

Audit Report

Subsequent Injury Fund

April 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

April 9, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Subsequent Injury Fund (SIF) for the period beginning April 25, 2005 and ending January 22, 2008. SIF pays workers' compensation awards in connection with claims for employees' subsequent occupational injuries or deaths, and collects assessments from employers and insurance companies to fund these awards.

Our audit disclosed that the controls over accounts receivable and cash receipts were seriously deficient. For example, the same employee was responsible for many incompatible duties related to accounts receivable and cash receipts. In addition, SIF had not established procedures to ensure that only properly authorized transactions, including non-cash adjustments, were recorded in the accounts receivable records, and our tests disclosed a number of inaccuracies in the records. SIF maintains the accounts receivable records for both its receivables and for the receivables of the Uninsured Employers' Fund. As of January 2009, the accounts receivable balances totaled \$27.3 million for both Funds.

Furthermore, certain users' capabilities on the automated system compromised effective internal control over financial transactions. We also noted internal control deficiencies in the areas of payroll, procurements, and information systems. For example, access to the computer room was not adequately controlled and disaster recovery was not fully addressed.

An Executive Summary of our findings can be found on page 5. SIF'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 the SIF.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on Subsequent Injury Fund (SIF) April 2009

- **SIF had established virtually no controls over its accounts receivable records, which were maintained for both SIF and for the Uninsured Employers Fund (UEF), resulting in increased susceptibility to fraudulent activity. For example, the same employee was responsible for many incompatible duties related to accounts receivable and cash receipts. Additionally, this employee recorded non-cash adjustments in the accounts receivable records, and there was no independent review of these transactions. During fiscal year 2008, SIF deposited collections totaling approximately \$29.7 million, primarily representing payments on accounts receivable. As of January 2009, the accounts receivable balance totaled \$27.3 million for both Funds.**

SIF should ensure that the employee who maintains the accounts receivable records does not have access to the related cash receipts, and that an employee independent of accounts receivable functions reviews the propriety of non-cash transactions.

- **There was no process in place to ensure the propriety, accuracy, and completeness of the automated accounts receivable records processed for UEF. Consequently, certain accounts receivable transactions related to UEF were not recorded correctly in the automated system.**

SIF should establish a process to ensure the propriety, accuracy, and completeness of all transactions recorded in the automated accounts receivable system.

- **SIF did not comply with the Department of Budget and Management's Central Collection Unit's (CCU) requirements for collection of unpaid assessments. Delinquency notices were not sent at predetermined intervals and delinquent accounts were not referred to CCU in a timely manner.**

SIF should comply with CCU regulations regarding unpaid accounts.

- **Adequate internal control had not been established over cash receipts. Specifically, the employee who prepared the deposits also performed the deposit verifications and could modify the initial receipt record.**

SIF should ensure that deposit verifications are prepared by an employee independent of the cash receipts functions and that modification of the initial receipt is limited to the employee who initially receives cash receipts.

- **Deficiencies in the automated system compromised adequate controls over financial transactions, For example, users had incompatible capabilities on the automated system which, when coupled with the employees' access to cash receipts, created the potential for misappropriation. In addition, SIF did not restrict and monitor its information system contractor's access to critical systems, control access to the computer room, and develop a complete disaster recovery plan.**

SIF should take the recommended actions to safeguard its automated system and related financial transactions.

- **Other deficiencies were noted with respect to payroll and procurements. For example, time reports were prepared without the use of approved time records.**

SIF should take the recommended actions to improve controls in these areas.

Background Information

Agency Responsibilities

The purpose of the Subsequent Injury Fund (SIF) is to encourage the employment of handicapped individuals by limiting an employer's liability should a subsequent occupational injury render an individual permanently disabled or result in the individual's death. The employer's liability is limited to compensation for damages from the current injury, and SIF incurs the liability associated with the combined effects of all injuries.

The principal source of funding for benefit payments and SIF's operating expenses is the assessments collected from employers and insurance companies based on *all* awards and settlement agreements approved by the Workers' Compensation Commission involving permanent disability and death. SIF calculates these assessments, which are typically 7.5 percent of the aforementioned award amounts, with 6.5 percent allocated to SIF and 1 percent allocated to the Uninsured Employers' Fund (UEF). UEF pays workers' compensation awards to claimants who fail to receive payment from their employers because the employers are uninsured. In this regard, SIF provides certain support services to UEF. According to the SIF's fiscal year 2008 annual report, assessments for SIF totaled approximately \$25.2 million, benefit payments totaled approximately \$20.8 million, and operating expenses totaled approximately \$1.8 million.

Unfunded Liability

An actuarial study performed in November 2003 indicated that, at that time, SIF had an unfunded liability for permanent injury and death claims of approximately \$201 million (discounted at 5 percent). As of June 30, 2008, according to SIF's records, the balance in the Subsequent Injury Fund totaled approximately \$62.5 million. Because of the nature of the Fund, claim benefit obligations are funded on a pay-as-you-go basis. As present benefit obligations become due in future periods, they will have to be paid from future assessments collected from employers and insurance companies. An actuarial study performed in August 1996 reported that, as of March 1996, SIF had an unfunded liability for permanent injury and death claims of approximately \$173 million (discounted at 5 percent). SIF intends to request funding for its next actuarial study in 2010.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the eight findings included in our preceding audit report dated October 3, 2005. We determined that SIF satisfactorily addressed three of these findings. The remaining five findings are repeated in this report.

Findings and Recommendations

Accounts Receivable

Background

The Subsequent Injury Fund (SIF) maintains automated accounts receivable records for both its receivables and the receivables of the Uninsured Employers' Fund (UEF). The receivable balance for SIF consists mostly of amounts due from employers and insurance companies for assessments on awards and settlement agreements approved by the Workers' Compensation Commission (WCC) involving permanent disability and death. The receivable balance for UEF consists mostly of claim payments (including medical payments) made to injured workers by UEF but not yet reimbursed by uninsured employers, and the related fines and penalties.

Based on billing instructions from SIF and UEF, SIF prepares all automated billing statements and accounts receivable aging reports. Each agency is responsible for collecting its respective receivables and for performing appropriate follow-up for delinquent accounts. SIF also updates the accounts receivable records based on (1) payments received by SIF, and payments received by UEF, which are subsequently forwarded to SIF for further processing and deposit, (2) collections transferred from the Department of Budget and Management's Central Collection Unit (CCU), and (3) adjustments prepared by SIF and UEF. According to the SIF's records, the accounts receivable balances, as of January 2009, for SIF and for UEF totaled \$726,000 and \$26.6 million, respectively.

Finding 1

SIF had established virtually no controls over accounts receivable.

Analysis

SIF had established virtually no controls and accountability over accounts receivable, resulting in increased susceptibility to fraudulent activity. Specifically, we noted the following conditions:

- The same employee was responsible for many incompatible duties related to accounts receivable and cash receipts. For example, this employee posted payments and non-cash adjustments to the accounts receivable records, and processed collections for deposit. In addition, this employee maintained the accounts receivable control account and reconciled that account to the related detail accounts receivable records. Consequently, unauthorized adjustments could be recorded and cash receipts misappropriated without detection.

- There were no independent verifications performed to ensure the propriety of non-cash adjustments recorded in the accounts receivable records. Specifically, the employee who recorded the adjustments to the accounts receivable records also generated the automated reports of adjustments recorded and maintained the related source documentation. In addition, this employee had the capability to update and delete records in the accounts receivable system without any oversight. (As previously noted, this employee also processed cash receipts.) Consequently, this employee could record and conceal unauthorized non-cash adjustments that would not be readily detected during an independent supervisory review. A similar comment regarding the need for an independent verification of the propriety of non-cash credits posted to the accounts receivable system was commented upon in our preceding audit report. According to SIF's records, net non-cash adjustments recorded in the accounts receivable system during fiscal year 2008 for both SIF and for UEF totaled \$2.2 million.
- There were no independent verifications performed to ensure the accuracy of WCC awards entered in the accounts receivable records, which were also used by the automated system to automatically calculate the assessments and to generate billings to employers and insurance companies. Furthermore, these awards were recorded in the accounts receivable records by the employee who also generated the automated reports (for example a report of awards recorded and the resultant assessments) and maintained the related source documentation for assessment awards. During our test of 15 assessments totaling \$23,000, we noted that, for 2 assessments totaling \$7,000, posting errors were recorded in the accounts receivable records that could have been readily detected if independent verifications had been performed. For example, even though one assessment for \$2,600 had been paid in 2005, SIF recorded that same assessment in 2007; a non-cash credit was subsequently processed to delete this erroneous assessment. Even though these errors were eventually corrected by SIF, the potential exists that incorrect amounts could be paid to SIF in instances where the errors were not detected. According to their annual reports, assessments for both SIF and UEF, and compensation and medical payments made on behalf of UEF claimants during fiscal year 2008 totaled approximately \$34.8 million.

Recommendation 1

We recommend that SIF

- a. ensure that the employee who maintains the accounts receivable records does not have access to the related collections (repeat),**
- b. perform independent reviews to ensure that only properly authorized non-cash adjustments are recorded in the accounts receivable records (repeat), and**

- c. ensure that an employee independent of the award process verifies the accuracy of awards recorded in the accounts receivable records and that these verifications are documented and retained.

We advised SIF on accomplishing the necessary separation of duties using existing personnel.

Finding 2

Automated accounts receivable records processed by SIF for UEF were not adequately maintained.

Analysis

Automated accounts receivable records processed by SIF for UEF were not adequately maintained. Specifically, there was no process in place to ensure the propriety, accuracy, and completeness of transactions recorded in those records for UEF accounts. Our review of the transaction histories for 15 UEF accounts, for which the automated records indicated that the CCU receivable balances totaled approximately \$2.8 million, disclosed the following conditions:

- Certain accounts receivable transactions related to UEF were not recorded correctly in the automated system. For example, we noted instances in which abatements or payments from CCU were recorded improperly as credit adjustments against medical payments paid to claimants by UEF. Consequently, medical payments in the accounts receivable system and on billing statements were understated and, in some instances, were negative. In such instances, while the resultant amounts due on the billings were correct, the individual components of the billing statements prepared for UEF to notify delinquent uninsured employers of their account balances were potentially misleading.
- For 1 of the 15 accounts, the account history disclosed that a \$10,296 employer overpayment to CCU was transferred to UEF and recorded on December 13, 2006 as an “interest” charge to the employer rather than as a payment, thus increasing the employer’s balance due rather than decreasing it. For another account, the account history disclosed entries for CCU abatements of \$40,400, with no corresponding CCU referrals, as well as a credit adjustment and a claim payment entry that lacked an adequate description or had no explanation at all. During our fieldwork, SIF personnel were unable to explain the reasons for these entries due to the lack of documentation maintained and/or the age of the entries.

As a result of inadequate record keeping, misappropriations could occur without detection. Furthermore, because of this condition, we were unable to perform certain audit procedures designed to provide reasonable assurance that accounts receivable transactions were accounted for and properly recorded in SIF's records.

Recommendation 2

We recommend that SIF establish a process to ensure the propriety, accuracy, and completeness of all transactions recorded in the automated accounts receivable system for UEF accounts. In this regard, SIF should ensure that adequate documentation is retained to support each transaction, and that the amounts on the billing statements are proper and accurate.

Finding 3

SIF did not comply with CCU requirements for the collection of unpaid assessments.

Analysis

SIF did not refer its delinquent accounts receivable to CCU in a timely manner. In addition, all appropriate actions were not taken to collect SIF's outstanding accounts receivable. According to a January 16, 2008 SIF report, 74 delinquent accounts totaling \$135,317 were between 141 and 302 days past due (average of 217 days past due) and had not been transferred to CCU. Also, our test of 15 delinquent assessments totaling \$85,872 disclosed that, for 9 of the assessments totaling \$50,794, delinquency notices were not sent every 30 days, as required.

CCU regulations generally require that delinquency notices be sent every 30 days for unpaid assessments and that assessments not paid within 75 days of the initial demand be transferred to CCU for collection. According to SIF's records, the accounts receivables balance for its accounts as of January 19, 2009 totaled \$726,000.

Recommendation 3

We recommend

- a. that all delinquent accounts receivable be transferred to CCU for collection as required, and**
- b. that delinquency notices be sent in accordance with CCU regulations.**

Cash Receipts

Finding 4

Adequate internal control had not been established over cash receipts.

Analysis

SIF had not established adequate internal control over its cash receipts and those collected on behalf of UEF. Specifically, the employee who processed collections for deposit also performed the daily deposit verifications and could modify the initial receipt record which accompanied the collections and which was used in these verifications. Our test of 25 days' collections disclosed 5 differences totaling approximately \$4,900 between the initial record of collections and the collections that were deposited. After our inquiry, SIF was able to provide documentation (such as a letter explaining a returned check) supporting 4 of the 5 differences totaling \$4,600; however, SIF could not provide any evidence for the remaining \$300.

State records indicate that, during fiscal year 2008, collections deposited by SIF totaled approximately \$29.7 million and primarily represented payments on accounts receivable. Similar conditions were commented upon in our preceding audit report.

Recommendation 4

We recommend

- a. that an employee independent of the cash receipts functions verify that all recorded collections were deposited (repeat), and**
- b. that the employee who prepares the initial recordation of collections forward those documents (or copies) directly to the employee who performs the deposit verifications.**

We advised SIF on accomplishing the necessary separation of duties using existing personnel.

Information Systems Security and Control

Background

A dedicated computer server is used by SIF to provide computer processing services for several significant applications, including accounts receivable, accounts payable, case processing, and claims payments, for both SIF and UEF. In addition to limited in-house technical support, a contractor is used for programming, operations support, and local network support, including Internet access and email services.

Finding 5**Certain users' capabilities on the automated accounts receivable and payable system compromised effective internal control.****Analysis**

Certain users' capabilities on SIF's automated system (used for accounts receivable and accounts payable) compromised effective internal control over financial transactions. For example, one employee who had access to cash receipts also had the capability to add, modify, or delete accounts receivable records and to add or modify accounts payable records. We also noted another employee who had access to cash receipts that could add, modify, or delete accounts receivable records, and who had the capability to change the underlying accounts receivable tables used to calculate billings, such as for assessment rates. Furthermore, SIF failed to delete the access of an employee who retired in June 2007. Finally, there was no documented periodic management review to ensure that changes or additions to employees' system capabilities were consistent with the employees' job duties and did not compromise internal control over financial activity.

These conditions, coupled with other weaknesses commented upon elsewhere in this report, create the potential for inappropriate receivable and payable transactions to be processed without detection (such as to alter or delete records to conceal a misappropriation). According to State records, the amount of collections deposited by SIF (including UEF receipts) during fiscal year 2008 totaled \$29.7 million, which primarily represented payments on accounts receivable. According to its annual report, benefit payments processed by SIF during fiscal year 2008 totaled \$20.8 million.

Recommendation 5**We recommend that SIF**

- a. take appropriate action to safeguard its automated system and the related information, including the timely removal of user profiles for terminated employees and limiting critical processing capabilities to employees who need such access to perform their job duties;**
- b. restrict the capability of modifying or deleting information from the accounts receivable system to an employee independent of the cash receipts function; and**
- c. monitor employee system profiles for necessary access and capabilities on a periodic basis.**

Finding 6

SIF did not adequately address physical security, environmental controls, and disaster recovery over its information technology operations.

Analysis

SIF did not adequately address physical security, environmental controls, and disaster recovery over its information technology operations. Specifically we noted the following conditions:

- The entrance to the computer room was controlled by an access keypad system; however, the keypad lock combination had not been changed for several years. We also noted that the key to the lock on SIF's dedicated computer server, which restricts the use of critical system operations, (for example, by turning the system off and by loading the system) was kept in the key lock and, therefore, was not adequately secured. Furthermore, the computer room was not equipped with proper environmental fire protection controls—including a fire extinguisher and a smoke detector—to prevent accidental damage to critical IT systems.
- A complete information technology disaster recovery plan (DRP) for recovering from disaster scenarios (for example, a fire) did not exist. Although SIF had developed a *Disaster Recovery Quick Plan*, we determined that the *Quick Plan* was incomplete, as it did not adequately address certain requirements of the Department of Budget and Management's (DBM) *Information Technology (IT) Disaster Recovery Guidelines*. Specifically, the *Quick Plan* did not identify alternate site processing arrangements, restoring network connectivity, application inventories prioritized for recovery, storage of copies of the DRP at offsite locations, disaster recovery team designations, and areas of team member responsibility. Furthermore, the *Quick Plan* had not been tested. Without a complete DRP, a disaster could cause significant delays (for an undetermined period) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. A similar condition was commented upon in our preceding audit report.

Recommendation 6

We recommend that SIF

- a. periodically change the computer room access keypad combination, properly secure the dedicated computer server's key, and install appropriate environmental controls in the computer room; and**
- b. develop a complete disaster recovery plan in accordance with the DBM *IT Disaster Recovery Guidelines* (repeat).**

Finding 7

SIF did not adequately restrict contractor access to critical systems and did not adequately monitor computer security events.

Analysis

SIF did not adequately restrict contractor access to critical systems and did not adequately monitor computer security events. Specifically, we noted the following conditions:

- As previously mentioned, SIF uses a contractor for programming, operations support, and local network support. However, SIF did not sufficiently restrict and monitor contractor access to its critical systems. Although SIF had its own security officers, it granted the contractor complete security control of its computer system. As a result, the contractor could create or modify profiles that could allow unlogged direct modification access to critical production data files without detection by SIF management. Furthermore, this violates the Department of Information Technology's (DoIT) *Access Control Standard*, which requires a segregation of the functions of system and security administration. A similar condition was commented upon in our preceding audit report.
- Although critical security events were logged, security reports of these logged events were not reviewed. As a result, unauthorized or inappropriate activities affecting the integrity of SIF's critical applications could go undetected by management. The DoIT *Access Control Standard* requires that the each agency implement a review process of security audit logs and reports at least one time per business day.

Recommendation 7**We recommend**

- a. that adequate controls be established over contractor access to and control over SIF's computer system (repeat), and**
- b. that logged critical security-related events be reviewed by SIF security officers with the reviews documented and retained for future reference.**

Payroll

Finding 8

Adequate documentation was not used to prepare the time reports submitted to the State's Central Payroll Bureau (CPB).

Analysis

Time reports were not prepared using time records, which had been approved by supervisors, for its employees and for UEF employees. Instead, the employee who prepared the time reports relied on being notified (for example, by phone or email) if payroll adjustments needed to be processed. Furthermore, the prepared time reports were not verified against the approved time records to ensure accuracy of the payroll processing prior to submitting the reports to the CPB. As a result, improper payroll payments could be made. In this regard, we noted that a payroll check totaling \$1,296 was disbursed in December 2006 for a UEF employee who had left State service; however, according to SIF's records, this employee was overpaid \$777. Although SIF became aware of this error during payroll processing in December 2006, the case was not transferred to the Department of Budget and Management's Central Collection Unit until December 26, 2007. As of February 27, 2008, SIF had not received reimbursement from the terminated employee.

During fiscal year 2007, SIF processed payroll expenditures for its employees and for UEF employees totaling \$1,381,910 and \$900,898, respectively.

Recommendation 8

We recommend that time reports be prepared and independently verified using approved time records.

Procurement

Finding 9

SIF did not adhere to State Procurement Regulations when procuring certain information technology services.

Analysis

During the period from April 2005 to January 2008, SIF obtained information technology services totaling \$52,388 from one vendor without soliciting competitive bids, preparing a written contract or purchase orders, or preparing a written sole source justification for these purchases. These payments were made to one vendor and primarily related to maintaining the automated system used by SIF to assess employers and insurance companies and to process payments to

claimants. Since these services were not competitively bid, SIF lacked assurance that the services were obtained at the lowest available prices. This same condition was commented upon in our preceding audit report.

State Procurement Regulations generally require that procurements over \$2,500 be competitively bid and that written contracts be prepared.

Recommendation 9

We again recommend that SIF comply with the aforementioned requirements of the State Procurement Regulations.

Audit Scope, Objectives, and Methodology

We have audited the Subsequent Injury Fund (SIF) for the period beginning April 25, 2005 and ending January 22, 2008. 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 SIF'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. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of SIF'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.

SIF provides certain support services (such as invoice processing, payroll, processing collections for deposit, maintenance of accounting records, and data processing services) to the Uninsured Employers' Fund. These support services are included within the scope of this audit.

Our audit scope was limited with respect to accounts receivable activity processed by SIF because of numerous record keeping errors. Because of this condition, we were unable to perform certain audit procedures designed to provide reasonable assurance that accounts receivable transactions were accounted for and properly recorded in SIF's records. Our audit scope was also limited with respect to SIF's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all SIF cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

SIF'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 to be significant deficiencies in the design or operation of internal control that could adversely affect SIF'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 SIF that did not warrant inclusion in this report.

SIF'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 SIF regarding the results of our review of its response.

THE SUBSEQUENT INJURY FUND

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GOVERNOR

JOHN L. ULRICH, JR.
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Subsequent Injury Fund Responses to Audit Report

Finding 1: a. The Fund now has the personnel for full compliance of this recommendation, and we are in the process of assigning appropriate security authorizations on the AS400 system to limit access. In September 2009 a third full time fiscal employee was added to the staff. A fourth employee helps the fiscal department on a part time basis. Duties have been segregated adequately. The employee that maintains the AR records does not access the collections, and will not have access once authority level adjustments are complete.

b. An independent review of all non-cash adjustments will be preformed to ensure propriety.

c. SIF finds this recommendation unfeasible. Processing awards is a time consuming task consisting of reading each award passed by the Workers Compensation Commission to #1 decipher what type of assessment is to be imposed and #2 to identify what data should be used to calculate the assessment. Hundreds of awards are passed by the WCC weekly. Monthly delinquent notices are reviewed for accuracy before being mailed. We also have a working relationship with Workers Compensation Insurers to contact us immediately over discrepancies. In addition, the WCC's statistical department is now reviewing SIF's award calculations to verify the integrity of our assessments.¹

Finding 2: Preceding this audit, the fiscal department was unaware of a nuance in the accounts receivable program resulting in the possibility of incorrect sub-account totals thus potentially misleading billing statements. Since made aware of this issue, the Fund immediately began the process to correct the data ensuring accuracy of all UEF accounts. On a one by one basis, the Fund researched each of the approximately 2,000 UEF accounts and made adjustments where needed to correct the posting of transactions to the appropriate sub-account types. The fund is in compliance with the recommendation and will continue to be. The fund will retain documentation to support each transaction.

Finding 3: a. The Fund has the ability to immediately comply with the recommendations. All delinquent accounts receivable will be transferred to CCU, and

b. The delinquent notices have regularly gone out within days of the 30-day regulation and will continue to do so.

Finding 4: a. The Fund is in partial compliance with the recommendations at this time, and total compliance will be achieved within the next few weeks once security is complete on the AS400 authority levels. With the new additions to the fiscal staff, we have separated all cash receipt functions. An employee independent of the all cash receipts functions verifies that all recorded collections were deposited, and

b. The employee who prepares the initial recordation of collections forwards the documents directly to the employee who performs the deposit verifications.

Finding 5: a. By recommendations of our programmer, the Fund should not remove terminated employee profiles for the safety of the programs on the server. The system is designed around authorization tables. Each user has authorization to access particular programs, menus and files, called objects. Since an individual user can "own" (own access to) an object, deleting that profile could delete the

¹ **Auditor's Comment:** The audit report finding and recommendation address verifying that assessments have been entered correctly into the automated accounts receivable system from SIF's paper records – a basic input/output verification process. Instead, the response addresses a matter that was not an audit finding.



THE SUBSEQUENT INJURY FUND

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Subsequent Injury Fund Responses to Audit Report

file. The Fund has restricted access to current SIF and UEF employees, and will continue to do so in the event of termination.²

b. The Fund will immediately comply with this recommendation once security adjustments are complete. The capability of modifying or deleting information from the accounts receivable system will be restricted to employees independent of the cash receipts function.

c. The Fund sees no reason why we can't monitor system profiles on a periodic basis and limit processing capabilities to only the capabilities needed to perform each individual's job functions.

Finding 6: a. SIF is in compliance with the recommendation. The key code has been changed and will be changed at least once a year from this point forward. The AS/400 key has been separated from the server and resides inside the secure safe housed in the SIF office on the second floor. SIF has installed a working smoke detector and purchased and mounted a fire extinguisher inside the computer room.

b. The Fund has been actively recruiting for an internal IT professional. Development of a complete Disaster Recovery Plan will be one of the prime responsibilities for the new hire. In the interim, the IT needs are being taken care of by two individuals on a part time basis as needed. This is in addition to their regular duties, which leaves very little time to tend to this task.

Finding 7: a. As mentioned, the Fund has been actively recruiting an internal IT professional to eliminate the concerns regarding outsourcing IT support. The current SIF staff does not have the expertise needed to provide stand-alone IT support, especially programming skills. After the previous audit, it was concluded that the contractor be limited to a controlled access. The agency complied as best they could by dividing the contractor's profile into two separate function profiles. Under CKLEIN, the contractor has restricted access, which only allows the viewing of systems profiles, programs and files. QSECOFRCK was designed to allow that contractor the access to make changes to programs or user profiles if and when needed. SIF has complete control over when the contractor has access to both logons. SIF has disabled our contractor's accounts and will only enable it when needed. It is our hope that the new IT hire will have the expertise to allow us to phase out the outside contractor completely.

b. The current SIF staff does not have the expertise to limit the logged events to pertinent Accounts Receivable and Accounts Payable security related events. This recommendation will be completed pending the hire of a knowledgeable IT tech who will be able to set this function up efficiently to focus on AR and AP functions alone eliminating non-essential information.

Finding 8: SIF strongly opposes this finding concerning SIF employees. SIF is in absolute compliance of this recommendation and these practices have always been implemented. Time records are prepared and housed within each agency independently. SIF time records are verified for accuracy by two independent record keeping methods & individuals. The employee time sheets originate from a spreadsheet print out, the data coming from the approved time records. These records are compared and verified for accuracy against a separate manual set kept by the director. Discrepancies between the two sets are investigated. The director gives final approval with his signature before being dispersed to the individual employees.

² Auditor's Comment: The response indicates that userids for former SIF and UEF employees will be deactivated, which is an acceptable alternative to deleting the former employees' userids.



THE SUBSEQUENT INJURY FUND

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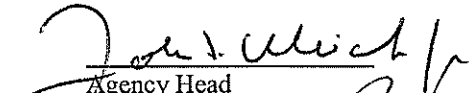
Subsequent Injury Fund
Responses to Audit Report

The employee who prepares the time reports (ETR) is notified verbally by the HR representative of any payroll exceptions. The payroll approver compares the approved time records to prepared time reports before submission to CPB.³

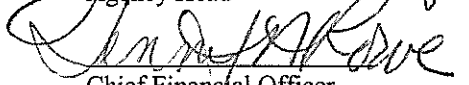
Following the audit, UEF now forwards records to SIF for payroll exception processing purposes only. Because SIF is in a different physical location than UEF, SIF can not verify the accuracy of UEF's time records. We must take a leap of faith that records being provided have been verified for accuracy before reaching SIF. It is a recommendation of the SIF that UEF submit their own ETR to the Central Payroll Bureau, possibly online since they do not have connectivity to the Annapolis Data Center, to give sole responsibility to those within that physical location.

Finding 9: The Fund's compliance of the recommendation is pending the hire of a skilled IT professional as previously mentioned. SIF is actively engaged in the recruitment process to obtain an internal IT professional that meets our needs and can eliminate outsourcing our IT support. The current SIF staff does not have the expertise needed to provide stand-alone IT support. DP Solutions is intimately familiar with our network and its components to efficiently meet our needs. It is our opinion that bringing in additional contractors to complete possible work would not be sensible for several reasons. Firstly, the additional time needed by other contractors to learn our systems programming and functions of those programs would boost the labor costs, evaporating any possible saving benefits obtained by lower bidding contractors. Secondly, allowing additional access to our system security opens the Fund up to more risk. It is our hope that the new IT hire will have the expertise to phase out the outside contracting completely.

In the future the Fund will look into purchasing needed goods & services through MCE before pursuing other options according to the State Procurement Regulations.



Agency Head



Chief Financial Officer

April 2, 2009
Date

April 2, 2009
Date

³ Auditor's Comment: The first paragraph of the response addresses a matter that was not an audit finding. In the second paragraph of its response, SIF states that the payroll approver now compares the approved time records to the prepared time reports before submission to CPB. If performed for all employees, this is an acceptable method to address the audit recommendation.

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