



Auditors Raise Red Flags on Maryland's Financial Controls

Maryland's latest audit of federal funding compliance and financial reporting raises some serious concerns. The state's independent review of how it manages billions in federal funds and its own financial records reveals deep, systemic problems in tracking money, keeping records, and overseeing spending.

This isn't about one isolated mistake. It is a pattern across multiple state agencies, characterized by weak controls, poor documentation, staffing shortages, and outdated systems. Together, these problems increase the risk of errors, unsupported spending, and potential waste or noncompliance with federal rules, all at the expense of Maryland taxpayers.

Major Weaknesses in Core Financial Tracking

One of the biggest red flags involves the state's basic ability to keep accurate books:

- The **Maryland Unemployment Insurance Trust Fund** did not even have a proper general ledger system or enough experienced accountants. Auditors found that managers were forced to reconstruct records and reconcile accounts after year-end. Without routine checks during the year, big mistakes can go unnoticed for months.
- The **Maryland Department of Transportation** failed consistently to record key transactions, such as cash, revenue, liabilities, and inventory, in its general ledger. In one case, it had to reverse **\$417 million** in revenue that did not meet collectibility rules. At the same time, intergovernmental receivables included both billed and unbilled amounts, making the state's financial picture even less clear and raising further concerns about transparency and accuracy.

These issues make it much harder for managers to spot errors in real time and increase the chance that the state's overall financial statements could be materially wrong.

Federal Reporting Failures

Federal grants make up a huge portion of state budgets, but Maryland agencies repeatedly struggled to record and report federal revenues and expenditures correctly:

- Departments lacked proper internal controls over federal receivables, resulting in misclassifications of uncollectible balances that required last-minute fixes to the state's Annual Comprehensive Financial Report.
- Several agencies provided inaccurate or incomplete data for the critical **Schedule of Expenditures of Federal Awards**, which lists Federal Awards subject to auditing requirements.

These weaknesses undermine confidence in the state's ability to track how much federal money is being spent, where it is going, and whether it is being used in compliance with federal requirements.

Missing Documentation: "Show Me the Receipts" Often Failed

Auditors repeatedly requested basic documentation to substantiate expenditures charged to federal programs, but agencies were not always able to provide it. Agencies like the Departments of Budget and Management, Health, Human Services, and Labor could not consistently provide transaction details, payroll records, journal entry support, or reconciliations needed to validate expenditures.

Without solid documentation, auditors could not always confirm that costs were legitimate, properly timed, or allowable under federal rules. This increases the risk that misuse of funds could go undetected.

Weak Oversight of Outside Organizations

State agencies are supposed to monitor nonprofits, local governments, and other groups that receive federal funds through the state. Yet departments, including Education, Housing and Community Development, Aging, and Health, often failed to conduct required monitoring or could not provide evidence that it had occurred. Staffing shortages, reorganizations, and poor controls were responsible for these repeated breakdowns.

When oversight fails, there's little assurance that federal dollars handed to outside entities are being spent as intended or used in compliance with federal requirements.

Transparency Weaknesses Hurt Accountability

Agencies also missed deadlines for reporting subawards to federal systems such as the Federal Subaward Reporting System and SAM.gov, or could not substantiate the information they submitted. This reduces visibility for everyone—taxpayers, federal overseers, and watchdogs—into how grant money flows and is used.

The Big Picture: Systemic Problems Demand Real Reform

Taken together, these findings (spanning dozens of issues) show a fragmented system, weak reconciliations, insufficient documentation, and inconsistent oversight. It is not just about compliance checkboxes. Poor financial management erodes public trust, risks repayment of federal funding, and leaves taxpayers exposed to hidden costs and inefficiencies.

At **Truth in Accounting**, we've long highlighted how opaque government accounting, especially around pensions, liabilities, and reporting, hides the true fiscal picture from citizens. Maryland's audit is another example of why stronger standards, better integration of financial systems, adequate staffing, and rigorous documentation aren't optional; they're essential for honest stewardship of public resources.

Taxpayers deserve to know exactly where their money is going and whether it's being handled responsibly. Until Maryland addresses these root causes, the risks to accurate reporting and accountable governance will remain high. Citizens and lawmakers should demand better.