup>1</sup> The finding description as well as the implementation status of this cybersecurity-related finding have been redacted for the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

## Findings and Recommendations

### Overpayment Recovery

#### **Finding 1**

**The Maryland Department of Labor (MDL) - Division of Unemployment Insurance (DUI) did not timely pursue recovery of claimant overpayments totaling \$807.4 million resulting in up to \$760.7 million that is no longer collectable.**

#### **Analysis**

DUI did not timely pursue recovery of claimant overpayments totaling \$807.4 million resulting in up to \$760.7 million that is no longer collectable. State law provides that overpayments can only be collected if the claimant is notified within three years from when the overpayment was issued. In November 2021, a lawsuit was filed against MDL asserting that DUI's overpayment notifications violated claimant constitutional rights because they did not include the reason for the overpayment or an opportunity to appeal. As a result, in January 2022 MDL suspended its collection efforts until the regulations for the overpayment process and related BEACON notifications were updated.

Our review disclosed that the regulations and BEACON were not updated timely resulting in numerous overpayments that are no longer eligible for recovery. Specifically, DUI did not update the regulations until March 2023 (16 months after the lawsuit) and did not update the BEACON notifications for the changes or restart the collections until September 2023 (22 months after the lawsuit). According to DUI's records, during the period when collections were suspended DUI identified overpayments totaling \$773.8 million of which \$760.7 million are no longer collectable as of May 2025 because the notifications were not sent within three years of the payment, as required. Furthermore, each day these overpayment notifications are not issued, the statute of limitations is eliminating DUI's ability to pursue collection of additional overpayments.

In addition, our review disclosed that DUI did not adequately pursue collection of overpayments identified after the suspension period ended in September 2023. Specifically, although DUI sent notifications for \$33.6 million in overpayments, as of May 2025, it had not initiated any follow-up collection efforts including sending dunning letters and referring delinquent overpayments to the Central Collection Unit for collection. For example, an overpayment totaling \$3,010 for payments made during October 2024 and November 2024 was identified in December 2024; however, as of May 2025, DUI had only sent one notice of

overpayment and no dunning letters. DUI could not readily provide the source of the outstanding overpayments to identify which would have been repaid to the Maryland Unemployment Trust Fund<sup>2</sup> (UI Trust Fund) for regular unemployment insurance payments or the federal government for federal pandemic unemployment insurance payments.

### **Recommendation 1**

#### **We recommend that DUI**

- a. timely pursue claimant overpayments including those noted above. Such actions should include sending overpayment notifications and referrals of delinquent overpayments to CCU; and**
- b. determine the total amount that was uncollectable resulting from the aforementioned delays and report this information to the Maryland General Assembly.**

## **Claims Processing**

### **Background**

BEACON has automated validation rules to help determine eligibility and benefits. For example, wages reported by the applicant are automatically verified to wages reported by an applicable employer. If inconsistencies or other discrepancies are detected, applications and claims may be flagged for manual review and adjustment by a claim processor. A claim can also be designated for adjudication when it requires a claims worker to further investigate certain issues and determine the impact on the claimant's eligibility. For example, a claim may be adjudicated to determine whether the claimant was terminated or voluntarily resigned.

### **Finding 2**

**DUI did not have procedures to require supervisory reviews of claims and adjudications processed by DUI and staffing vendor employees, which may have contributed to certain fraudulent activity not being detected timely.**

### **Analysis**

DUI did not have procedures to require supervisory reviews of claims and adjudications processed by DUI and staffing vendor employees, which may have contributed to certain fraudulent activity not being detected timely. The reviews

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<sup>2</sup> DUI maintains the UT Trust Fund for the deposit of unemployment taxes collected from employers and for benefit payments to claimants. The balance as of June 30, 2024 was \$2.1 billion.

are critical to ensure the propriety of the claims and adjudications processed by DUI and vendor employees. DUI could not readily provide the total number of claims processed by the claims center and staffing vendor but according to DUI records, during calendar year 2024, there were 92,862 adjudications.

- DUI policy effective December 2023 only required supervisors to strive to review 5 claims and/or adjudications of each employee per week but did not require the reviews. In addition, DUI did not have a process to track and monitor the reviews to ensure they were being conducted. As a result, DUI did not take corrective action when the reviews were not conducted.

Our test of reviews conducted during the weeks ending June 7, 2024 through June 21, 2024 at each of the four claims centers disclosed that one claim center had not conducted any of the reviews and the other three claim centers' reviews did not include claims processed by certain team members. Our test of 22 claims and adjudications processed by the claims centers from November 2022 through November 2024 concluded that they were proper.<sup>3</sup>

- DUI had no procedures to perform, and the related contract did not require, supervisory reviews of claims processed by staffing vendor employees. DUI could not provide documentation that any claims processed by the staffing vendor were reviewed.

These reviews are important because in June and July 2024, two staffing vendor employees pled guilty to aggravated identity theft for their roles in manipulating claims in BEACON to defraud DUI of more than \$3.5 million over an approximately two-year period. The lack of comprehensive supervisory reviews may have contributed to the untimely detection of this activity.

Similar conditions regarding the lack of supervisory reviews over claims were commented upon in our two preceding audit reports dating back to February 5, 2019 and the lack of supervisory reviews over adjudications and procedures for reviewing staffing vendor employee claims was commented upon in our preceding audit report. In response to our prior report, DUI indicated that by December 31, 2022, these supervisory reviews would be reinstated. During our current audit, we were advised that DUI had not implemented the recommendations because staff was working on more urgent matters.

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<sup>3</sup> The claims were selected based on assessed risk and the adjudications were arbitrarily selected.

## **Recommendation 2**

**We recommend that DUI**

- a. establish procedures to require supervisory reviews of claims and adjudications,**
- b. ensure that supervisors at claim centers perform the required reviews of claims processed and adjudications completed (repeat), and**
- c. establish a formal process to provide for supervisory review of claims processed by staffing vendor employees (repeat).**

### **Finding 3**

**DUI did not adjust claimant account balances in BEACON for \$493.9 million in potentially fraudulent debit card funds removed from claimants' debit cards and could not document the disposition of \$3 million of these funds.**

### **Analysis**

DUI did not adjust claimant account balances in BEACON for \$493.9 million in potentially fraudulent debit card funds removed from claimants' debit cards and could not document the disposition of \$3 million of these funds. As noted in our prior report, in July 2020, DUI canceled debit cards for 46,986 claimants with benefits totaling \$493.9 million that were potentially fraudulent because they originated from out of State. However, DUI did not update BEACON resulting in claimants receiving overpayment notices even though they never received the related funds.

During our current audit we tested ten of these claimants with canceled debit cards containing \$265,300 and noted that as of July 2025 DUI had not updated the related BEACON accounts to reflect the amount cancelled.<sup>4</sup> Furthermore, while DUI transferred \$490.9 million of the cancelled funds to the UI Trust Fund in March 2022; it could not document the disposition of the remaining \$3 million.

In response to our preceding audit report, DUI agreed to update the accounts in BEACON by July 1, 2023. We were advised during our current audit that DUI has not updated the accounts because many of these accounts needed adjustments for unrelated issues and is currently working on a plan to make all of the adjustments together.

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<sup>4</sup> We selected these canceled debit cards for testing based on materiality.

### **Recommendation 3**

**We recommend that DUI**

- a. ensure that all transactions impacting claimant accounts are properly recorded in BEACON, including those noted above (repeat); and**
- b. determine the disposition of the aforementioned \$3 million and take appropriate action.**

## **Benefit Payments**

### **Finding 4**

**DUI did not have comprehensive procedures to timely investigate the results of data matches that identified individuals receiving unemployment benefits who also received wages.**

### **Analysis**

DUI did not have comprehensive procedures to timely investigate the results of data matches between BEACON records of individuals receiving unemployment benefits and records of individuals with wage income. DUI obtains data of individuals with wage income including quarterly reports of individuals receiving wages in another state and individuals with new employment in Maryland. Our review disclosed that DUI did not have written policies and procedures dictating how the matched items were to be investigated and the process for documenting the related results and any corrective actions.

We arbitrarily selected 10 of the 2,522 individuals identified in the fourth quarter of calendar year 2024 as receiving unemployment benefits while also having wage income in another state. Our test disclosed that as of July 2025, DUI had not documented an investigation for any of these 10 individuals who had received unemployment benefits totaling \$23,000 during the quarter. This is significant because recipients continue to receive benefits until the match result investigations are completed. We could not readily determine the total amount of benefits paid to these individuals while they also had wage income.

### **Recommendation 4**

**We recommend that DUI conduct timely investigations of data matches which identified individuals that had received unemployment benefits and also had reported wage income.**

## **Information Systems Security and Control**

We determined that the Information Systems Security and Control section, including Findings 5 and 6 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(c) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with MDL’s responses, have been redacted from this report copy.

### **Finding 5**

**Redacted cybersecurity-related finding.**

### **Finding 6**

**Redacted cybersecurity-related finding.**

**Exhibit 1**  
**Listing of Most Recent Office of Legislative Audits**  
**Fiscal Compliance Audits of Maryland Department of Labor (MDL)**  
**Units as of November 2025**

| Name of Audit |  | Areas Covered   | Most Recent Report Date |
|---------------|--|---|-------------------------|
| 1             | Division of Occupational and Professional Licensing (DOPL)   | <ul style="list-style-type: none"> <li>DOPL cash receipts</li> <li>Licensing</li> <li>Guaranty funds</li> </ul>   | 07/21/25                |
| 2             | Office of the Secretary, Division of Administration, Division of Workforce Development & Adult Learning, | <ul style="list-style-type: none"> <li>Information system security</li> <li>Grants</li> <li>Payroll</li> <li>Federal Funds</li> <li>Procurement and disbursements activities (including support service for all divisions)</li> <li>Support services to other divisions of MDL (such as payroll, data processing, maintenance of accounting records, and related fiscal functions)</li> </ul> | 04/16/25                |
| 3             | Division of Unemployment Insurance (DUI) Part I Tax Contributions  | <ul style="list-style-type: none"> <li>Employer unemployment contributions</li> <li>Reimbursements from government agencies and certain non-profit organizations</li> <li>Accounts receivable</li> <li>Information systems security and control</li> </ul>  | 04/08/25                |
| 4             | Division of Financial Regulation   | <ul style="list-style-type: none"> <li>Consumer credit and oversight of financial institutions</li> <li>Examinations and licensing</li> </ul>   | 09/20/24                |
| 5             | Division of Labor and Industry (DLI)   | <ul style="list-style-type: none"> <li>DLI accounts receivable</li> <li>Monitoring of compliance with certain laws pertaining to prevailing wages</li> <li>Safety inspections for boilers, pressure vessels, and elevators</li> </ul>   | 01/06/23                |
| 6             | Division of Racing (DOR)   | <ul style="list-style-type: none"> <li>DOR Cash receipts</li> <li>Racing funds</li> <li>Distribution of video lottery terminal funds</li> <li>Certain licensee (racetrack) requirements regarding the reporting and distribution of pari-mutuel wagering revenue</li> </ul>   | 01/26/22                |

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

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI), for the period beginning November 16, 2020 and ending January 15, 2025. 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 benefit payments, claims, third-party processing, and information systems security and control. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DUI by MDL – Office of the Secretary. These support services (such as payroll, human resources, purchasing, maintenance of certain accounting records, and related fiscal functions) are included within the scope of our audit 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 November 16, 2020 to January 15, 2025, 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 or 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 this source were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from BEACON, as well as from certain other State records, such as those maintained by the Maryland Department of Labor, for the purpose of testing unemployment tax 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 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 report also includes findings regarding 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.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(c), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of these cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to DUI and those parties responsible for acting on our recommendations in an unredacted audit report.

In our preceding audit report, we reported that DUI's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Our current audit disclosed that DUI has improved its fiscal and compliance operations, and accordingly, DUI's accountability and compliance level is no longer unsatisfactory. Our rating conclusion has been made solely pursuant to the aforementioned law and rating guidelines approved by the Joint Audit and Evaluation Committee. The rating process is not a practice prescribed by professional auditing standards.

The response from MDL, on behalf of DUI, to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. 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.

## APPENDIX



OFFICE OF THE SECRETARY  
100 S. Charles Street Tower 1, 9th Floor  
Baltimore, MD 21201  
Portia Wu, Secretary

December 23, 2025

Brian S. Tanen, CPA, CFE  
Legislative Auditor  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, MD 21201

Dear Mr. Tanen:

The Maryland Department of Labor has received your correspondence dated December 8, 2025, transmitting the draft audit report prepared by the Office of Legislative Audits.

Enclosed is the Agency Response Form (ARF) addressing the draft audit report on *Maryland Department of Labor - Division of Unemployment Insurance - Part 2 - Unemployment Benefits*, covering the period beginning November 16, 2020, and ending January 15, 2025.

The audit identified deficiencies, and the agency has provided corrective actions to address the findings. We note that the audit reviewed 12 of the 13 findings contained in the prior November 15, 2022, audit. Of the 12 findings reviewed, 8 of the findings were resolved and there remain 4 findings. Our responses to these are summarized in our responses.

Thank you for your continued partnership. If you have any questions or concerns, please contact our office or the Maryland Division of Unemployment Insurance.

Sincerely,

A handwritten signature in black ink, appearing to read "Portia Wu".

Portia Wu  
Secretary of Labor

cc: Rachel Torres, Assistant Secretary  
Division of Unemployment Insurance

**Maryland Department of Labor  
Division of Unemployment Insurance  
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**Agency Response Form**

**Overpayment Recovery**

**Finding 1**

**The Maryland Department of Labor (MDL) Division of Unemployment Insurance (DUI) did not timely pursue recovery of claimant overpayments totaling \$807.4 million resulting in up to \$760.7 million that is no longer collectable.**

**We recommend that DUI**

- a. timely pursue claimant overpayments including those noted above. Such actions should include sending overpayment notifications and referrals of delinquent overpayments to CCU; and
- b. determine the total amount that was uncollectable resulting from the aforementioned delays and report this information to the Maryland General Assembly.

**Agency Response**

| Analysis   |   |                                   |            |
|--|---|-----------------------------------|------------|
| Please provide additional comments as deemed necessary.              |   |                                   |            |
| <b>Recommendation 1a</b>   | Agree   | <b>Estimated Completion Date:</b> | 03/31/2026 |
| Please provide details of corrective action or explain disagreement. | Based on the prior Administration's decisions, there were several pauses in DUI overpayment collections during the pandemic, and the issuance of overpayment notices and collections was paused entirely in January 2022 due to a lawsuit alleging a due process violation. As part of the settlement agreement in <i>Gorres, et al. v. Robinson</i> (1:21-cv-03029), the Maryland Department of Labor (MD Labor) was required to establish processes to notify claimants of their right to appeal agency determinations of overpayment and to seek a waiver if they were not at fault for the overpayment and are experiencing financial hardship. Prior to this settlement, overpayment notices did not adequately inform claimants of their appeal rights. |                                   |            |

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|  | <p>Since that time, DUI has taken meaningful, concrete steps to reform its overpayment process. Following public rulemaking, MD Labor adopted new regulations to ensure claimants have the right to appeal overpayment determinations and to seek waivers where appropriate. These new procedures became final regulations under Maryland law on March 6, 2023.</p> <p>However, implementing these procedures required significant updates to the BEACON system, which MD Labor's vendor did not complete until September 25, 2023. Only after these safeguards were in place could DUI resume issuing appealable overpayment determinations for new cases. System changes were also necessary to address the previous claimants who were entitled to, but not afforded, full appeal rights.</p> <p>Under the present leadership, MD Labor has worked expeditiously to complete the necessary back-end work to resume collection activities and issue appealable overpayment determinations for pre-moratorium overpayments with a focus on two areas: due process and system/policy alignment.</p> <p>With the implementation of these changes, DUI began issuing retroactive overpayment notices to affected individuals on December 5, 2025, and will resume collection activities on all overpayments in January 2026.</p> <p>DUI's timeline of activities includes:</p> <ul style="list-style-type: none"><li>● September, 2023: DUI began issuing Overpayment Determinations to claimants whose overpayments accrued on or after this date.</li><li>● August 1, 2025: DUI resumed billing activities on overpayments.</li><li>● September 2025: DUI resumed overpayment waiver processing.</li><li>● October 13, 2025: DUI sent files to the State Comptroller for Tax Refund Intercept Program (TRIP) debt collection.</li><li>● November 1, 2025: DUI issued the first of two rounds of billing statements for debts that will be referred to the U.S. Treasury for tax interception through the Treasury Offset Program (TOP).</li></ul> |
|--|---|

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|   | <ul style="list-style-type: none"><li>● December 5, 2025: DUI began issuing “retroactive” Overpayment Determinations to claimants whose overpayments accrued during moratorium periods. As of 12/19/2025, 171,126 notices have been issued. We expect that 53,000 notices will be issued on or before December 31, 2025.</li><li>● February, 2026 : DUI will send collection files to the U.S. Treasury for TOP activities by this date.</li><li>● <b>January 2026:</b> Benefit offsets will be activated in BEACON, and tax interception will begin through TRIP and TOP.</li></ul>   |
| <b>Recommendation 1b</b>  | Agree  |
| <b>Please provide details of corrective action or explain disagreement.</b> | <p><b>Estimated Completion Date:</b> 9/15/2025</p> <p>Pursuant to § 8-809(f)(3) of the Labor &amp; Employment Article of the Maryland Code, the Secretary of Labor has deemed uncollectible any overpayment that has not been recovered within 5 years of the date of the decision to recover the amount. Claimants who owed the outstanding debt were not afforded full due process with respect to the notices issued for the overpayment determinations.</p> <p>Lab. &amp; Empl. § 8-809 precludes DUI from establishing any overpayment later than 3 years after the date that benefits were paid to a claimant. Furthermore, there are statutory restrictions on any overpayment that was not established within the last three years.</p> <p>DUI has determined that there are \$610,483,429 in uncollectible funds involving 108,592 claimants, for overpayments established without notice more than three years ago, or with faulty notice more than five years ago. The process of identifying certain overpayments as uncollectible can be divided into three steps; the first has been completed.</p> <p>As discussed in our response to recommendation 1a, DUI has begun issuing overpayment determinations for payments made less than five years ago, where a claimant previously received an overpayment notice, but without full due process rights. The notices are now being reissued with all appeal and waiver request rights. As of December 31, 2025, approximately 221,223 such cases totaling almost \$1.29 billion will be issued overpayment determinations..</p> |

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|  | <p>Furthermore, for overpayments made less than three years ago and for which no determination notice was sent due to the moratorium, DUI is now issuing overpayment notices. This involves over 43,000 cases and approximately \$250 million.</p> <p>The portion of the disposition of funds previously recovered, totaling approximately \$211.5 million, is under review. These amounts may reflect reversals of banking transactions rather than overpayments. DUI is continuing reconciliation efforts and consulting with appropriate legal counsel to determine the status of these funds and to identify the appropriate path forward for resolution.</p> |
|--|---|

**Auditor's Comment:** Although MDL/DUI agreed with recommendation 1b, MDL/DUI noted that the amount uncollectable was \$610,483,429 rather than the \$760.7 million noted in our analysis. The difference is based on an MDL/DUI analysis completed subsequent to our audit fieldwork and accordingly was not subject to any audit verification. In this regard, we provided MDL/DUI with our determination of the amount uncollectable and the underlying methodology and MDL/DUI conceptually agreed to our determination and methodology. We did note that MDL/DUI used a different timeframe in their calculation which may have contributed to the difference. Therefore, we continue to believe our finding and related recommendation is accurate based on the facts presented at the time of our review.

## **Claims Processing**

**Finding 2**

**DUI did not have procedures to require supervisory reviews of claims and adjudications processed by DUI and staffing vendor employees, which may have contributed to certain fraudulent activity not being detected timely.**

**We recommend that DUI**

- a. establish procedures to require supervisory reviews of claims and adjudications,**

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- b. ensure that supervisors at claim centers perform the required reviews of claims processed and adjudications completed (repeat), and
- c. establish a formal process to provide for supervisory review of claims processed by staffing vendor employees (repeat).

| <b>Agency Response</b>  |  |                                   |            |
|---|--|-----------------------------------|------------|
| <b>Analysis</b>   |  |                                   |            |
| <b>Please provide additional comments as deemed necessary.</b>              | <p>Under MDUI's current policy, which was reviewed by OLA, Section 1.b. provides that adjudication and claims review activities may be suspended during periods when workload demands require all staff to focus on processing UI claims.</p> <p>During the period in question, the Division of Unemployment Insurance experienced a significant increase in workload and a substantial backlog of adjudication issues. Given limited staffing and resources, it was necessary for all personnel to be dedicated to claims processing. Accordingly, supervisory review was suspended in alignment with established policy.</p> |                                   |            |
| <b>Recommendation 2a</b>  | Agree  | <b>Estimated Completion Date:</b> | 4/1/2026   |
| <b>Please provide details of corrective action or explain disagreement.</b> | DUI is in the process of updating its policy and procedures regarding supervisory reviews of claims and adjudications, including required procedures during periods of increased workload, to ensure adequate supervisory reviews occur.   |                                   |            |
| <b>Recommendation 2b</b>  | Agree  | <b>Estimated Completion Date:</b> | 4/1/2026   |
| <b>Please provide details of corrective action or explain disagreement.</b> | After the policy is updated, DUI will train supervisors and ensure that supervisors at claim centers perform the required reviews of claims and adjudications processed by all staff members. These reviews will be documented, discussed with staff, and maintained appropriately.  |                                   |            |
| <b>Recommendation 2c</b>  | Agree  | <b>Estimated Completion Date:</b> | 05/10/2022 |
| <b>Please provide details of corrective action or explain disagreement.</b> | This is no longer applicable, as claims are no longer processed by vendor staff. The vendor contract concluded on May 10, 2022.  |                                   |            |

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**Finding 3**

**DUI did not adjust claimant account balances in BEACON for \$493.9 million in potentially fraudulent debit card funds removed from claimants' debit cards and could not document the disposition of \$3 million of these funds.**

**We recommend that DUI**

- a. ensure that all transactions impacting claimant accounts are properly recorded in BEACON, including those noted in this finding (repeat); and,
- b. determine the disposition of the aforementioned \$3 million and take appropriate action.

| <b>Agency Response</b>  |  |                                   |                  |
|---|--|-----------------------------------|------------------|
| <b>Analysis</b>   |  |                                   |                  |
| <b>Recommendation 3a</b>  | <b>Agree</b>   | <b>Estimated Completion Date:</b> | <b>6/30/2026</b> |
| <b>Please provide additional comments as deemed necessary.</b>              |  |                                   |                  |
| <b>Please provide details of corrective action or explain disagreement.</b> | <p>DUI initially faced significant delays in adjusting account balances due to an incomplete data file from the financial institution, which hindered reconciliation efforts.</p> <p>However, a complete data file was received in August 2025. Since then, our team has successfully reconciled and applied correct balances to approximately 85% of the accounts.</p> <p>The remaining accounts present complex issues requiring careful consideration of relevant laws and regulations. DUI policy and the Attorney General's Office are currently evaluating the optimal course of action to ensure compliance.</p> <p>Once DUI reaches a definitive resolution, we will promptly post the correct balances to these outstanding accounts.</p> |                                   |                  |

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| <b>Recommendation 3b</b>  | <b>Agree</b>  | <b>Estimated Completion Date:</b> | <b>3/31/2026</b> |
|---|---|-----------------------------------|------------------|
| <b>Please provide details of corrective action or explain disagreement.</b> | <p>The approximately \$3 million discrepancy appears to be associated with accounts for which debit cards may have been cancelled due to potential UI or identity fraud concerns. At this time, DUI does not have sufficient information to fully reconstruct the decisions made during that period or to determine why the amount returned by the financial institution differs from expectations, without additional review of the March 2022 transactions.</p> <p>Given significant staff turnover over the past several years and limitations in historical documentation, further review is required to understand the circumstances surrounding the return of funds, the identified discrepancy, and the related financial records and decisions.</p> |                                   |                  |

**Benefit Payments**

**Finding 4**

**DUI did not have comprehensive procedures to timely investigate the results of data matches that identified individuals receiving unemployment benefits who also received wages.**

**We recommend that DUI conduct timely investigations of data matches which identified individuals that had received unemployment benefits and also had reported wage income.**

| Agency Response   |   |                                   |                |
|---|---|-----------------------------------|----------------|
| <b>Analysis</b>   |   |                                   |                |
| <b>Please provide additional comments as deemed necessary.</b>              | DUI is responding to this finding by assuming the OLA audit team is referring to crossmatch data related to out-of-state employers.             |                                   |                |
| <b>Recommendation 4</b>   | <b>Agree</b>  | <b>Estimated Completion Date:</b> | <b>6/30/26</b> |
| <b>Please provide details of corrective action or explain disagreement.</b> | DUI acknowledges that crossmatches were not completed due to staffing shortages and the need to modernize technology. The issue primarily arose |                                   |                |

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|  | <p>following the implementation of BEACON, after which the crossmatch process encountered technical challenges that have not yet been fully resolved.</p> <p>DUI will continue to process the earnings verifications for any periods that were not processed in a timely manner. Retroactive corrective actions are underway, including the development of technology-based solutions within BEACON to resolve the issue.</p> <p>DUI will implement the following corrective actions:</p> <p>1: All overpayments (approximately 300) that are beyond the statute of limitations will be excluded.</p> <p>2: DUI is reviewing federal guidance and exploring additional measures to be taken upon detection of a crossmatch hit to stop payment more promptly. This will include a review of current processes and the feasibility of implementing potential modifications to existing programming. Options to be explored include possible stop payment, issuance of notification to claimants with required follow-up, and denials for failures to respond.</p> |
|--|--|

**Information Systems Security and Control**

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Findings 5 and 6 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(c) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with MDL’s responses, have been redacted from this report copy, MDL’s responses indicated agreement with the findings and related recommendations.

**Finding 5**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

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**Finding 6**

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

## AUDIT TEAM

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Principal Auditor

**Edwin L. Paul, CPA, CISA**

Information Systems Audit Manager

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