Maryland Department of Labor (MDL)

Division of Unemployment Insurance (DUI)
Part 1 – Unemployment Insurance Tax Contributions

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Presentation to Joint Audit and Evaluation Committee

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Report Overview

- DUI administers the State's Unemployment Insurance Program that includes the following primary responsibilities:
  - **Collecting unemployment insurance tax contributions from employers**
  - Processing applications for, and disbursing unemployment benefits

- DUI operations were significantly impacted by the COVID-19 pandemic, as well as implementation of a new information system (BEACON). In consideration of these circumstances, and in order to provide the necessary resources and audit coverage, we divided our audit of DUI into two reports, each addressing one of DUI's two primary responsibilities.

- This segment of our presentation addresses our report on Part 1 of our audit, which examined the collection of unemployment tax contributions from employers. The report contains six findings, none of which are repeated from our preceding audit report.

- DUI collected $637 million in taxes from employers in fiscal year 2021.

Key Findings

1. DUI did not reconcile tax collections received from employers with the corresponding amounts recorded in its accounts receivable records to ensure that recorded amounts were valid and complete.

2. DUI had not verified the deposit of tax collections since the implementation of BEACON in September 2020, because BEACON could not generate the reports necessary for this procedure.

3. DUI did not conduct regular data matches to identify unregistered employers, and did not always follow up on the results of matches that were performed.

4. DUI did not ensure that sufficient collateral was provided by reimbursable employers to protect the State for claims paid on behalf of these employers.

5. Collection of delinquent tax accounts was discontinued in September 2020 due to BEACON system deficiencies.

System Implementation

- In 2011, DUI began a project to replace three of its existing automated systems used to account for unemployment insurance activities with a single consolidated system called **BEACON**, which was intended to be fully implemented in 2018.

- Significant implementation delays occurred, which DUI asserts were caused, in part, by unrealistic timelines and vendor quality issues. In April 2020, a temporary system called BEACON One-Stop was implemented to allow on-line claim submission until BEACON itself formally went **live in September 2020**.

- Our May 1, 2020 report on the Department of Information Technology and our January 7, 2022 report on the Department of Labor – Office of the Secretary addressed certain concerns regarding BEACON development and costs. A summary of those findings is in Exhibit 1 of our DUI Part 1 and Part 2 reports. These DUI audit reports also address certain system deficiencies we noted during our audit. As of January 2021, the system vendor had been paid approximately $57.3 million.

Employer Contributions (Finding 1)

DUI did not periodically reconcile its record of **tax collections** received from employers to the aggregate of tax payments posted to its employer accounts receivable records.

- Consequently, there was a lack of assurance that payments recorded in employer accounts were valid and complete.

- Our comparison of the two records for the six months between June 2019 and August 2020 disclosed monthly differences of between $640,000 and $21 million.

- A portion of monthly differences may be caused by recording delays, as our testing disclosed examples of payments made in April 2020, but as of April 2021 were still not recorded in the accounts receivable records.

Employer Contributions (Finding 2)

As of September 2021, DUI had not verified the **deposit** and proper disposition of tax collections as recorded in its clearing account since the implementation of BEACON in September 2020. During fiscal year 2020, the bank reported collections deposited into the clearing account totaling $460.6 million.

- Since September 2020, DUI has been unable to generate an accurate record of clearing account activity or ending account balances from BEACON. As a result, DUI has been unable to reconcile its clearing account records to the corresponding bank records.

- These reconciliations are critical to ensuring that all tax collections have been deposited and all related transactions have been properly recorded and accounted for by DUI. Examples of transactions include the transfer of collections from the clearing account to the Insurance Trust Fund from which claim payments are made.

Employer Contributions (Finding 3)

DUI did not regularly conduct data matches to **detect employers who were not paying contributions** on taxable wages as required by State law, and did not always follow up on matches that were conducted.

- Although DUI previously conducted weekly matches of the Maryland Department of Human Services' State Directory of New Hires to data in its records to identify employers that had not registered with DUI for filing unemployment insurance taxes, no matches were performed between September 2020 and December 2020.

- At the time of our review (November 2021), the most recent match conducted was in September 2021 covering the period from September 2020 to September 2021, which disclosed 1,778 employers not registered in BEACON.

- At that time (September 2021), no follow-up had been conducted because BEACON was unable to generate notices to employers alerting them of the legal requirement to register.

Reimbursable Employers (Finding 4)

DUI did not ensure that reimbursable employers provided the required **collateral** to protect the State in the event claims are paid on their behalf and the employer defaults on reimbursing the State.

- By law, certain employers, such as not-for-profit organizations, may elect to reimburse the State for benefits paid on their behalf rather than pay quarterly unemployment insurance taxes. Generally, these employers must provide collateral in case of default.
- DUI had not verified that required collateral had been received since August 2018. That review disclosed that an additional $7.4 million was required for 113 employer accounts, but DUI did not follow up to obtain the required collateral.
- Although DUI records as of October 2021 indicated that 1,247 employers were required to have collateral of approximately $114.4 million, as of September 2021, BEACON could not provide data to determine the actual amount of collateral on hand or any amount due.

Delinquent Employer Accounts (Finding 5)

DUI did not have written policies and procedures for pursuing delinquent employer accounts, and was not **collecting delinquent employer accounts** due to problems with the BEACON system.

- The lack of written policies and procedures is significant because State law exempts DUI from sending delinquent employer accounts to the Central Collections Unit, meaning that DUI is solely responsible for debt collection.
- As of September 2021, DUI had not pursued delinquent employer accounts since the implementation of BEACON in September 2020.
- Furthermore, procedures to review and certify the write-off of delinquent employer accounts were discontinued in July 2017. According to DUI's quarterly summaries, accounts written off between July 2017 and March 2020 totaled $27.1 million.
- DUI could not readily obtain from BEACON an accurate balance and aging schedule of outstanding employer accounts.

Cybersecurity (BEACON) (Finding 6)

Although not redacted in the public audit report; finding is cybersecurity-related.
See confidential addendum.

Conclusions

DUI should:

- periodically reconcile its tax collection records to its employer accounts receivable records and resolve significant differences;
- record employer payments in accounts receivable records timely;
- periodically reconcile its clearing account activity to bank records and resolve significant differences;
- conduct matches to identify non-registered employers, and pursue employers identified;
- identify and pursue required collateral for reimbursable employers;
- establish formal collection policies and procedures;
- pursue collections from employers timely;
- ensure write-offs are reviewed for required criteria; and
- address and correct BEACON system deficiencies noted relating to clearing account activity, notices to unregistered employers, collateral for reimbursable employers, and delinquent employer accounts.