

Audit Report

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

February 2019



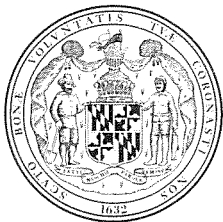
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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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February 5, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Labor, Licensing and Regulation (DLLR) – Division of Unemployment Insurance (DUI) for the period beginning February 24, 2014 and ending April 16, 2017. DUI administers the State's Unemployment Insurance Program that is funded primarily by unemployment insurance tax contributions collected from employers.

Our audit disclosed that DUI did not always use available data to identify claimants who may not be eligible for benefits. For example, DUI did not effectively use available Internet Protocol (IP) address data to identify claimants filing for benefits from foreign IP addresses. According to DUI records for the period from June 2015 through June 2017, there were 503 claimants who filed for benefits for five or more consecutive weeks from a foreign IP address. In addition, DUI did not use available data to identify claimants who were full-time students and claimants who had not enrolled in the Maryland Workforce Exchange, as required. DUI also did not timely investigate claimants it identified for whom employers had reported wage earnings. Each of the above conditions cited raise a question on the propriety of benefits paid and, if proven, would preclude a claimant from receiving benefits.

Our audit also disclosed that DUI did not always conduct required supervisory reviews of claims processed, and did not always refer delinquent benefit overpayment accounts to the State's Central Collection Unit timely. As of June 30, 2017 approximately \$139.7 million in uncollected benefit overpayment accounts were more than one year old. In addition, DUI did not have sufficient procedures over reissued benefit debit cards and the proper disposition of funds remaining on expired debit cards. For example, DUI did not ensure that debit

cards were reissued for legitimate reasons and that they were mailed to a proper address.

DUI did not have adequate procedures to follow up on employers it identified that were not registered with DUI and that may not be remitting unemployment taxes. Finally, DUI did not have a comprehensive or effective procedure to periodically review access capabilities it had granted to users of its unemployment insurance tax and benefits systems, and we noted users who were granted unnecessary update access or could perform incompatible functions in these systems.

Finally, our audit included a review to determine the status of the five findings contained in our preceding audit report. We determined that DUI satisfactorily addressed four of these findings, with the remaining finding repeated in this report.

DLLR's response to this audit, on behalf of DUI, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and recommendations, and we will advise the Joint Audit Committee of any outstanding issues that we cannot resolve with DLLR.

We wish to acknowledge the cooperation extended to us during the audit by DUI, and DLLR and DUI's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink, reading "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Department of Labor, Licensing and Regulation that administers the State's Unemployment Insurance Program. DUI's primary responsibilities include collecting unemployment insurance tax contributions from employers, processing applications for unemployment benefits, and disbursing the related unemployment benefits. DUI also maintains the Maryland Unemployment Insurance Trust Fund (UITF), which is used to account for the aforementioned collections and disbursements. According to the State's records, DUI's fiscal year 2017 operating expenditures (excluding unemployment benefit disbursements) totaled approximately \$71.4 million.

Maryland employers are required to remit Maryland unemployment insurance taxes based on a percentage of wages paid to their employees which, during calendar year 2017, ranged from 0.3 percent to 7.5 percent of the first \$8,500 of employee wages. Certain entities, such as nonprofit organizations and governmental entities, are exempt from these taxes and, instead, reimburse the State for any unemployment benefits paid on their behalf. As of November 2017, an unemployed individual could receive a maximum of \$430 per week for 26 weeks in one benefit year.

According to DUI records, during fiscal year 2017, DUI collected approximately \$608 million from employers (\$540 million in unemployment insurance taxes and \$68 million in reimbursements). During this period, DUI paid approximately \$550 million in unemployment insurance benefits to more than 120,000 claimants. As of June 30, 2017, the UITF had a balance of approximately \$1.3 billion.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated February 27, 2015. We determined that DUI satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Benefit Payments

Background

Individuals may file for unemployment insurance benefits online or over the phone with any of the four Division of Unemployment Insurance (DUI) claims centers located throughout the State. Individuals may not apply for benefits in person. Each individual completes an application, which includes his or her previous employer, wages earned, and the reason for the individual's current unemployment. After verifying that the application information is complete and the applicant is eligible for benefits, DUI sets up an account for each approved claimant into which weekly benefits are transferred. DUI also issues each approved claimant a Maryland Unemployment Insurance (UI) Benefits Debit Card, which is used by the claimant to access benefits.

Benefit amounts are based on the individual applicant's earnings and other factors (such as, the number of dependents). State law requires applicants to be able, available, and actively looking for work in order to be eligible for unemployment benefits. During our review, as a further condition of eligibility, DUI required applicants to register in the Maryland Workforce Exchange system within 10 days of filing a claim. The Maryland Workforce Exchange system provides services to help individuals gain employment. In addition, claimants are required to certify each week that they are able, available, and actively looking for work and disclose any information that could affect their eligibility (such as, attending school). Any claimant who obtains work must notify DUI of the number of days worked and the related compensation.

DUI's business information systems include the Maryland Unemployment Insurance Tax System (UITAX), which is used to process employers' unemployment insurance taxes owed and paid, and the Maryland Automated Benefits System (MABS), which tracks payments to and amounts due from unemployment insurance claimants. MABS also tracks wage information reported by Maryland employers.

Finding 1

DUI did not always use available data to identify claimants who may not be eligible for benefits, and did not always conduct timely investigations into the results of certain data matches.

Analysis

DUI did not always use available data to identify claimants who may not be eligible for benefits. DUI performs various procedures both prior to and after the claims approval process as a means to ensure that only eligible applicants are approved and that the benefit amounts are proper. Any overpayments identified are required to be repaid to DUI, and any incidents of suspected fraud are investigated.

Claimants Filing from Foreign Internet Protocol (IP) Addresses

DUI did not sufficiently use available IP address data to identify claimants filing an initial claim or weekly certification from foreign IP addresses¹ and flag them for follow-up, nor did DUI have a proactive process to prevent these potentially improper claims from being approved. DUI collects data on the IP addresses from which claims and weekly certifications are filed but primarily only used these data to augment existing investigations of possibly ineligible claimants who had been identified through other means. Individuals who file from a foreign IP address may be residing outside of the country and may be unavailable for work, which could affect their eligibility for benefits. Based on DUI records for the period from June 2015 through June 2017, there were 503 claimants who filed five or more consecutive weekly certifications from a foreign IP address.

We tested 20 of these claimants who filed between 24 and 52 weekly certifications. Our test found 19 who received approximately \$182,000 in benefits for whom we identified additional information that led us to conclude that these claimants may have been ineligible for benefits.

For example, on the initial claim, one individual reported termination from employment as a result of working outside of the country and being unable to return to the United States as requested by the employer. This initial claim and subsequent weekly certifications originated from an IP address in India, but the claims were never flagged for follow-up. In addition, in this instance, the claimant should not have been approved for benefits based on the aforementioned situation noted on the initial claim. Another claimant tested was not flagged for filing from a foreign IP address but was subsequently investigated by DUI after submitting another claim in a subsequent year from a foreign phone number.

¹ For the purposes of our audit, a foreign IP address is defined as one originating from other than the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and Canada.

While DUI investigated and took action to assess an overpayment regarding the individual phone claim, it did not review the prior claims submitted by this claimant via a foreign IP address.

DUI's policies and procedures stipulate that DUI should cease providing benefits to claimants discovered to have an out-of-country status and that these claimants should be flagged for review and potential recovery. In addition, a 2015 report published by the United States Department of Labor – Office of the Inspector General (OIG) on combatting fraud in the Unemployment Insurance Program, recommended that state workforce agencies (such as DUI) develop a plan to identify and consider blocking claims that originate from outside the country, as a means to minimize fraud. Since claimants must be able and available to work to be eligible for benefits, we believe DUI should develop a plan to identify and review claimants filing from foreign IP addresses as recommended by the federal OIG to help prevent improper claims.

Claimants Attending School Full-Time

DUI did not obtain data to identify claimants who may not be eligible for benefits because they were full-time students and were not available for work. During the initial application process, applicants were asked if they were attending school (defined by State law as an institution of higher education). For applicants who were attending school full-time but who also stated they were available for work, DUI would inquire about the applicants' course schedules and clarify the requirement to be able and available for work. However, DUI did not verify the information provided by these applicants nor flag them for follow-up in subsequent semesters. DUI also did not have any procedure to identify claimants who failed to disclose their school enrollment on their applications or who may have enrolled in school after submitting their applications. For example, DUI did not obtain enrollment data from State universities to match against claimant data.

We matched DUI claim payment records for the period from August 2015 through May 2017 with student enrollment records obtained from three State universities for the corresponding academic semesters (Fall 2015, Spring 2016, Fall 2016, and Spring 2017). This match identified 179 claimants who were enrolled as full-time students, all of whom stated they were able and available to work, and who received unemployment benefits totaling approximately \$506,000. Of the 179 claimants, 87 claimants reported to DUI that they were attending school. Our test of 20 of these 87 claimants, who received approximately \$109,000 in benefits, confirmed that none were flagged by DUI for periodic follow-up to determine if their status as a full-time student affected their ability and availability for full-time work. The remaining 92 claimants identified in our match responded on one or more weekly DUI certifications that they were not

attending school and, under current DUI procedures, would also not have been identified for follow-up.

Since the DUI certifications require the claimants to attest to their education and employment situations under penalty of perjury (with false statements potentially resulting in a loss of benefits) and each claimant's availability to work could change, we believe that DUI should routinely verify eligibility to work at least once a semester and should have a procedure to identify claimants who failed to disclose their school enrollment or who may have enrolled after submitting their applications.

Claimants not Enrolled in the Maryland Workforce Exchange System

DUI did not use available data to ensure that claimants had enrolled in the Maryland Workforce Exchange System. State law requires claimants to enroll in the system unless they are receiving benefits to supplement a temporary lay-off or a decreased work schedule. We compared unemployment claims records for benefits paid for non-exempt claimants between July 1, 2014 and March 31, 2017 with records of individuals enrolled in the Workforce Exchange system. We identified 7,724 claimants who had not enrolled in the Workforce Exchange system and had received benefit payments totaling \$44.5 million.

Although the Secretary has the authority to formally waive this requirement on a case-by-case basis, DUI could not always provide documentation of the waivers. Using statistical sampling, we selected and reviewed 52 of the 8,122 claims paid for the aforementioned claimants. Our test disclosed that there was no documentation of formal waivers for 43 of the 52 claims tested to justify why the claimants had not enrolled. Based on our statistical sampling, we are 95 percent confident that at least 74.09 percent of the total population of 8,122 claims (6,017) did not have documentation to support a waiver and, therefore, were not in compliance with State law, which could result in the delay or denial of UI benefits.

Claimants With Reported Wages

DUI did not timely investigate the results of quarterly data matches it performed of individuals receiving unemployment benefits, as reflected in MABS, with individuals with reported wage income. We tested 20 individuals who were identified from the matches performed for four quarters in calendar year 2015 as receiving unemployment benefits as well as wage income. Our test disclosed that, as of August 2017, DUI did not complete its review of the match results for these 20 individuals for periods ranging from 112 to 358 days after the end of the quarter. The failure to conduct timely reviews is significant because claimants continue to receive benefits until the match result investigations are completed.

For example, these 20 individuals received approximately \$144,000 in improper unemployment benefits, of which approximately \$19,000 could have been avoided or reduced if the quarterly match results were investigated within 60 days following the end of the quarter.

Recommendation 1

We recommend that DUI maximize the use of available data to identify ineligible claimants and conduct timely investigations of the results of data matches. Specifically, we recommend that DUI

- a. implement a proactive process, such as flagging foreign IP addresses for immediate investigation, to minimize the risk of improper benefits being paid to claimants who may be unavailable to work;**
- b. follow up on all applicants who state they are attending school to determine whether it impacts eligibility for unemployment benefits;**
- c. establish procedures, such as periodic matches to State higher education institution enrollment records, to identify and follow up on claimants who are attending school full-time but fail to disclose it;**
- d. verify that all claimants comply with applicable enrollment requirements, including the Maryland Workforce Exchange system;**
- e. conduct timely investigations of the results of quarterly wage matches;**
and
- f. take timely and appropriate corrective action for any ineligible claimants or benefits identified, including those noted in this finding.**

Finding 2

Supervisory reviews of claims and adjustments to claimant wages on MABS were not always conducted or documented.

Analysis

Supervisory reviews of claims and adjustments to claimant earned wages were not always conducted or documented.

- Required supervisory reviews of claims processed at the two claims centers we reviewed were not always performed. These two claims centers processed claims totaling \$63.7 million and \$126.4 million during fiscal year 2017. Our test of 10 weeks of claims activity processed at each of the centers during the period between August 2014 and April 2017 disclosed that one center did not complete 840 of the required 1,540 claims reviews and the other center did not complete 658 of the required 770 claims reviews. According to DUI policy, supervisors at the claims centers are required to review seven claims processed by each claims taker on a weekly basis. These reviews are intended

to verify that critical information is complete and properly recorded. DUI did not monitor the claims centers to ensure the reviews were performed.

- Claimant wages manually recorded in MABS by DUI employees were not subject to independent supervisory review. According to DUI records, approximately 4,000 wage entries were manually recorded during the audit period by DUI employees who were also responsible for initiating claim payments as part of their job duties. DUI did not generate output reports or perform supervisory reviews of the manually entered wages. MABS uses employee wages to calculate the benefits paid to claimants. Consequently, improper or erroneous claimant wage data could result in improper claim payments.

For most Maryland employers, wages are automatically recorded in MABS when reported on a quarterly basis. For employers who are not required to report wage information (such as out-of-State employers and the federal government), DUI employees are responsible for manually entering wage data for relevant claimants.

Our test of manually recorded wage entries made between May 2015 and September 2016 for 10 claimants who received \$57,487 in benefits disclosed that DUI could not locate documentation, such as a claimant's employer's wage report, to support the propriety of 5 entries. All 10 entries were processed by employees who could also process claims, including 4 that were made by the same employee who initiated a claim for the same claimant. We did sight documentation to support the propriety of these 4 claims.

Recommendation 2

We recommend that DUI

- a. establish a formal monitoring process to ensure supervisors at the local claims centers perform the required claims reviews;**
- b. generate output reports of manual wage entries and ensure these entries are independently reviewed and approved, at least on a test basis;**
- c. retain appropriate documentation of manual wage entries; and**
- d. ensure all supervisory reviews are documented and retained for future reference.**

Finding 3

DUI lacked a formal comprehensive policy for timely collection of delinquent accounts resulting from benefit overpayments and referrals to the State's Central Collection Unit (CCU).

Analysis

DUI lacked a formal comprehensive policy for timely collection of delinquent accounts related to benefit overpayments and referrals to CCU. State law allows DUI to recover benefits paid to claimants who are subsequently found to be ineligible, and to assess penalties and 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. According to DUI records as of June 30, 2017, the benefit overpayment account balance totaled approximately \$156.6 million, including \$139.7 million that was more than one year old. During calendar year 2017, DUI referred approximately 25,000 accounts totaling \$43.7 million to CCU.

DUI is exempt from standard State collection regulations and, consequently, established its own collection policy. The policy was revised several times throughout the audit period to reflect different criteria for accounts referred to CCU and for accounts transferred to DUI's litigation unit. However, updates to the policy were not consolidated into the policy document; rather, changes to provisions within the policy were denoted in various informal emails that included handwritten modifications. As a result, policy provisions were not clearly established and communicated for enforcement. Additionally, certain modifications lacked clarity in setting forth which accounts should be referred to CCU and did not clearly provide specific timelines for the collection process or for referrals to CCU.

We tested 15 delinquent benefit overpayment accounts totaling approximately \$182,000 dating back to 2010. Our test disclosed that 5 accounts were appropriately retained for DUI collection efforts. With respect to the remaining accounts, 4 accounts had been referred to CCU for periods ranging from three to five years after the accounts had qualified to be referred, and the remaining 6 accounts, dating back to 2010, should have been but had not been referred to CCU. While DUI's collection policy changed multiple times during the audit period, these 6 accounts qualified to be referred to CCU under the most conservative of these policies, which was one year after the date of overpayment for accounts with no relevant activity, such as pending legal issues.

In our preceding audit report, we commented that DUI did not always refer certain delinquent overpayment accounts to CCU. We also disclosed that \$118.6 million of the \$170.3 million December 31, 2013 benefit overpayment accounts

receivable balance was more than a year old. Finally, we cited the referral of approximately 3,600 accounts totaling \$8.8 million to CCU during calendar year 2013. As previously mentioned, during calendar year 2017, DUI referred to CCU approximately 25,000 accounts totaling \$43.7 million. Accordingly, while significant progress has been noted in CCU referral activity, continued improvement is warranted.

Recommendation 3

We recommend that DUI

- a. update and formalize internal collection policies to reflect current best practices, including the expected timeframes for various collection methods; and**
- b. refer applicable delinquent benefit overpayment accounts to CCU in accordance with its updated policy (repeat).**

Finding 4

DUI did not establish sufficient controls over reissued debit cards nor ensure the proper disposition of funds remaining on expired cards.

Analysis

DUI did not establish sufficient controls over reissued UI Benefits Debit Cards and did not ensure the proper disposition of funds remaining on expired debit cards. DUI issues a UI Benefits Debit Card for each approved claimant as a means to access the claimant's unemployment insurance benefits. A new debit card can be issued if the original card is lost or damaged.

- There was no independent review of reissued debit cards to ensure they were proper. This is significant because the employee responsible for reissuing lost or damaged debit cards had other incompatible duties that allowed the employee to reissue debit cards on inactive accounts and potentially misappropriate funds. Specifically, in addition to reissuing debit cards, this employee's duties included the responsibility for updating claimant mailing addresses in the card sponsoring bank's records. This employee was also responsible for identifying debit cards that had not been activated within six months of issuance and for following up with these claimants. As a result, the employee was in a position to identify an inactive card, reissue a new card to a different address (such as a PO box), and misappropriate the funds. According to records we obtained from the sponsoring bank, approximately 90,000 debit cards were reissued during the period between April 2014 and June 2017, of which 349 were reissued to an address not included in DUI's benefit system.

We asked DUI management for documentation to support 15 of the debit cards that were mailed to addresses that appeared questionable (such as a PO box or multiple cards to the same address). DUI could not provide us with documentation or adequate explanations for these card issuances, including 10 debit cards that were issued to an address that had never been listed in DUI's automated system for the claimant. Benefits paid to these 15 claimants totaled approximately \$95,300 during the period from February 2014 through June 2017.

- DUI did not have procedures to ensure the proper disposition of funds remaining on expired debit cards. According to an October 2017 report obtained by DUI from the sponsoring bank, there were approximately 18,000 activated and not-activated cards that had expired with approximately \$450,000 remaining in the related accounts at the sponsoring bank. The most recent transactions on the activated accounts occurred during the period from November 2013 through June 2014. Since debit cards expire three years after they are issued, these funds should have been either returned to DUI or reported to the State Comptroller as unclaimed property during the period between November 2016 and June 2017.

We were advised that DUI did not transfer these unclaimed funds in accordance with the *Maryland Unemployment Benefits Debit Card Deposit Agreement* because claimants sometimes safeguard funds on the inactivated debit cards for emergency situations. However, according to the *Agreement* between DUI and the sponsoring bank, if a debit card is not activated within one year of issuance, the account is to be closed and the funds returned to DUI. If the debit card is activated, any remaining unclaimed funds should be reported and remitted as unclaimed property to Maryland after a period of three years in accordance with State laws for unclaimed property.

Recommendation 4

We recommend that DUI establish procedures to ensure

- a. all reissued debit cards are subject to independent review and approval, including the 349 cards noted above; and**
- b. unspent funds remaining on debit cards are returned to DUI or reported to the State Comptroller as unclaimed property in accordance with the *Agreement*.**

Employer Contributions

Finding 5

DUI did not adequately follow up or track the results of computer matches it performed to identify employers that had not registered with DUI and may not be remitting required unemployment insurance taxes.

Analysis

DUI did not adequately follow up or maintain records of the results of computer matches it used to identify employers that did not register with DUI and may not be remitting unemployment insurance tax payments. On a weekly basis, DUI matched information about newly hired employees with employers' unemployment insurance tax information in its UITAX system to identify entities with employees that have not filed as employers with DUI. The Maryland Department of Human Services maintains a new hire registry based on information reported by employers, which was used for this match.

We reviewed DUI's follow-up of the approximately 1,200 match results that were identified in 10 weeks during fiscal years 2016 and 2017. Our review disclosed that DUI's records indicate that only one letter was sent to each entity requesting an explanation for the failure to register as a Maryland employer. DUI did not maintain copies of the letters that were issued, any responses received, and actions taken, and did not follow up with entities that did not reply to the letters. Consequently, DUI had no record of the overall effectiveness or results of its follow-up efforts.

DUI management advised us that following up on these matches is an inefficient process because the matches sometimes include entities that are exempt from unemployment taxes and new entities for which information had not yet been entered into its UITAX system. Nevertheless, DUI maintains additional data that it could use to help focus its follow-up efforts. DUI could exclude the exempt employers from the matches performed and could use data elements in the match results to further focus formal follow-up on employers with higher risk of significant unpaid taxes (such as employers with a large number of new hires).

Recommendation 5

We recommend that DUI improve the effectiveness of its match procedures used to identify employers who failed to register and remit unemployment taxes. Specifically, we recommend that DUI

- a. reevaluate its match criteria,**
- b. maintain copies of letters sent to entities identified in these computer matches and the related entity responses, and**

- c. **perform documented follow-up of entities which fail to respond to the letters.**

System Access

Finding 6

DUI did not have a comprehensive or effective procedure to periodically review user access to UITAX and MABS which resulted in unnecessary or incompatible access being granted to certain individuals.

Analysis

DUI's procedure to periodically review user access capabilities on UITAX and MABS was not comprehensive or effective. Specifically, while supervisors were contacted annually to determine if any changes were needed to the access of employees under their supervision, those supervisors were not required to positively confirm that individual employee access was appropriate. In addition, no analysis was performed to ensure that employees had not been granted access capabilities that were incompatible with their assigned job duties. We identified certain individuals who were granted unnecessary update access or could perform incompatible functions.

UITAX is used to process and track employer unemployment insurance taxes owed and paid, and MABS is used to track employee wages reported by employers and unemployment insurance benefit payments. As of August 2017, there were 79 user accounts with update access to the UITAX system and 303 user accounts with update access to the MABS system.

- Our review of the 79 UITAX user accounts disclosed that 9 accounts had unnecessary access. For example, 2 accounts were assigned to employees who no longer worked at DUI. Three other user accounts, which provided capabilities to record and modify accounts receivable records, were assigned to one employee who did not have any job duties related to accounts receivable.
- Our test of 30 MABS user accounts disclosed that all 30 accounts had unnecessary or incompatible access. For example, 12 claims center adjudicators who required access to clear discrepancies with an initial claim, also had the capability within the system to initiate the claim. Since claims initiated are only subject to review on a test basis, these employees could initiate fraudulent claims without detection.

DUI advised us that certain employees are provided access to multiple incompatible functions so they can serve in a backup capacity when work volume is high. However, given the number of user accounts in existence, we do not believe this to be sufficient justification to allow these employees to have access to incompatible duties on a routine basis.

According to the State of Maryland *Information Security Policy*, agencies shall continuously (at least annually) monitor the security controls within their information systems to ensure that the controls are operating as intended. The *Policy* further provides that agencies must support the “least possible privilege” security strategy in which users are only granted the access needed to perform assigned tasks.

Recommendation 6

We recommend that DUI

- a. establish an effective procedure to perform periodic reviews of UITAX and MABS user access capabilities; and**
- b. discontinue providing routine incompatible or unnecessary user access capabilities, and remove the incompatible or unnecessary access noted above.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Labor, Licensing and Regulation (DLLR) – Division of Unemployment Insurance (DUI) for the period beginning February 24, 2014 and ending April 16, 2017. 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, benefit claims and payments, and recovery of benefit overpayments. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DUI by the DLLR – Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of the Office of the Secretary. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DUI's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DUI.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DUI's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Maryland Automated Benefits System and the Maryland Unemployment Insurance Tax System for the purpose of testing benefit claims and payments. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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.

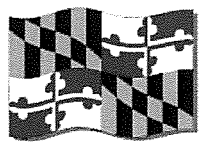
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 findings regarding significant instances 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 response from DLLR, 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 Office of the Secretary regarding the results of our review of its response.

APPENDIX



STATE OF MARYLAND

DLLR

DEPARTMENT OF LABOR, LICENSING AND REGULATION
January 31, 2019

OFFICE OF THE SECRETARY
500 North Calvert Street
4th Floor
Baltimore, MD 21201

Mr. Gregory A. Hook, CPA
Legislative Auditor
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed is the agency response to the draft audit report on the Department of Labor, Licensing and Regulation – Division of Unemployment Insurance for the period beginning February 24, 2014 and ending April 16, 2017.

The agency response is included as an appendix. Responses are prepared in accordance with the Policy of Agency Responses to Reports Issued by the Office of Legislative Audits.

An electronic version of this response will be sent to response@ola.state.md.us.

Best regards,

A handwritten signature in black ink, appearing to read 'James Rzepkowski'.

James Rzepkowski
Acting Secretary

Enclosure

Cc: Dayne Freeman, Assistant Secretary, Division of Unemployment Insurance, DLLR
Liz Williams, Executive Director of the Office of Administration, DLLR
Samuel Pannoh, Internal Auditor, DLLR

Benefit Payments

Finding 1

DUI did not always use available data to identify claimants who may not be eligible for benefits, and did not always conduct timely investigations into the results of certain data matches.

Response – DUI agrees with the findings:

- a. DLLR accepts this recommendation. DUI will implement a proactive process and will block all foreign IP addresses from the website. These claimants will still be provided due process and will be able to file for benefits via the telephone. DLLR will implement this change by July 2019.**
- b. DLLR accepts this recommendation. DUI will institute a system whereby a DUI staffer follows up with the claimant to investigate and verify that the claimant is attending school to determine whether it impacts the claimant's eligibility for unemployment benefits. DLLR will implement this verification system by July 2019.**
- c. DLLR accepts this recommendation. DUI will develop MOUs in conjunction with higher education institutions throughout the state to perform cross-matches and verify that claimants are truthfully providing complete information regarding their status as students. This will also help in analyzing a claimant's eligibility for unemployment benefits by ascertaining the number of credit hours the claimant is enrolled in for that semester. DLLR will begin developing the required MOUs with the universities by March 2019.**
- d. DLLR accepts this recommendation. DUI currently registers claimants with the Maryland Workforce Exchange ("MWE") system via a data transfer of essential demographic information at the time the claimant files their initial claim. DUI will set up a periodic review of this data transfer to ensure the transfer is capturing all DUI claimants that register for the MWE. Additionally, DUI will institute a quarterly cross-match with the**

Division of Workforce Development and Adult Learning, the Division within DLLR that oversees the MWE, to ensure that all claimants are meeting enrollment requirements. If a claimant is not registered, the claimant will be disqualified from receiving benefits. DLLR will implement this change by March 2019.

- e. DLLR accepts this recommendation. DUI has recently moved the cross-match report closer to the preceding quarter ending in an effort to minimize the potential for additional overpayments. DUI is currently making determinations on average within 40 days after a cross-match report hit is received following the close of the filing period for the respective quarter's wages.**
- f. DLLR accepts this recommendation and will take appropriate corrective action for any ineligible claimants or benefits identified. DUI will begin taking action to recover any overpayments by March 2019.**

Benefit Payments

Finding 2

Supervisory reviews of claims and adjustments to claimant wages on MABS were not always conducted or documented.

Response – DUI agrees with the findings:

- a. DLLR accepts this recommendation. DUI has implemented a statewide review process by using a uniform claims review checklist. All claims center supervisors are instructed to perform supervisory reviews, at least on a test basis, and to document the reviews. Documentation is to be maintained for at least six months to allow a sample of the reviews to be further reviewed by a claims administrator.**
- b. DLLR accepts this recommendation. DUI will implement a system whereby supervisors independently review all manually entered wage data to confirm the validity of the entries. This system will be implemented immediately.**
- c. DLLR accepts this recommendation. DUI will retain appropriate documentation of manual wage entries for at least three years. DUI will also explore the possibility of maintaining these reports electronically.**
- d. DLLR accepts this recommendation and will retain all supervisory reviews for at least six months to allow for further review by management. DUI will also explore the possibility of maintaining these reports electronically.**

Benefit Payments

Finding 3

DUI lacked a formal comprehensive policy for timely collection of delinquent accounts resulting from benefit overpayments and referrals to the State's Central Collection Unit (CCU).

Response – DUI agrees with the findings:

- a. DLLR accepts this recommendation. DUI will memorialize its internal collection policies in a written policy. DUI will review the written policy periodically and update the policy as appropriate. DUI will take action by March 2019.**
- b. DLLR accepts this recommendation. DUI will work with CCU and develop appropriate referral criteria based on collection actions available under Maryland law and CCU's capacity to effectively take additional referrals at this time. DUI will also update its MOU with CCU to reflect the new referral criteria. DUI will take action and begin developing a new MOU immediately.**

Benefit Payments

Finding 4

DUI did not establish sufficient controls over reissued debit cards nor ensure the proper disposition of funds remaining on expired cards.

Response – DUI agrees with the findings:

- a. DLLR accepts this recommendation. DUI has implemented the appropriate segregation of duties to perform and review this function. When DUI determines that a claimant has not received their debit card due to an incorrect address, a request is now made to the claim center to update Maryland's Automated Benefit System (MABS) with the correct address. Once this is completed, an employee who has access to the debit card system has the card reissued. All address changes to debit cards are recorded within MABS. The debit card banking institution is to refer any card holders with address changes to DUI for updating. DUI will also review the accounts of the 349 debit cards that were reissued to identify additional policies it may institute to avoid any further complications.**
- b. DLLR accepts this recommendation. In regards to the inactivated debit cards, DUI will ask the bank to provide the list of debit cards that have not been activated within one year of issuance, monthly. DUI will follow-up with the sponsoring bank if it does not receive this list within a timely fashion. DUI will be able to use this list to cancel the inactivated debit cards. The remaining balance will be escheated to the agency. DUI will implement this recommendation immediately.**

In regards to unspent funds on activated debit cards, DUI will work with the sponsoring bank to ensure that the card closes once the card expires. Once the activated card closes, the funds will revert back to the State Comptroller. DUI will implement this recommendation immediately.

Employer Contributions

Finding 5

DUI did not adequately follow up or track the results of computer matches it performed to identify employers that had not registered with DUI and may not be remitting required unemployment insurance taxes.

Response – DUI agrees with the findings:

- a. DLLR accepts this recommendation. DUI will reevaluate its match criteria and explore pursuing an enhanced cross-match on identified high risk employers in our modernized system. Efforts to enhance the cross-match will require the use of IT resources that are currently focused on the modernization project. The enhanced cross-match will be implemented once the modernization project is completed. In the meantime, DUI will continue to perform a system automated cross-match between employers and the State New Hire registry.**
- b. DLLR accepts this recommendation. DUI's modernized system will be able to maintain copies of letters sent to entities identified in the enhanced cross-match. The modernized system will also be able to maintain copies of any related entity responses sent to DUI. This will be instituted once DUI's modernized system is fully implemented later this year.**
- c. DLLR accepts this recommendation. DUI's modernized system will be able to automatically send out follow-up notices to entities which fail to respond to the initial letters. This system will be implemented once DUI's modernization system is fully implemented later this year.**

System Access

Finding 6

DUI did not have a comprehensive or effective procedure to periodically review user access to UITAX and MABS which resulted in unnecessary or incompatible access being granted to certain individuals.

Response – DUI agrees with these findings:

- a. DLLR accepts this recommendation. DUI will begin reviewing UITAX and MABS user access capabilities every six months to determine if user access to confidential UI information needs to be restricted. DUI will update its account access policies to reflect this new biannual review. DUI will implement the new biannual review immediately.**
- b. DLLR accepts this recommendation. DUI will review the individual's position description needs, discuss access needs with the individual's supervisor or supervisors, and take into consideration requirements and flexibility to ensure unnecessary users to do not have access to the UITAX or MABS systems. DLLR will implement this review immediately.**

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