



Department of Legislative Services
Office of Legislative Audits

Uninsured Employers' Fund

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Presentation to the Joint Audit Committee

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Audit Overview

- Audit report, which covered the period from 5/05 to 2/08, included 5 findings with 1 of those repeated from the preceding audit report.
 - UEF pays workers' compensation awards, including medical payments, to claimants who failed to receive payment from uninsured employers. The major source of funding for awards and UEF operating expenses is a 1% assessment on employers and insurance companies for *all* WCC death or permanent disability settlements and awards.
 - For FY08, UEF assessments totaled \$6.2 million and claim payments totaled \$6.1 million (\$3.3 million of which uninsured employers should reimburse to UEF). UEF operating expenses totaled \$1.1 million.
 - The balance of the Fund at June 30, 2008 was \$12.9 million. UEF's accounts receivable balance at 1/09 was \$26.6 million, most of which had been referred to the State's Central Collection Unit.
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Key Audit Issues

- UEF relied extensively on the Subsequent Injury Fund (SIF) for accounting services, including receiving and processing payments made to UEF, maintaining computerized UEF accounts receivable records, preparing UEF billing statements and aging reports, and processing UEF claim disbursements.
- UEF did not have adequate processes in place to ensure that UEF transactions and activity, including those processed by SIF, were fully and properly accounted for, including:
 - assessments and medical payment receivables (\$9.5 million in FY 08)
 - cash receipts (\$6.3 million in FY 08)
 - claim payments (\$6.1 million in FY 08).



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Accounts Receivable

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

- No verification that cash receipts were properly applied against related UEF receivables.
- No verification that A/R records included all assessments and medical payment reimbursements due to UEF.
- No verification that non-cash adjustments UEF prepared were accurately recorded by SIF.
- UEF amounts transferred to Central Collection Unit were not reconciled to UEF A/R records.



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Accounts Receivable (cont'd)

- Adequate records were not maintained to facilitate debt collection. (Finding 2)
 - Automated A/R system did not provide appropriate aging for UEF receivables.
 - Manual records were maintained for established payment plans and issued delinquency notices, but A/R system was not updated to reflect these manual activities.
- UEF did not comply with CCU regulations regarding collection activities and timely transfers to CCU. (Finding 3)



Cash Receipts

UEF had not established adequate internal control over its cash receipts which were initially received by both UEF and SIF. (Finding 4)

- UEF mailed its cash receipts (\$296,000 during FY 08) to SIF rather than depositing them directly.
- UEF did not receive documentation for amounts received on its behalf at SIF (\$6 million during FY 08), nor evidence for any deposits made on its behalf.
- UEF did not review applicable RSTARS reports to ensure it was properly credited for all of UEF's cash receipts.



Claim Payments

UEF did not perform verifications of claim payments to ensure that they were accurately processed by SIF. (Finding 5)

- UEF issued claim payment authorizations to SIF for the total amount of awards rather than providing the periodic payment amounts, dates, and payment terms.
- UEF expected SIF to determine and calculate the proper claim payment streams, but did not verify SIF's work.
- Testing disclosed that certain claim payments were made in lump-sum rather than being paid in smaller amounts on a weekly basis, in accordance with the terms of WCC awards.



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Conclusion

- UEF should establish processes to ensure that all activity pertaining to its receivables are properly accounted for and recorded in the A/R records.
- UEF should ensure that adequate aging reports for its needs are generated, that collection activities are conducted in accordance with CCU regulations, and that amounts transferred to CCU for collection are in agreement with the A/R records.
- UEF should establish processes to ensure that its Fund is properly and fully credited for all cash receipts belonging to the Fund.
- UEF should establish processes to ensure that all UEF claim payments are made in accordance with the terms of the awards.