



Department of Legislative Services
Office of Legislative Audits

Subsequent Injury Fund

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Presentation to the Joint Audit Committee

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Audit Overview

- Audit report, which covered the period from 4/05 through 1/08, included 9 findings, with 5 of those repeated from the preceding audit report.
 - SIF pays workers' compensation awards in connection with claims for previously injured or handicapped employees' subsequent occupational injuries or deaths. To fund these awards, employers and insurance companies are assessed 6.5% on *all* WCC death or permanent disability settlements and awards.
 - For FY 2008, SIF assessments totaled \$25.2 million, SIF benefit payments totaled \$20.8 million, and SIF operating expenses totaled \$1.8 million.
 - SIF maintains the accounts receivable records for both its receivables *and for the receivables of the Uninsured Employers' Fund (UEF)*. As of 1/09, the accounts receivable balances totaled \$27.3 million for both Funds.
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Key Audit Issues

- Virtually no controls over accounts receivable records and the receivable records maintained for UEF were not adequately maintained. Collection actions on receivables were not taken in accordance with Central Collection Unit regulations.
 - Internal control over cash receipts was inadequate to ensure accountability over all collections.
 - Certain user capabilities and vendor access on the automated accounts receivable and accounts payable system compromised effective internal control.
 - Physical security, environmental controls and disaster recovery for IT operations were not adequately addressed.
 - Improvements can be made in certain aspects of payroll and procurement processing.
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Accounts Receivable

SIF maintained an automated A/R system for itself and for the UEF.

- SIF receivables (\$726,000 as of 1/09) are mainly unpaid assessments.
- UEF receivables (\$26.6 million as of 1/09) consist mostly of claim payments, including medical payments, made to injured workers but not yet reimbursed by uninsured employers.
- The same SIF employee performed many incompatible A/R and cash receipts duties. Also, there was no independent verifications of non-cash adjustments and the entries to establish the receivables in the system.
(Finding 1)



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Accounts Receivable (cont'd)

- Automated accounts receivable records maintained by SIF for UEF were not adequately maintained; for example, some recorded amounts did not agree with the nature of the transaction or lacked support. (Finding 2)
- SIF did not comply with Central Collection Unit (CCU) regulations regarding collection activities and timely transfers to CCU for collection. (Finding 3)



Cash Receipts

SIF had not established adequate internal control over cash receipts collected for itself and for UEF. (Finding 4)

- Fiscal year 2008 collections deposited by SIF totaled \$29.7 million.
- The employee who processed collections for deposit also performed the daily deposit verifications and could modify the initial receipt records.



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Information System Security and Control

- Certain user capabilities compromised already weak internal controls over A/R and cash receipts. In addition to having abilities to modify records, records could also be deleted without any trail. (Finding 5)
- Physical security, environmental control and disaster recovery were not adequately addressed. (Finding 6)
- Contractor access to the system for programming and operational support was not sufficiently restricted or monitored. (Finding 7)
- Logs of critical security events were not reviewed for unauthorized or inappropriate activities. (Finding 7)



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Other Areas

- Time reports submitted to the Central Payroll Bureau should be prepared using approved employee time records and independently verified. (Finding 8)
- Contractor services should be obtained and documented in accordance with State Procurement Regulations. (Finding 9)
- The last two actuarial studies done in March 1996 and November 2003 indicated that SIF had unfunded liabilities of \$173 million and \$201 million, respectively. The Subsequent Injury Fund balance at June 30, 2008 was approximately \$62.5 million. SIF indicated it would obtain a new actuarial study in 2010. (Page 7)



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Conclusion

- SIF should ensure that employee duties over accounts receivables and cash receipts are properly separated, including employee capabilities on the related automated system, and ensure the propriety, accuracy and completeness of all A/R and cash receipts transactions in the records. SIF should also comply with CCU regulations regarding collection for unpaid accounts.
- SIF should improve safeguards over its automated systems, including physical security and vendor access, environmental controls, and disaster recovery.
- SIF should make improvements in certain aspects of payroll and procurement processing.