

Audit Report

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**Uninsured Employers' Fund**

May 2009

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**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

May 6, 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 Uninsured Employers' Fund (UEF) for the period beginning May 18, 2005 and ending February 19, 2008. UEF pays workers' compensation awards to claimants who failed to receive payment from uninsured employers. To fund these awards, UEF collects assessments from employers and insurance companies as well as fines and penalties, such as from uninsured employers.

Our audit disclosed that UEF had not established sufficient controls over its accounts receivable records, which are maintained on its behalf by the Subsequent Injury Fund (SIF). For example, UEF did not have a process to ensure that all of its transactions were properly recorded in the accounts receivable records. In addition, UEF did not always pursue the collection of outstanding accounts receivable and did not transfer delinquent accounts to the Department of Budget and Management's Central Collection Unit in a timely manner. Furthermore, UEF had not established procedures to ensure that collections received were adequately controlled, accounted for, and deposited. Finally, UEF did not adequately monitor claim processing services provided to UEF by SIF. Because of these deficiencies, accounts receivable records were unreliable and related activity was more susceptible to fraud or errors.

UEF'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 UEF.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



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

## **Background Information**

### **Agency Responsibilities**

The Uninsured Employers' Fund (UEF) pays workers' compensation awards (including medical payments) to claimants who failed to receive payment from uninsured employers as required. The principal source of funding for benefit payments and UEF operating expenses is the assessments collected by the Subsequent Injury Fund (SIF) from employers and insurance companies on *all* awards and settlement agreements approved by the Workers' Compensation Commission (WCC) involving permanent disability and death, even in cases where there is no award from either UEF or SIF. These assessments are typically 7.5 percent of the aforementioned award amounts, with 1 percent allocated to UEF and 6.5 percent allocated to SIF. In addition, UEF assesses fines and penalties specified by law on uninsured employers and on insurers who fail to comply with certain WCC requirements. Finally, UEF bills uninsured employers for award amounts paid to injured workers that should have been paid by the employers.

According to UEF's fiscal year 2008 annual report, assessments for UEF totaled approximately \$6.2 million, compensation and medical payments to claimants (for which the uninsured employers should reimburse UEF) totaled approximately \$3.3 million, and operating expenses totaled approximately \$1.1 million. In addition, this annual report indicated that the fund balance at June 30, 2008 totaled \$12.9 million.

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

Our audit included a review to determine the status of the one finding included in our preceding audit report dated August 22, 2005. We determined that UEF did not satisfactorily address this finding, which is repeated in this report.

# Findings and Recommendations

## Accounts Receivable

### Background

The Uninsured Employers' Fund's (UEF) computerized accounts receivable records are maintained by the Subsequent Injury Fund (SIF), and SIF prepares the automated billing statements and accounts receivable aging reports for UEF. SIF updates the records based on (1) billing instructions received from UEF, (2) payments received either by UEF or by SIF on UEF's behalf, (3) collections transferred from the Department of Budget and Management's Central Collection Unit (CCU), and (4) adjustments prepared by UEF.

UEF sends certain billing statements (such as for medical payments) prepared by SIF as it deems appropriate, maintains its own manual records regarding delinquencies and payment plans established, and transfers accounts to CCU for additional collection actions.

The vast majority of UEF's accounts receivable balance is related to claim payments made to injured workers under orders from the Workers' Compensation Commission (WCC) by UEF but not yet reimbursed by uninsured employers, and the related fines and penalties. According to UEF's records, the accounts receivable balance as of January 2009 was composed of approximately 2,000 accounts totaling approximately \$26.6 million, the majority of which had been referred to CCU for additional collection actions.

### **Finding 1**

**UEF had not established sufficient controls over accounts receivable records and the related activity administered by SIF.**

### Analysis

UEF had not established sufficient controls over accounts receivable records and the related activity administered by SIF. Specifically, we noted the following conditions:

- UEF did not perform verifications to ensure that its cash receipts were accurately posted by SIF to the accounts receivable records. The cash receipts were received by either SIF or UEF, or were transferred to UEF's accounts by CCU. According to SIF records, during fiscal year 2008, SIF recorded UEF cash receipts totaling approximately \$6.3 million, which primarily represented payments on accounts receivable, as well as \$114,300 that had been received from CCU on behalf of UEF.

- UEF did not verify whether non-cash adjustments that it prepared were accurately recorded by SIF in the accounts receivable records. 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.
- UEF did not ensure that its assessments, which were based on a percentage of WCC awards, as well as compensation and medical payments made on its behalf by SIF, were properly entered in the accounts receivable records. Compensation and medical payments are recorded in these records since uninsured employers are responsible for reimbursing UEF for these payments. According to its annual report, UEF assessments and reimbursable compensation and medical payments made during fiscal year 2008 totaled \$9.5 million.
- UEF did not reconcile the amounts that it had referred to CCU for collection assistance, as reflected on the accounts receivable records maintained by SIF, with the corresponding amounts on CCU's records. According to an accounts receivable report generated by SIF, as of June 24, 2008, UEF had referred 1,569 accounts totaling approximately \$27.3 million to CCU; a report that we received from CCU indicated that, as of July 1, 2008, only 1,515 accounts totaling approximately \$22.1 million had been referred to CCU by UEF. Even though the aforementioned reports represent transactions at different dates, it is doubtful that the accounts receivable activity between those dates would account for more than a very limited portion of the \$5.2 million difference. Furthermore, our test of 15 referrals, totaling approximately \$2.8 million in the automated accounts receivable records, disclosed that CCU had no record of 2 referrals, totaling approximately \$560,000, and that differences in referral amounts existed for the remaining 13 referrals. Specifically, for these 13 referrals, the total referrals according to UEF's records (approximately \$2.3 million) exceeded the total referrals according to CCU's records (approximately \$1.9 million) by approximately \$400,000. UEF personnel could not explain these differences.

These weaknesses—coupled with the significant deficiencies in internal controls and record keeping noted in our recently issued audit report of SIF—result in accounts receivable records that are unreliable and related activity that is highly susceptible to fraud or errors. For example, in the SIF report, we noted instances in which abatements or payments from CCU were recorded improperly as credits against medical claim payments made by UEF, and entries for CCU abatements on an account that did not reflect a corresponding CCU referral. Furthermore, as a result of these conditions, we were unable to perform certain audit procedures designed to provide reasonable assurance that accounts receivable transactions were accounted for and properly recorded in UEF's records.

## **Recommendation 1**

**We recommend that UEF**

- a. establish a process to ensure that all transactions (that is, collections, non-cash adjustments, assessments, and compensation and medical payments) are properly recorded by SIF in the accounts receivable records; and**
- b. periodically reconcile the accounts and amounts referred to CCU, as reflected on its accounts receivable records, with corresponding data recorded in CCU's records.**

## **Finding 2**

**UEF did not maintain adequate records to facilitate its debt collection efforts.**

### **Analysis**

UEF did not maintain adequate supplemental records to facilitate appropriate debt collection efforts. In this regard, even though SIF provides support services to UEF in the area of accounts receivable (such as maintaining the related automated records), UEF is responsible for performing appropriate follow-up for its delinquent accounts. As a result of the following conditions, UEF lacked reliable information on the status of delinquent accounts and its follow-up efforts.

- An accurate and up-to-date list of delinquent accounts on payment plans was not maintained. UEF frequently provides payment plans for uninsured employers that cannot pay the full delinquent amounts due. For example, payment plans had been established for 9 of 15 delinquent accounts reviewed. However, UEF did not notify SIF of established payment plans so that appropriate notations could be made to these accounts in the automated accounts receivable records, and did not maintain a list of all delinquent accounts that have payment plans and the related payment plan arrangements.
- A manual diary of delinquent accounts was used to indicate when delinquent account letters should be sent. However, UEF did not provide information to SIF to update the automated accounts receivable records to show when delinquent notices were actually sent.
- The automated accounts receivable system did not provide appropriate aging for UEF's uninsured employers' receivables when more than one claim date existed for an account. Specifically, multiple claims were frequently paid with respect to the same employer; however, in these instances, the system did not assign an individual due date for each claim paid. Rather, all due dates were based on the original claim date. Consequently, the system-generated aging reports incorrectly calculated the due dates and the number of days past

due. Furthermore, the aging reports only reflected one date referred to CCU regardless of the number of claims referred to CCU. In addition, the aging reports prepared by SIF did not consider CCU regulations amended for UEF which granted an additional 90 days to refer delinquent accounts to CCU (a total of 180 days after the debt is established).

This fragmented recordkeeping of accounts receivable information and the deficient system reports have contributed to the inadequate debt collection efforts described in Finding 3.

## **Recommendation 2**

**We recommend that UEF**

- a. maintain an accurate and up-to-date list of delinquent accounts on payment plans,**
- b. notify SIF when payment plans are established and delinquent notices are sent so that the automated accounts receivable records can be updated to reflect this activity, and**
- c. work with SIF to obtain an aging report that properly records activity, including CCU referrals related to multiple claims paid for the same employer, and that properly reflects the amended CCU regulations for UEF accounts.**

## **Finding 3**

**UEF did not always take appropriate action to collect its delinquent accounts.**

## **Analysis**

UEF did not always adequately pursue the collection of its delinquent accounts in accordance with regulations established by CCU. Specifically, we noted the following conditions:

- Our test of 15 delinquent accounts, with balances totaling approximately \$1.3 million per UEF's records, disclosed that 3 accounts, with balances totaling approximately \$86,400, were transferred to CCU from 70 to 744 days later than required. Another account with a balance totaling approximately \$168,000 had not been referred to CCU as of March 11, 2008, which was 244 days after it should have been sent to CCU.
- Our test also disclosed that 10 of those 15 accounts, with balances totaling approximately \$447,000 per UEF records (including the aforementioned 4 accounts), were not sent delinquency notices at 30-day intervals as required by CCU.

- Even though UEF had been granted an additional 90-day extension (that is, a total of 180 days), which would allow for additional collection efforts before submitting delinquent accounts to CCU, UEF did not send delinquency notices for any accounts beyond the initial 90 days of delinquency.

CCU regulations, as amended for UEF, require that written demands for payment be made at 30-day intervals and that outstanding accounts which remain uncollected for 180 days be transferred to CCU for further collection activity. Similar comments were made during our preceding audit.

### **Recommendation 3**

**We again recommend that UEF pursue collection of outstanding accounts and forward delinquent accounts to CCU in accordance with CCU regulations, as amended for UEF.**

## **Cash Receipts**

### **Finding 4**

**Adequate procedures and controls over cash receipts had not been established.**

### **Analysis**

UEF had not established adequate procedures and controls over its cash receipts, which were received by UEF and also by SIF on UEF's behalf. Specifically, checks initially received by UEF were mailed to SIF for deposit and recordation in the State's accounting records. In this regard, even though SIF is responsible for processing and depositing all of UEF's cash receipts, UEF should ensure that all of its cash receipts were properly deposited and recorded in the State's accounting records. However, UEF did not receive supporting documentation from SIF evidencing that checks UEF had directly received were deposited. In addition, UEF did not obtain any supporting documentation from SIF detailing the checks received by SIF and deposited on UEF's behalf. Furthermore, UEF did not review applicable reports from the State's accounting system to ensure that its cash receipts were accurately recorded in those records. These control weaknesses increased the possibility of misappropriation of UEF's collections because UEF had no assurance that all of its cash receipts had been deposited and recorded in the State's accounting records.

Our recent audit of SIF also disclosed that certain control weaknesses existed over SIF's cash receipts processing (for example, the employee who processed collections for deposit also performed the daily deposit verifications). This makes it even more imperative that UEF establish adequate control over its cash receipts.

According to the State's accounting records, during fiscal year 2008, SIF processed UEF collections totaling approximately \$6.3 million; UEF's records indicated that \$296,300 of this amount was received by UEF and forwarded to SIF for deposit.

#### **Recommendation 4**

**We recommend that UEF**

- a. directly deposit the checks it receives and forward copies of checks and deposit information to SIF for further processing and recording in the State's accounting records,**
- b. obtain documentation from SIF detailing the number and amounts of checks received by SIF on behalf of UEF,**
- c. using bank statements and validated deposit slips, verify that cash receipts received by UEF and SIF have been subsequently deposited, and**
- d. obtain applicable reports from the State's accounting system to verify that all receipts have been properly recorded in those records.**

### **Claim Payments**

#### **Finding 5**

**UEF did not perform verifications of claim payments to ensure that such payments were accurately processed.**

#### **Analysis**

UEF did not perform verifications of claim payments processed for it by SIF to ensure claim payments were processed in accordance with the terms of the WCC awards. Specifically, during our audit, we noted that UEF prepared claim payment authorization memos specifying the full amounts of awards, rather than preparing the payment memos to reflect the proper periodic payment amounts, dates, and payment terms. UEF expected SIF to determine and calculate the proper payment streams. As a result, certain claim payments were processed incorrectly by SIF. Our test of 15 claim payments totaling \$477,700 disclosed that 4 payments made to claimants included \$32,200 in lump-sum payments, when the awards specified that these balances were to be paid in smaller payments on a weekly basis.

According to UEF's fiscal year 2008 annual report, SIF processed, on behalf of UEF, claim payments totaling \$6.1 million.

**Recommendation 5**

**We recommend that UEF**

- a. prepare payment authorization memos to SIF in accordance with the WCC award terms, including the proper payment amounts and terms; and**
- b. perform verifications to ensure that claim processing services performed by SIF on its behalf are proper.**

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

We have audited the Uninsured Employers' Fund (UEF) for the period beginning May 18, 2005 and ending February 19, 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 UEF'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 finding 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 UEF'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 certain support services provided to UEF by the Subsequent Injury Fund (SIF). These support services, such as invoice processing, payroll, and maintenance of an automated data processing system are included within the scope of our audits of SIF.

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 the UEF'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 UEF 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.

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

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

STATE OF MARYLAND

MARTIN O'MALLEY  
GOVERNOR

JAMES W. HIMES  
EXECUTIVE DIRECTOR

HOLLY C. ISAACS  
ADMINISTRATIVE OFFICER



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**UNINSURED EMPLOYERS' FUND BOARD**

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April 28, 2009

Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
Maryland General Assembly  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed please find the Response of the Uninsured Employers Fund to the Audit Report on the Fund for the period beginning May 18, 2005 and ending February 19, 2008.

If you wish any further information or comment from us, please advise at your first opportunity.

Respectfully Submitted,

A handwritten signature in black ink that reads "James W. Himes".

James W. Himes  
Executive Director

cc: Paul Richards, Chairman, Uninsured Employers Fund Board  
Samuel Hoyle, Member, Uninsured Employers Fund Board

UNINSURED EMPLOYERS' FUND  
Responses to Audit Report  
For Period from 5/18/2005 to 2/19/2008

Findings 1-3 Regarding Accounts Receivable<sup>1</sup>

**Finding 1. UEF had not established sufficient controls over accounts receivable records and the related activity administered by SIF (Subsequent Injury Fund).**

**Background**

The Background in the Auditors' Report does not distinguish among the three UEF income streams, as each was processed differently. Most of the numbers here are taken from the Report itself. We will be as brief as possible.

During the audit period, 85% of UEF income came from the one primary source that UEF never invoiced, received or touched, viz. the 2% UEF assessment on all employers and insurers in WCC permanency and settlement Awards. In FY2007 SIF recorded UEF cash receipts of \$7,751,825, of which \$6,687,851 was generated by the 2% assessment. These assessment monies were almost always paid by insurance companies and always directly to SIF. In FY2008 SIF recorded UEF cash receipts of \$6.3 Million, of which approximately \$5.3 Million was generated by the 2% assessment. This assessment was by far the largest of three UEF income streams. WCC imposed the assessment in their Awards. SIF calculated each assessment on a Statement of Assessment and billed it out. Insurance companies reviewed and paid the Award and Statement. Ninety-five percent (95%) of the assessments were received within 60 days of invoice. SIF deposited the check into the bank account and posted the payment onto the AS400 system. The AS400 automatically calculated and applied each assessment. This was the procedure for \$128,613 each week in FY2007, or \$101,923 each week in FY2008, coming directly to SIF based on WCC Awards. The second largest income stream also came directly to SIF for noninsured employers' repayments of benefits, fines and assessments. Only \$296,000 or \$5,700 a week came directly to the UEF, the third and smallest income stream.

SIF operated under a Joint Sharing Arrangement<sup>2</sup> established by SIF and UEF as a cost reduction measure when both agencies were relocated from the WCC some 25 years ago, for which UEF pays SIF \$60,000 a year. The reason for the sharing is that WCC permanency awards by statute include both UEF and SIF assessments. UEF has only eleven (11) employees, including the one (1) Fiscal Clerk II who handles all its fiscal operations. (The

Fiscal Clerk whose work was the subject of the exception taken in the audit 3 years ago was replaced shortly afterwards by a new Fiscal Clerk who cleaned up most of the receivable files left by that Clerk.) The Clerk's duties included processing cash receipts; creating and processing 30-40 non-cash adjustments every week for

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<sup>1</sup> **Auditor's Comment:** Section 10-316 of the Labor and Employment Article specifies that the Uninsured Employers' Fund Board shall supervise the administration of the Uninsured Employers' Fund. Accordingly, the Fund's Board and its administrative staff are responsible for all Fund activity, which is OLA's position with respect to the report's recommendations. Many of the disagreements in the UEF response are predicated on UEF's assumption that it has no responsibility for the Fund's financial activities that are administered by SIF, a position with which OLA disagrees. As indicated in this audit report, significant deficiencies in internal controls and record keeping were noted in our recently issued audit report on SIF, several of which were repeated from prior audit reports on SIF. Accordingly, the importance of UEF ensuring the completeness and accuracy for its accounts should be heightened, not lessened, for instances where UEF claims reliance on SIF. Although this UEF response indicates that certain improvements over cash receipts and accounts receivable processing have or will be implemented at UEF, the response does not adequately address all recommendations.

<sup>2</sup> **Auditor's Comment:** Neither UEF nor SIF were able to provide a documented agreement of the arrangements although we requested this on numerous occasions.

CCU; processing a series of 3 delinquency letters to all nonpaying employers prior to transfer to CCU; transferring accounts to CCU when payment is not made; monitoring all accounts maintained in-house before referral to CCU, including approximately 75 repayment agreements with noninsured employers; preparing lien filings and license suspension requests for filing against nonpaying noninsured employers. (Now added to these responsibilities from this Audit are preparing and making 2-3 cash deposits a week; sending copies of every deposit slip and check to SIF; receiving, reviewing and retaining copies of all SIF deposits of UEF moneys; checking those deposits against the AS400; monitoring online all noninsured accounts receivable, particularly the repayment agreements, in the new in-house receivables program; loading new noninsured accounts receivable into the new receivables program; and reporting her findings on a regular basis to the executive director.)

The stream of receipts that came directly to UEF was approximately 11-12 checks or \$5,700 a week. Instructions for handling these cash receipts were given UEF personnel by legislative auditors six (6) years ago, viz. that there had to be three (3) separate touches on all checks received. UEF set up the procedure, with the approval of those auditors, that checks received by UEF were first entered into a general ledger manually by the office secretary who then prepared a letter of receipt to the employer. The office administrator then reviewed the docket entries and checks, signed the letters of receipt to each paying employer, and filed copies of the check and letter in each claim file. The secretary then mailed out the letter and forwarded the check to SIF for deposit and entry into the AS400 system. The executive director or the secretary to UEF Counsel would then verify each entry in the AS400 system and confirm that by initialing the general ledger entry. This was the procedure followed during the period of this audit.

There are significant portions of the Audit which we accept and are already in compliance with, and which will enhance our operations. Our principal differences of view fall into two categories: supervision of SIF operations and supervision of accounts receivable transferred to CCU. This Audit presupposes UEF responsibility for those two functions. UEF has never understood those functions to be its obligations, nor by executive, legislative or audit direction. The 2002 Audit Comments by the Legislative Auditor seem to indicate that neither supervisory role was included "in the design or operation of the Fund's internal controls." Nor did the 2005 Audit assert those responsibilities. In order to accomplish these functions, we will need additional staff, space and equipment.

### **Response to Audit Analysis**

UEF respectfully disagrees with the Auditors' Finding that it had not established sufficient controls over accounts receivable records and the related activities administered by SIF. Regarding specific conclusions set forth by the Auditor:

- A. Regarding its own cash receipts of \$296,000, UEF complied with the handling and verification instructions of the 2002 Auditors, which was not excepted in any respect in the 2005 Audit. SIF cash receipts for UEF primarily represent not payments on accounts receivable, as we understand accounts receivable relative to noninsured employers, but assessments imposed on and paid by insurance companies.

- B. UEF has never been deemed responsible and accordingly never staffed to monitor SIF handling of those moneys. Supervision of SIF's handling and posting of UEF cash receipts alone would require at least one additional Fiscal Clerk position, plus upgrading the current position to a supervisory level, plus acquiring new office space and logistic support. We suggest that action is not warranted. We have modified the handling of UEF cash receipts by both UEF and SIF to comply with Audit Recommendations more particularly set forth in their Finding 4.
- B. All non-cash adjustments originated by UEF personnel to SIF personnel are now being verified by SIF with its new staff hires in compliance with Recommendation 1a.
- C. UEF administrative personnel coordinated all compensation and medical payments with SIF fiscal personnel in each claim, although it did not ensure proper entry into the account receivable record. This again assumes that UEF had the responsibility and appropriate staffing to monitor SIF entries. If this is a duty that the Legislature now wishes UEF to assume, UEF will seek to acquire adequate staff capabilities.
- D. UEF has no staff capability at this time to reconcile some 2,000 UEF receivable accounts with corresponding CCU accounts. Additionally, once UEF refers an account to CCU, UEF only revisits the account for cash adjustments to benefits or medical expenses which UEF pays out for later awards and medical treatments. Nevertheless, UEF will engage CCU to undertake coordination and reconciliation on significant account receivable where there is a likelihood of some recovery. UEF respectfully disputes the Audit comment that UEF personnel could not explain differences between its accounts and CCU accounts of the same receivable.<sup>3</sup> UEF personnel can fully explain UEF accounts, but are not responsible for monitoring and reconciling CCU treatment of accounts once they are in CCU's disposition, as CCU has reminded us. CCU frequently restructures and restates accounts once within their authority.

Likewise, UEF strongly denies the assertion that its account receivable records are highly susceptible to fraud or errors. Checks and balances to prevent fraud and reduce errors are embodied throughout the entire statutory system involving the WCC, UEF, SIF and CCU.

**Recommendation 1. We recommend that UEF**

- a. **establish a process to ensure that all transactions (that is, collections, non-cash adjustments, assessments, and compensation and medical payments) are properly recorded by SIF in the accounts receivable records; and**
- b. **periodically reconcile the accounts and amounts referred to CCU, as reflected on its accounts receivable records, with corresponding data in CCU records.**

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<sup>3</sup> **Auditor's Comment:** During and subsequent to fieldwork, OLA requested explanations from UEF to account for differences between amounts that UEF records indicated were transferred to CCU and the amounts that CCU records indicated were transferred. Adequate explanations were never given to OLA for most of the differences.

## Response

- a. UEF has already implemented procedures to control and verify collections by UEF and SIF in compliance with Finding 4 and part of Recommendation 1a. SIF is reviewing all non-cash adjustments. UEF does not have sufficient staff to review all SIF transactions. These transactions are already controlled and reviewed by independent or adversarial parties. Compensation benefits, statutory fines and assessments are imposed in WCC Awards. SIF bills them under the AS400 system to various payors and beneficiaries who may challenge any benefit, assessment or account. Medical payments are calculated according to the published Maryland Fee Guide. Medical providers are free to question and challenge any Fee Guide payment. SIF now provides UEF copies of all invoices for non-cash adjustments, assessments and medical payments, and letters confirming benefits payments, from which UEF can periodically review SIF payments. UEF does not have sufficient staff to review all SIF transactions on behalf of UEF.
- b. Regarding Recommendation 1b, UEF has inadequate staffing and CCU has rejected limited UEF efforts to deal with CCU accounts. At least on significant accounts receivable, UEF will make efforts not only at reconciliation of CCU accounts but more importantly on the collection of accounts, beginning July 1, 2009. This may not be more than fifty (50) accounts a year. If the UEF is to more aggressively pursue CCU account reconciliation, at least one additional fiscal clerk will be needed. This would be a total addition of two fiscal clerk positions, with appropriate office space and logistical support.

**Finding 2. UEF did not [always] maintain adequate records to facilitate its debt collection efforts.**

**Recommendation 2. We recommend that UEF**

- a. **maintain an accurate and up-to-date list of delinquent accounts on payment plans,**
- b. **notify SIF when payment plans are established and delinquent notices are sent so that the automated accounts receivable records can be updated to reflect this activity, and**
- c. **work with SIF to obtain an aging report that properly records activity, including CCU referrals related to multiple claims paid for the same employer, and that properly reflects the amended CCU [180 day] regulations for UEF accounts.**

UEF accepts this Finding and has already begun to comply with Recommendations 2a and 2b. At a cost of \$14,000 we initiated a specialized online program to bring all in-house accounts receivable into one place where accounts can be managed and reviewed, both individually and as an entire book of business, by both UEF and SIF. The program includes timely notices of delinquency and account aging. Previously, accounts were maintained and monitored in the individual claim files and in a handwritten summary. Implementation of Recommendation 2c will be initiated next month, for completion by August 31, 2009 for single employer claims. Implementation regarding multiple claims may be problematic, however, since each claim involves different stages and issues in litigation, and not all such claims will be amenable to a traditional aging report. For example, a claim on appeal to the circuit court by statute renders the employer not in default of payment of that claim or subject to assessment, no matter the time frame in which the litigation occurs.

**Finding 3. UEF did not always take appropriate action to collect its delinquent accounts.**

**Recommendation 3. We again recommend that UEF pursue collection of outstanding accounts and forward delinquent accounts to CCU in accordance with CCU regulations, as amended for UEF [to allow uncollected accounts remain within UEF activity for 180 days].**

We agree with this Finding but note that UEF collected \$296,000 from noninsured employers in FY 2008, in addition to the \$114,300 collected by CCU. We have already begun compliance with Recommendation 3 by initiating the in-house accounts receivable program. Many in-house repayment programs are already installed. Other in-house receivables will be loaded in within 4 months. The program provides for timely notices of default and appropriate referrals to CCU within 180 days.

#### Finding 4 Regarding Cash Receipts

**Finding 4. Adequate procedures and controls over cash receipts had not been established.**

**Recommendation 4. We recommend that UEF**

- a. **directly deposit the checks it receives and forward copies of checks and deposit information to SIF for further processing and recording in the State's accounting records,**
- b. **obtain documentation from SIF detailing the number and amounts of checks received by SIF on behalf of UEF,**
- c. **using bank statements and validated deposit slips, verify that cash receipts received by UEF and SIF have been subsequently deposited, and**
- d. **obtain applicable reports from the State's accounting system to verify that all receipts have been properly recorded in those records.**

UEF respectfully disagrees with Finding 4 that its procedures and controls over cash receipts were not adequate. As stated in the Background and Response to Recommendation 1a, UEF followed the three separate touch deposit and verification procedures directed by the 2002 Auditors. Those procedures were not excepted in the 2005 Audit. UEF has never been understood by any party previously to be under a duty to oversee SIF handling and posting of cash receipts for UEF. It has never been staffed or directed to do so.<sup>4</sup>

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<sup>4</sup> **Auditor's Comment:** UEF had no process in place to ensure it was properly credited in the State's accounting records for any of its three sources of revenue. Establishing effective internal control is a UEF management responsibility. OLA evaluates existing internal controls during each audit.

Nevertheless, we have implemented additional procedures in compliance with Recommendations 4a, 4b and 4c. Regarding Recommendation 4d, UEF has never had approved access or adequate staff to verify postings in the FMIS system. We now receive copies of Bank Deposits and FMIS statements from SIF at least monthly, which we can check periodically. If UEF is to perform systematic verification of SIF posting of all receipts through to FMIS, UEF will have to seek budget approval for additional staff and support.

Finding 5 Regarding Claim Payments

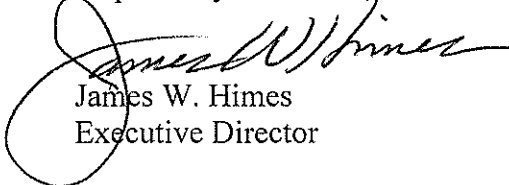
**Finding 5. UEF did not perform verifications of claim payments to ensure that such payments were accurately processed.**

**Recommendation 5. We recommend that UEF**

- a. prepare payment authorization memos to SIF in accordance with the WCC award terms, including the proper payment amounts and terms; and**
  - b. perform verifications to ensure that claim processing services performed by SIF on its behalf are proper.**
- 
- a. UEF has already complied with Recommendation 5a and rewritten its Payment Authorization Memorandum to SIF so that it now fully and precisely restates the benefits payments in every WCC Award, including the timing of all such payments. UEF has always attached a copy of every WCC Order to every Payment Authorization.
  - b. Regarding Recommendation 5b, UEF has never in 20 years overseen on a systematic basis SIF claim payments. It does on a case by case basis, however, which can be continued and expanded with the receipt of FMIS statements. If it is the pleasure of the Legislature that UEF systematically verify SIF claim payments, UEF will seek additional budget approval for personnel and facilities to perform that function.

UEF estimates that the CCU and SIF oversight functions sought by this Audit will require at least 2 and perhaps 3 additional fiscal clerks, creation of a supervisory position for the current Fiscal Clerk, additional office space and logistic support. UEF informally estimates the cost of such staffing, space and support will be approximately \$250,000 annually. UEF current budget is \$1.1Million. It also raises the question as to whether SIF functions would logically be brought in-house in UEF. The Fund, including its Board, does not believe such expansion is warranted, particularly given the other compliance actions undertaken herein.

Respectfully submitted,



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April 28, 2009

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