

Audit Report

---

**Department of Labor, Licensing and Regulation  
Division of Unemployment Insurance**

February 2009

---



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

- 
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
  - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
  - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
  - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

February 27, 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 Department of Labor, Licensing and Regulation – Division of Unemployment Insurance (DUI) for the period beginning August 1, 2005 and ending May 31, 2008. DUI administers the State's Unemployment Insurance Program that is funded by unemployment insurance tax contributions collected from employers.

Our audit disclosed that controls over the processing of certain adjustments to DUI's accounts receivable were not adequate. As of June 30, 2008, DUI's accounts receivable totaled approximately \$85.8 million.

Our audit also disclosed that the results of certain automated match procedures used by DUI to identify improper benefit payments and employers who failed to pay required tax contributions were not always monitored and pursued adequately. Furthermore, adjustments made on DUI's automated records to tax contribution rates and employer wage totals, which serve as the basis for determining contributions due from employers, were not adequately controlled. Finally, internal control deficiencies were noted in DUI's information systems.

An Executive Summary of our findings can be found on page 5. The Department of Labor, Licensing and Regulation – Office of the Secretary's response, on behalf of DUI, 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 DUI.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## Table of Contents

<b>Executive Summary</b>	5
<b>Background Information</b>	7
Agency Responsibilities	7
Status of Findings From Preceding Audit Report	7
<b>Findings and Recommendations</b>	9
<b>Accounts Receivable</b>	
*    Finding 1 – Certain Adjustments Made to Claimant Data Were Not Subject to Supervisory Review and Approval	9
Finding 2 – Write-offs and Waivers of Benefit Overpayment Accounts Were Not Sufficiently Controlled	10
*    Finding 3 – Controls Over Non-Cash Credit Adjustments to Amounts Due From Reimbursable Employees Were Inadequate	11
<b>Automated Match Procedures</b>	
Finding 4 – Potentially Improper Benefit Payments Identified by Automated Matches Were Not Always Investigated	12
Finding 5 – Certain Results of Automated Matches Were Not Adequately Monitored and Pursued	13
<b>Adjustments</b>	
Finding 6 – Controls Over Adjustments Made to Tax Contribution Rates and Employer Wage Totals Were Inadequate	14
<b>Information Systems Security and Control</b>	
*    Finding 7 – Access Controls Over Critical Production Data and Program Files and Monitoring of Related Security Reports Were Inadequate	15
<b>Audit Scope, Objectives, and Methodology</b>	17
<b>Agency Response</b>	Appendix
* <b>Denotes item repeated in full or part from preceding audit report</b>	



# Executive Summary

## Legislative Audit Report on the Department of Labor, Licensing and Regulation – Division of Unemployment Insurance (DUI) February 2009

- **Controls over the processing of adjustments to accounts receivable due from claimants and employers were inadequate. For example, certain adjustments to claimant data were not reviewed and approved by supervisory personnel. As of June 30, 2008, DUI's accounts receivable due as a result of overpayments to claimants totaled approximately \$85.4 million, and accounts receivable due from employers for benefits paid totaled approximately \$416,000.**

DUI should implement the recommended procedural changes to help provide adequate controls over accounts receivable.

- **The results of certain automated match procedures used by DUI to identify improper benefit payments and employers who fail to pay required tax contributions, such as the review of multiple claimants using the same address, were not always monitored and pursued adequately.**

DUI should adequately monitor and investigate the results of critical match procedures.

- **DUI did not adequately control adjustments made to tax contribution rates and employer wage totals recorded on DUI's automated records, which serve as the basis for determining tax contribution amounts due from employers. Approximately 8,000 rate adjustments were processed during calendar years 2007 and 2008 (through May 31, 2008).**

The recommended procedural changes should be implemented to adequately control adjustments made to tax contribution rates and employer wage totals.

- **Internal control deficiencies were also noted regarding DUI's information systems. For example, numerous users had unnecessary and/or unlogged access to several production libraries.**

DUI should take the recommended actions to improve controls over its information systems.



## **Background Information**

### **Agency Responsibilities**

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Department of Labor, Licensing and Regulation. DUI administers the State's Unemployment Insurance Program that is funded by unemployment tax contributions collected from employers. According to DUI's records, during calendar year 2007, unemployment tax contributions collected from employers totaled approximately \$381 million, and unemployment insurance benefits paid to claimants totaled approximately \$460 million, and the fund balance at December 31, 2007 was approximately \$1 billion. In addition, according to the State's records, fiscal year 2008 operating expenditures totaled approximately \$60.8 million.

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

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated April 25, 2006. We determined that DUI had satisfactorily resolved six findings. The remaining three findings are repeated in this report.



## Findings and Recommendations

### Accounts Receivable

#### Background

The Division of Unemployment Insurance (DUI) maintains accounts receivable records for unemployment insurance benefit overpayments made to claimants, as well as for amounts due from certain types of employers for claims initially paid by DUI on their behalf. Specifically, State law allows DUI to recover benefits paid to claimants who are subsequently found to be ineligible, and to assess interest on overpayments made to claimants who either made a false statement or failed to disclose a material fact in order to obtain the benefits. The law also provides that certain not-for-profit organizations, such as charitable organizations, may elect to be classified as reimbursable employers. These organizations are exempt from paying quarterly unemployment insurance taxes based on tax rates determined by DUI. Instead, these organizations are only required to reimburse DUI for unemployment insurance benefits paid by DUI to former employees of the organizations. According to DUI's records, accounts receivable relating to unemployment insurance benefit overpayments totaled approximately \$85.4 million as of June 30, 2008 (of which approximately \$29.5 million has been sent to Department of Budget and Management - Central Collection Unit and is still outstanding). Accounts receivable due from reimbursable employers as of the same date totaled approximately \$416,000.

#### **Finding 1**

**Certain adjustments to claimant data that reduced benefit overpayment accounts receivable were not subject to supervisory review and approval.**

#### Analysis

Certain adjustments to claimant data recorded in the Maryland Automated Benefits System (MABS) that reduced DUI's benefit overpayment accounts receivable were not subject to supervisory review and approval. DUI claim center employees, based on additional information received from employers, routinely recorded adjustments to claimant data (such as earned wages and reason for separation from employment) in MABS, which then automatically recalculated the amount of any benefit overpayments and adjusted the related accounts receivable balance. However, DUI did not generate output reports of these adjustments which could be used by supervisory personnel to review and verify the propriety of the adjustments. Consequently, unauthorized adjustments to claimant data, and subsequently to benefit overpayment accounts receivable balances, could be made without detection. A similar condition was commented upon in our preceding audit report.

According to DUI's records, during fiscal year 2008, these types of adjustments resulted in reductions to the overpayment accounts receivable totaling approximately \$1.3 million.

### **Recommendation 1**

**We recommend that**

- a. DUI generate output reports of adjustments recorded in MABS that result in a reduction of unemployment insurance benefit overpayment accounts receivable (repeat);**
- b. such adjustments be reviewed and approved, at least on a test basis, by independent supervisory personnel (repeat); and**
- c. reviews of these adjustments be documented and retained for future reference (repeat).**

### **Finding 2**

**Transactions processed to write off or waive benefit overpayment accounts receivable were not sufficiently controlled.**

### **Analysis**

Transactions processed to write off or waive benefit overpayment accounts receivable were not sufficiently controlled. Specifically, 16 employees had the capability to process write offs and waivers on MABS even though this capability was not required for them to perform their normal job duties. Furthermore, although DUI advised us that output reports of write offs and waivers processed were verified on a test basis, this verification was not documented.

A write off or waiver of a benefit overpayment receivable may occur in certain specified circumstances, such as a court order, bankruptcy, or if the claimant was deceased. According to DUI's records, write offs and waivers totaled approximately \$923,000 in fiscal year 2008.

### **Recommendation 2**

**We recommend that**

- a. DUI restrict the capability to record write offs and waivers to employees whose duties require this capability, and**
- b. the review and verification of output reports be documented.**

**Finding 3****Controls over the recording of non-cash credit adjustments to reimbursable employer accounts receivable were inadequate.****Analysis**

Adequate controls had not been established over non-cash credit adjustments recorded in the automated accounts receivable records used for reimbursable employers. Specifically, 10 employees had the capability to record non-cash credit adjustments to reimbursable employer accounts even though this access was not required for them to perform their normal job duties. In addition, 1 of these 10 employees initially received collections from reimbursable employers for benefit payments which, according to DUI's records, totaled approximately \$1.9 million during fiscal year 2008. Furthermore, although monthly output reports of non-cash credit adjustments recorded in the accounts receivable records were generated and reviewed, the individual who reviewed these reports was also 1 of the aforementioned 10 employees who had the capability to record non-cash credits.

As a result of these conditions, unauthorized non-cash credit adjustments could be recorded on the accounts receivable records without detection. A similar condition was commented upon in our preceding audit report. According to DUI's records, during fiscal years 2008 and 2007, non-cash credits totaled approximately \$54,000 and \$394,000 respectively.

**Recommendation 3****We recommend that**

- a. DUI restrict the capability to record non-cash credits to employees whose duties require that capability (repeat), and**
- b. the individuals responsible for receiving the related collections and for reviewing output reports of recorded non-cash credits not have the capability to record non-cash credits (repeat).**

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

## Automated Match Procedures

### **Finding 4**

**DUI did not always investigate potentially improper benefit payments identified by its review of multiple claimants using the same address.**

### **Analysis**

DUI did not always investigate potentially improper benefit payments identified by its quarterly reviews of multiple claimants using the same address. DUI has concluded that such occurrences may be an indication of possible fraudulent activity or other claim irregularities. However, we found that follow-up investigations were sometimes either not performed, or were performed only on a limited basis.

According to DUI's records, although the reviews conducted for the fourth quarter of calendar year 2006 and the first two quarters of calendar year 2007 disclosed a total of 428 "hits" (an occurrence in which a benefit check was sent to at least three different claimants at the same address), none of the related claims were investigated. Furthermore, DUI investigated only 9 of 99 addresses identified with multiple claimants during the review conducted for the third quarter of 2007. Our limited examination of certain other hits identified by that review disclosed occurrences that may have warranted further investigation. For example, in one case, payments were sent to the same post office box for 16 individuals with different social security numbers.

DUI management indicated that investigations were not always conducted due, in part, to other functions being performed by the unit responsible for such investigations. However, DUI's written procedures require that all review results be investigated. Furthermore, according to DUI's records, these investigations frequently resulted in the identification of improper payments.

### **Recommendation 4**

#### **We recommend that**

- a. DUI investigate all cases identified by the quarterly multiple claimant address reviews, and**
- b. claims related to the four reviews (quarters) noted above be investigated and recovery of improper benefit payments be pursued as appropriate.**

**Finding 5**

**DUI did not adequately monitor and follow up on the results of matching procedures used to identify employers who failed to pay required unemployment insurance tax contributions.**

**Analysis**

DUI did not adequately monitor and follow up on the results of matching procedures it used to help identify employers who failed to pay required unemployment insurance tax contributions. Specifically, we were advised that matching efforts and related results were not tracked, and DUI generally did not pursue cases in which no reply was received from the employer when additional information was requested. For example, on a weekly basis, DUI matched data required from all employers regarding newly hired workers to its file of unemployment insurance account numbers to identify employers without a valid account number on DUI's automated records and, thus, that may not be paying required unemployment insurance taxes. DUI also compared, on a quarterly basis, an electronic file of Maryland employers, as provided by the federal government, to its own record of employers paying tax contributions to help detect non-compliant employers.

While correspondence requesting additional information regarding possible liabilities for unemployment insurance taxes was sent to employers identified through these matching procedures, DUI did not formally monitor or pursue those cases in which no reply was received from an employer. Consequently, DUI was unable to readily identify those employers that failed to reply to its requests for information, or to even determine how many requests for information had been sent over a given time period. As a result, there was a lack of assurance that non-compliant employers were being identified through these matching procedures to the fullest extent possible.

**Recommendation 5**

**We recommend that DUI adequately monitor and follow up on matching procedures intended to identify employers who fail to pay required unemployment insurance tax contributions. Specifically, we recommend that**

- a. DUI monitor requests for information sent and returned,**
- b. DUI formally follow up with those employers who fail to respond, and**
- c. these monitoring and follow-up efforts be documented.**

## Adjustments

### **Finding 6**

**Controls over adjustments to the unemployment insurance tax contribution rates assigned to employers, as well as recorded employer wages, were inadequate.**

### **Analysis**

Adequate internal control had not been established over adjustments to unemployment insurance tax contribution rates assigned to employers, as well as employer wages recorded on DUI's automated records. These rate and wage amounts serve as the basis for determining contributions due from employers. We noted, however, that 19 employees had system access capabilities allowing them to both initiate and approve adjustments to employer contribution rates and recorded wages without independent review and approval. According to DUI's records, approximately 8,000 rate adjustments were processed during calendar years 2007 and 2008 (through May 31, 2008), and for approximately 1,000 of those adjustments, the same employee initiated and approved the adjustment. Furthermore, although reports of recorded adjustments were generated on a daily basis, the reports were not independently reviewed. In this regard, these reports were examined by one of 3 employees, who were included among the 19 individuals with the capability to initiate and approve adjustments. Under these conditions, errors or other discrepancies could occur without detection.

As provided for in the law, employers are assigned an annual contribution rate based on specified criteria, such as benefit claim experience and wage levels. The rate is applied to the employer's taxable wage base to determine the employer's required contributions for the year.

### **Recommendation 6**

**We recommend that**

- a. employees not be given system access to both initiate and approve rate or wage adjustments;**
- b. the aforementioned report of adjustments processed be verified to supporting documentation, at least on a test basis, by an employee independent of the adjustment process; and**
- c. adjustments previously initiated and approved by the same individual be examined for validity, at least on a test basis.**

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

## Information Systems Security and Control

### Background

DUI's business information systems include the Maryland Unemployment Insurance Tax System (UITS), which is used to process employers' unemployment insurance taxes owed and paid and the Maryland Automated Benefit System (MABS), which tracks payments to and amounts due from claimants. The DUI applications for these two systems operate on the Comptroller of the Treasury's Annapolis Data Center (ADC), with security software used as the primary means to protect the applications, online transactions, and related data.

### **Finding 7**

**Access controls over critical production data and program files and monitoring of related security reports were inadequate.**

### Analysis

Access controls over critical MABS and UITS production data and program files and monitoring of related security reports were inadequate. Specifically, we noted the following conditions:

- Thirty-four users had unnecessary modification access (which was both unlogged and logged) and necessary but unlogged modification access to several production program libraries containing critical programs. In addition, seven users had unnecessary logged modification access to critical data files. A similar condition regarding modification access to critical data files was commented upon in our preceding audit report. As a result, erroneous or unauthorized changes to critical production data could occur.
- Security reports of changes made to critical production files did not include many critical files and were not properly reviewed and investigated. We were advised that a review and investigation of logged activity to critical files was only performed when a problem was brought to the attention of the security officers. Accordingly, improper changes made to critical production files might not be detected.

### Recommendation 7

**We recommend that**

- a. modification access to critical production program files be restricted to only those individuals who require such access for their job duties,**
- b. all modification accesses to critical production program files be logged,**
- c. modification access to critical production data files be similarly restricted (repeat),**

- d. security reports of changes to critical files include all critical files,**
- e. security officers review these security reports on a daily basis and investigate all questionable entries, and**
- f. security officers document their reviews and investigations of security reports and retain the documentation for future reference.**

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

We have audited the Department of Labor, Licensing and Regulation – Division of Unemployment Insurance (DUI) for the period beginning August 1, 2005 and ending May 31, 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 DUI'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 DUI's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include a review of certain support services provided to DUI by the Department of Labor, Licensing and Regulation – Office of the Secretary. These support services, (for example, payroll, purchasing, and maintenance of accounting records) are included within the scope of our audits of the Office of the Secretary.

Our audit did not include an evaluation of internal controls for federal financial assistance programs or an assessment of DUI's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DUI.

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.

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 a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DUI that did not warrant inclusion in this report.

The Department of Labor, Licensing and Regulation – Office of the Secretary's response, on behalf of DUI, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX

**DLLR**

STATE OF MARYLAND

DEPARTMENT OF LABOR, LICENSING AND REGULATION

MARTIN O'MALLEY, Governor  
ANTHONY G. BROWN, Lt. Governor  
THOMAS E. PEREZ, Secretary

OFFICE OF THE SECRETARY

DLLR Home Page • <http://www.dllr.state.md.us>  
DLLR E-mail • [mddllr@dllr.state.md.us](mailto:mddllr@dllr.state.md.us)

February 18, 2009

Mr. Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
301 West Preston Street, Room 1202  
Baltimore, MD 21201

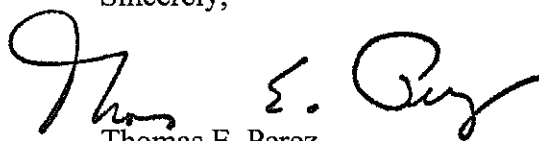
Re: Audit of the Department of Labor, Licensing  
and Regulation - Division of Unemployment  
Insurance for the period beginning August 1,  
2005 and ending May 31, 2008

Dear Mr. Myers:

Attached, is the response to your letter dated February 3, 2009, regarding the audit of the Department of Labor, Licensing and Regulation - Division of Unemployment Insurance for the period beginning August 1, 2005 and ending May 31, 2008.

Per your request, an electronic copy and paper copy is being submitted. Should you have any questions or concerns regarding our response, please contact Adam Ortiz, Director of Compliance and Audit at (410) 230-6242 or [aortiz@dllr.state.md.us](mailto:aortiz@dllr.state.md.us).

Sincerely,



Thomas E. Perez  
Secretary

Attachment

Cc: Adam Ortiz, Director of Compliance and Audit  
Thomas S. Wendel, Assistant Secretary, Division of Unemployment Insurance



**Department of Labor, Licensing and Regulation**  
**– Division of Unemployment Insurance**  
**Response to Audit findings from 8/1/05 – 5/13/08**

**Benefit Overpayments – Adjustments to Accounts Receivable Records**

**Finding 1**

**Certain adjustments made to claimant data that resulted in reductions to benefit overpayment accounts receivable were not subject to supervisory review and approval.**

*Recommendation*

**We again recommend that DUI generate output reports of adjustments recorded in the automated system that result in a reduction of unemployment insurance benefit overpayment accounts receivable. We further recommend that such adjustments, be reviewed and approved by independent supervisory personnel, at least on a test basis, and that such reviews be documented and retained for future reference.**

**DUI Response:**

All transactions entered through MABS are on an updated [as a result of the previous audit finding] audit trail' (Z09). Recalculations/adjustments are done when the claimant and/or employer gives updated/corrected information that results in a change to the original info/data entered, or must be changed via appeal decision (ex: claimant wins fraud disqualification appeal - earnings for partials are adjusted). Information is posted on Notepad that lists the reason for the adjustment.

Claim Center Supervisors will review their staff decisions that cause these adjustments (the documents or logs that triggered the adjustments would be in their files) and the Central Office staff supervisors would review BPC changes for compliance. The existing MABS audit track is sufficient to justify and track the adjustments.

**Benefit Overpayments – Write Offs and Waivers of Accounts Receivable**

**Finding 2**

**Write offs and waivers of benefit overpayment accounts receivable were not sufficiently controlled.**

*Recommendation*

**We recommend that DUI restrict the capability to record write offs and waivers to employees whose duties require this capability. We further recommend that the review and verification of output reports be documented, and that all write-offs and waivers be subject to supervisory review and approval.**

**DUI Response:**

DUI concurs. Our OP Write-off / Waiver list is generated quarterly. Beginning with the quarter ending 9/30/2008 the BPC supervisor will do random checks of SSNs and amounts listed, and will document and initial her review.

We do not concur with the recommendation that *all* OP write-offs be reviewed by BPC supervisor<sup>1</sup>. Documentation of random sampling of our quarterly write-off report ensures that staff is not writing off debts without good cause. The following exclusions are noteworthy:

Mr. Fedner, BPC Legal Administrator, is responsible for writing off any “bankruptcy” cases and now the documentation of any Bankruptcy Discharge is in the file.

Court ordered restitution is another cause for adjusting the amount owed to DLLR. BPC Administrators (our legal staff) have the authority to amend these figures within MABS.

Write-offs of debts of "less than 1 dollar (\$1)" are written off by unit supervisors Vicky Poole or Debbie Hill, and are not subject to individual review by BPC Supervisor due to their small size and cost effectiveness.

“Recommendation for Waivers of Overpayment” are now signed off by the BPC supervisor before they go to the Deputy Secretary for review and signature. After that point, BPC staff complete the actual 'write-off' within MABS if approved by the Deputy Secretary.

Deceased claimants’ debts are routinely written off, once certified copies of death certificate received, unless we are contacted by an estate attorney - in which case we will negotiate a settlement before any part is written off (this happens very rarely).

**Reimbursable Employers - Non-Cash Credit Adjustments****Finding 3**

**Controls over the recording of non-cash credit adjustments to reimbursable employer accounts receivable were not sufficient.**

***Recommendation***

**We again recommend that DUI restrict the capability to record non-cash credits to employees whose duties require that capability. We also again recommend that the individuals responsible for receiving the related collections and for reviewing output reports of recorded non-cash credits not have the capability to record non-cash credits. This can be accomplished by removing the access for the two current employees performing these functions.**

---

<sup>1</sup> **Auditor’s Comment:** The recommendation referred to by DLLR regarding all write-offs being reviewed by supervisory personnel was not included in the audit report.

**DUI Response:**

DUI agrees with this finding. DUI IT has made the programming change to restrict the capacity to record non-cash credits to only those employees that perform that job function. In addition, the supervisor and the assistant supervisor of the reimbursable unit are the only employees with the capacity to record non-cash credits. The two employees, who included the internal auditor of the contribution division, can no longer enter non-cash credits into the system. The internal auditor will still review the output report.

**Benefit Payments – Review of Multiple Claimants at Same Address**

**Finding 4**

**DUI did not always investigate potentially inaccurate benefit payments identified by its review of multiple claimants at the same address.**

*Recommendation*

**We recommend that DUI conduct a documented investigation of all claims identified on the multiple claimant address reviews. In addition, we recommend that claims related to the four reviews (quarters) noted above be investigated and recovery pursued if appropriate.**

**DUI Response:**

DUI concurs with the finding - The Internal Security/Program Integrity (ISPS) Unit recognizes the importance of the Multiple Claimants' Cross Match. However, staffing constraints have forced DLLR to prioritize Internal Security issues. The Unit was initially staffed with four highly-trained individuals. At the time of the audit, we had one original staff person and two new hires. (Currently, the Unit is fully staffed with three persons.) The ISPI Unit, upon receipt of first quarter 2009 data, will conduct a documented investigation of claims identified on the multiple claimant address listing. The claims related to the four reviews cited in the audit will be investigated and recovery pursued, if appropriate.

**Unemployment Insurance Contribution – Match Procedures**

**Finding 5**

**DUI did not sufficiently follow up on the results of matching procedures used to identify employers who are not paying required unemployment insurance contributions.**

*Recommendation*

**We recommend that DUI perform additional follow up procedures for employers identified in the aforementioned match procedures who do not respond to DUI's initial request for information.**

**DUI Response:**

DUI agrees with the finding. The following procedures have been implemented as a follow-up to the quarterly mailing of the FEIN letters:

The quarterly file provided by the federal government will be matched against the tax master file the following quarter after the first file is processed. This will determine the number of accounts that were established from the file. A random sample of the unmatched Federal Employer Identification Numbers (FEIN) will be reviewed and evaluated. The FEIN will be matched against the central registration data base. If there is no match from the random sample, the follow-up is complete. This would reflect that the employer applied for a FEIN but failed to register with the Comptroller's Office. If there is a match from the sample, further investigation will occur. The Employer Status Unit will review the Combined Registration Application to determine the tax liability.

A random sample of the unmatched accounts from the quarter ended 6/30/08 was tested against the Central Registration Data Base. All ten accounts in the sample were not found in the Central Data Base.

We have also implemented changes to the Report of Hire Report. Currently, a weekly report consisting of new hires without valid employer account numbers is generated without matching the FEIN against the tax master file. A request was submitted to OIT to match the FEIN against the tax master file to determine if the employer has an established account. If there is a match on the master file, the account will not appear on the report. This will reduce the number of employers on the report.

A random sample from the weekly report (new hires without valid employer account numbers) will be matched against the master file quarterly to determine if an account was established. A match would indicate a valid account on the master file. If there are no matched FEIN's against the master file, the same sample will be tested against the central registration data base. If there is no match, the follow-up is complete. This would reflect that the employer applied for a FEIN but failed to register with the Comptroller's office. If there is a match against the central registration data base, the Employer Status Unit will review the Combined Registration Application to determine the tax liability.

All returned mail is currently monitored and reviewed to find the correct address by the Employer Status and Skip Trace Units.

## **Unemployment Insurance Contributions – Contribution Rate and Wage Adjustments**

### **Finding 6**

**Controls over adjustments to the unemployment insurance contribution rates assigned to employers, as well as recorded employer wages, were inadequate.**

### ***Recommendation***

**We recommend that employees not be given system access to both initiate and approve rate or wage adjustments. We also recommend that the aforementioned report of adjustments**

**processed be verified to supporting documentation, at least on a test basis, by an employee independent of the adjustment process. Furthermore, we recommend that adjustments previously initiated and approved by the same individual be examined for validity, at least on a test basis.**

**DUI Response:**

DLLR/DUI agrees with this finding. There were approximately 8,000 rate and wage adjustments processed during calendar years 2007 and 2008 (through May 31). Approximately 1,000 rate adjustments were initiated and approved by the same individuals. The capability to initiate and approve rate or wage adjustments by the same individual has been eliminated. All transactions prepared by an individual must be approved by another individual. DUI IT will produce a monthly report showing that this separation is in place that will be reviewed by the internal auditor effective December 1, 2008. Finally, the internal auditor has completed a random audit of 2% of the approximately 1,000 rate adjustments performed by the same individual from 1/1/08 until 5/31/08 that resulted in no errors for these accounts.

**Information Systems Security and Control**

**Finding 7**  
**Access controls over critical production data and program files and monitoring of related security reports were inadequate.**

***Recommendation 7***

**We recommend that**

- a. modification access to critical production program files be restricted to only those individuals who require such access for their job duties,**
- b. all modification accesses to critical production program files be logged,**
- c. modification access to critical production data files be similarly restricted (repeat),**
- d. security reports of changes to critical files include all critical files,**
- e. security officers review these security reports on a daily basis and investigate all questionable entries, and**
- f. security officers document their reviews and investigations of security reports and retain the documentation for future reference.**

**DUI Response:**

DLLR/DUI agrees with this finding. The agency will ensure that access to critical production program files will be restricted to only those individuals who require access for their job duties, and that all accesses will be logged. All other recommended reports and security checks will be implemented.

AUDIT TEAM

**Paul R. Denz, CPA**

Audit Manager

**Steven P. Jersey, CPA, CISA**

Information Systems Audit Manager

**Amando J. Virata, CPA**

Senior Auditor

**Omar A. Gonzalez, CPA**

Information Systems Senior Auditor

**Sandra C. Medeiros**

**Athenia M. Rock, CFE**

**Henry H. Startzman, IV**

Staff Auditors