

Audit Report

**Department of Labor, Licensing and Regulation
Division of Labor and Industry**

March 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously through the Office's website, by a toll-free call to 1-877-FRAUD-11, or by mail to the Fraud Hotline, c/o Office of Legislative Audits.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

March 31, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, 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 Labor and Industry (DLI) for the period beginning May 31, 2011 and ending May 18, 2014. DLI is responsible for the safety inspections of boilers, pressure vessels, elevators, amusement rides, and railroads. It also enforces certain protective labor laws and administers the Maryland Occupational Safety and Health Act.

Our audit disclosed that DLI did not establish proper internal controls over collections received by certain units. For example, certain checks were not recorded immediately upon receipt and independent deposit verifications were not always performed. In addition, comprehensive procedures had not been established for the review of certified payroll reports from contractors required to pay prevailing wages under State law.

DLI lacked assurance that the outsourced system used to manage registration and safety inspections of boilers, pressure vessels, elevators, and amusement rides was protected against operational and security risks. DLI also did not perform periodic reviews of user access capabilities for this system and many users had access capabilities that were not required for their job duties.

DLLR's response to this audit, on behalf of DLI, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DLI.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas J. Barnickel III", is written over a horizontal line.

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Status of Safety Inspections Backlog	4
Status of Findings From Preceding Audit Report	4
Findings and Recommendations	5
Cash Receipts	
Finding 1 – Proper Controls Had Not Been Established Over Collections Received at Several Locations	5
Prevailing Wage	
Finding 2 – DLI Had Not Established Comprehensive Procedures for the Review of Certified Payroll Reports Received From Contractors	7
Regulatory Management System	
Finding 3 – DLI Lacked Assurance That the Outsourced System Was Protected Against Operational and Security Risks	9
Finding 4 – Periodic Reviews of User Access Were Not Performed	11
Audit Scope, Objectives, and Methodology	12
Agency Response	Appendix

Background Information

Agency Responsibilities

The Division of Labor and Industry (DLI) is a separate unit within the Department of Labor, Licensing and Regulation. The mission of DLI is to protect and promote the health, safety, and employment rights of Maryland citizens. Specifically, DLI administers State laws that deal with employment issues, work-related safety and health issues, and prevailing wages, as well as safety inspections of amusement rides, boilers and pressure vessels, elevators, and railroads. According to the State's records, DLI's expenditures for fiscal year 2014 totaled approximately \$17.2 million.

Status of Safety Inspections Backlog

DLI is responsible for ensuring the periodic safety inspections of boilers, pressure vessels, and elevators in accordance with State law. This equipment is generally required to be inspected annually. DLI and authorized third-party entities are responsible for conducting these inspections. In each of our audit reports since 1977, we have commented that DLI had not ensured that boilers and pressure vessels were inspected within the time periods specified by law. A similar condition regarding overdue elevator inspections has appeared in our audit reports since 1997.

During the current audit, we noted that DLI has continued efforts, first noted in our preceding audit report, to reduce its longstanding backlog of safety inspections. As of July 15, 2014, inspections for fewer than two percent of the boilers and pressure vessels (751 of 52,872) were overdue. In addition, the inspections for fewer than three percent of the elevators (637 of 22,583) were overdue. The majority of these inspections were performed by third-party entities.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated February 1, 2012. We determined that DLI satisfactorily addressed these three findings.

Findings and Recommendations

Cash Receipts

Finding 1

Proper controls had not been established over collections received at several locations.

Analysis

The Division of Labor and Industry (DLI) had not established adequate accountability and control over cash receipts at certain locations. We reviewed procedures at three units within the headquarters location that received cash receipts which were processed and then forwarded to the central administration office for deposit. We also reviewed procedures at one Maryland Occupational Safety and Health (MOSH) program location, which received and deposited its own receipts. These four units collected approximately \$2.1 million during fiscal year 2014.

- Collections for the three units located at DLI headquarters, totaling approximately \$1.1 million during fiscal year 2014, were not recorded in a check log immediately upon receipt. Specifically, at each location, the checks were restrictively endorsed but were not recorded until disposition had been determined which could take several days. The checks were placed in a safe during this time. Our review of checks on hand on June 11, 2014 noted none of the eight checks, totaling \$5,420, had been recorded.

In addition, our test of receipts collected on 15 different days during fiscal years 2013 and 2014, totaling approximately \$155,706, disclosed that collections from 7 days, totaling \$99,725, were not deposited for periods ranging from 2 to 13 business days after the dates of receipt.

- During the audit period, independent deposit verifications were not performed for collections received by the MOSH location. Although the MOSH location performed two separate verification procedures, these procedures were not effective. Specifically, one deposit verification procedure was performed by an employee who also processed the related collections. Although the employee who performed the other deposit verification procedure was independent, the employee compared the initial record of checks received to internal deposit documentation, rather than to bank records. We were advised that DLI began performing a proper independent deposit verification after May 2014. Collections at the MOSH location totaled \$920,867 during fiscal year 2014 (through May).

- There was an inadequate separation of duties in the safety inspection unit at the headquarters location, which collected approximately \$320,000 in inspection fees during fiscal year 2014. Specifically, one employee who processed cash receipts could modify the related billings and was responsible for recording receipts in DLI's regulatory management system for boiler and elevator inspections. In addition, three other employees with access to cash receipts could delete payments in the system and modify the related billings. As a result, these individuals could alter the original documents and misappropriate the funds without detection.
- Collections processed at DLI's headquarters location using remote deposit, which scans the images of checks and money orders and electronically transmits the images to the State's bank for deposit, were not sufficiently controlled. Specifically, as of June 30, 2014, DLI had not destroyed more than 2,600 checks totaling approximately \$1.7 million processed through remote deposit at the headquarters location during fiscal years 2012 and 2014. (Checks processed during fiscal year 2013 had been destroyed.) Furthermore, DLI's headquarters location and the MOSH location did not have a procedure in place to independently reconcile checks destroyed with the scanned images of deposited checks and the incoming check receipt log to ensure all checks had been destroyed. Finally, the checks on hand from fiscal year 2012 that were remotely deposited at the headquarters location were not stored in a secure location and were accessible to many DLI employees.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including adequate separation of cash receipt processing duties, independent verification of collections to deposit, and initial accountability over collections received. The Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* recommends scanned and transmitted checks be stored in a secure location no longer than 30 days before they are destroyed. The *Policy* also recommends that destroyed checks be reconciled to the scanned check images and the check receipt log.

Recommendation 1

We recommend that DLI

- immediately record cash receipts upon receipt,**
- deposit all cash receipts in a timely manner,**
- perform independent deposit verifications from initial recordation to bank records,**
- ensure employees involved with cash receipts functions are independent from the billing functions, and**

- e. ensure remotely deposited checks are appropriately secured and destroyed in compliance with the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*.

We advised DLI on accomplishing the necessary separation of duties using existing personnel.

Prevailing Wage

Background

State law regulates the hours of labor, rates of pay, conditions of employment, and obligations of employers under contracts and subcontracts for public works construction projects in Maryland. Contractors and subcontractors on State-funded construction projects of \$500,000 or more are required to pay employees no less than the prevailing wage rates, as determined by DLI for each locality in the State. So that DLI can monitor compliance, contractors and subcontractors submit self-certified payroll reports, indicating the worker classifications and wages paid for both straight time and overtime work for every pay period under the contracts. Under State law, employers found to be paying below the prevailing wage rate, as determined by DLI, are required to make restitution to the employee and can be fined \$20 per day for each employee paid less than the established rate. According to DLI records, fines totaling \$139,000 were collected in fiscal year 2014.

In December 2012, DLI implemented its automated prevailing wage system. During the procurement process for public works construction contracts subject to the State's prevailing wage laws, the agency procurement officer may request DLI to provide a project-specific wage determination which lists the prevailing wage rates for the project. DLI uses its automated prevailing wage system to generate these wage determinations. This system also allows contractors to electronically submit their required self-certified payroll reports for employees working on the projects for compliance monitoring by DLI.

Finding 2

DLI had not established comprehensive procedures for the review of certified payroll reports received from contractors.

Analysis

Formal comprehensive policies had not been established regarding DLI's review of contractor-submitted certified payroll reports which is the primary means to monitor contractor compliance with prevailing wage laws. The information in the

certified payroll reports is automatically compared by DLI's prevailing wage system to the respective project's wage determination to determine whether the applicable prevailing wage rates have been paid. Any discrepancies are automatically flagged for additional review. According to DLI's prevailing wage system, 81,066 certified payroll reports with active payroll information were submitted for the period from July 2012 through June 2014. The prevailing wage system flagged 25,780 of these reports for additional review.

However, the reviews performed by the five prevailing wage investigators were not guided by a policy to ensure that appropriate priority was given to address potential violations of flagged reports but, rather, reports were selected at the investigators' discretion. Consequently, there was a lack of assurance that investigators made appropriate decisions when selecting reports for review. As of July 2014, prevailing wage investigators had only reviewed 3,494 of the 25,780 reports that had been flagged by the system. Another 7,871 of the flagged reports were marked as "hold" indicating the investigators intended to review them at a later date. On the other hand, the prevailing wage investigators had reviewed 35,016 certified payroll reports that were not flagged by the prevailing wage system. We were advised by DLI that reviews of non-flagged payroll reports were often included as part of onsite inspections conducted at the completion of a project, in part, to validate reported payroll information. In addition, the investigators did not document the specific work performed during their reviews and the results were not subject to supervisory review.

Comprehensive review policies should establish the frequency and timeliness of the reviews and the methodology for selecting the payroll reports to be reviewed based on risk and significance. For example, the procedures should clarify the extent to which the reviews should focus on payrolls that have been flagged by the system and the payrolls of contractors that were not flagged but, nevertheless, should be validated (for example, via on-site inspection of the underlying payroll records).

Finally, our review of the detail records maintained on DLI's system disclosed that, in certain instances, projects were duplicated due to separate wage determinations being issued for each jurisdiction included under a single project. Consequently, DLI could not readily provide an accurate number of projects and estimated costs subject to the State's prevailing wage laws. According to DLI's automated prevailing wage system as of June 30, 2014, there were 991 current projects subject to the State's prevailing wage laws, with estimated costs totaling approximately \$7.9 billion.

Recommendation 2

We recommend that DLI

- a. establish and implement comprehensive policies that define the priorities for the selection and review of certified payroll reports, which consider timeliness, significance and risk, and that identify the documentation and supervisory review requirements;**
- b. adequately document the work performed by investigators, and the approval of supervisory personnel of the review results, including the final disposition of the flagged payroll reports; and**
- c. take the necessary action to ensure the data recorded in the prevailing wage system accurately reflects the number and value of projects being monitored for compliance with the State's prevailing wage laws.**

Regulatory Management System

Background

Since November 2002, DLI has contracted with a vendor to host, maintain, and support a web-based regulatory management system. This outsourced system manages the registration and tracking of boilers, pressure vessels, elevators, and amusement rides; the scheduling and documentation of required inspections; the issuance of inspection certificates; and enforcement actions for violations or other non-compliance with regulatory requirements.

The current contract valued at \$951,550 is for a term beginning January 1, 2013 and ending December 31, 2018. The system is used collaboratively by DLI and other state and local regulatory agencies, as well as by large insurance companies who perform boiler inspections for DLI. These insurance companies also provide funding for this system. According to State records, through April 2014, DLI has paid the vendor \$149,044 under the current contract.

Finding 3

DLI lacked assurance that the outsourced management system was protected against operational and security risks.

Analysis

DLI lacked assurance that the outsourced management system for boilers, pressure vessels, elevators, and amusement rides was protected. The contract did not require the vendor, a service organization, to periodically obtain an independent review of controls and provide DLI with the resultant report. In lieu

of these reports, DLI had not performed security reviews of the service providers' operations. Consequently, there was no assurance that the service provider had established adequate security controls over system data.

In May 2011, the American Institute of Certified Public Accountants issued guidance concerning examinations of service organization controls. Based on this guidance, customers, such as DLI, may obtain from service organizations an independent auditor's report referred to as a Service Organization Controls (SOC) 2 type 2 report. A SOC 2 type 2 report includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period reviewed and could include an evaluation of system security, availability, processing integrity, confidentiality, and privacy over the hosted environment and system.

At our request, DLI contacted the vendor to determine if an independent review of system controls had been performed. Although it was not required under the contract, the vendor completed a self-assessment questionnaire in July 2013 at the request of the boiler insurance companies that fund the related module of the system. This self-assessment appeared to provide certain information regarding system controls; however, it was not independently prepared and there were no conclusions regarding the adequacy of the design and security of the system, nor were there any tests of control effectiveness.

Without an independent review and related SOC report, DLI lacked assurance that operational and security risks related to the outsourced management system were identified and corrected as necessary. Best practices require that vendors demonstrate compliance with industry information security requirements, and that customer entities regularly obtain from the vendors related reports that evidence such compliance.

Recommendation 3

We recommend that DLI

- a. seek to amend the existing regulatory management system contract and ensure that future contracts include provisions requiring service organizations to annually obtain SOC 2 type 2 reviews for outsourced systems, and**
- b. obtain and review these SOC 2 type 2 reports and take appropriate action to ensure that all critical operational and security-related concerns are properly addressed.**

Finding 4

DLI did not perform periodic reviews of user access capabilities for the regulatory management system and numerous users had inappropriate access.

Analysis

DLI did not perform periodic reviews of user access capabilities for the regulatory management system. Consequently, several DLI employees and insurance inspectors had system access that was not required. Furthermore, the system did not provide output reports of changes made by DLI employees and insurance inspectors (such as removing boiler and pressure vessels from the system) that could be used to ensure any such changes were proper.

We noted that 23 users had administrative access even though their job responsibilities did not require them to have this access. Such access allowed these DLI employees to add, modify, and delete user access roles, including their own. In addition, these users could change and remove objects (that is, boilers, pressure vessels, elevators, and amusement rides) from the regulatory system and modify and delete inspection invoices and inspection violations.

In addition, 81 insurance inspectors were assigned access that allowed them to change demographic information (such as location) and remove boiler and pressure vessels from the system. The only modification access needed by the insurance inspectors is to record inspection information in the system for objects subject to DLI monitoring. Based upon our review, the system was not capable of appropriately restricting user access capabilities for insurance inspectors. However, we were advised that DLI was working with the system vendor to develop a solution.

Recommendation 4

We recommend that DLI

- a. perform a periodic documented review of user access capabilities for the regulatory management system and ensure users are assigned only those capabilities needed to perform job duties,**
- b. work with the system vendor to develop appropriate access restrictions and provide output reports that can be used to ensure changes made to the regulatory management system are proper, and**
- c. remove the inappropriate access granted to the aforementioned DLI employees and insurance inspectors.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Labor, Licensing and Regulation (DLLR) – Division of Labor and Industry (DLI) for the period beginning May 31, 2011 and ending May 18, 2014. 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 State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DLI'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 cash receipts and DLI's monitoring of compliance with certain laws pertaining to prevailing wages and safety inspections for boilers, pressure vessels, and elevators. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DLI's operations and tests of transactions. We also extracted data from DLI's automated systems used for monitoring safety inspections and certified payrolls for prevailing wages for the purpose of testing compliance with State laws and regulations. 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include certain support services provided to DLI by the DLLR – Office of the Secretary. These support services (such as payroll processing, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the Office of the Secretary.

DLI'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 DLI'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.

DLLR's response to our findings and recommendations, on behalf of DLI, 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 DLLR regarding the results of our review of its response.



OFFICE OF THE SECRETARY
500 North Calvert Street
4th Floor
Baltimore, MD 21202

March 23, 2015

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel,

The Department of Labor, Licensing and Regulations (DLLR) respectfully submits the enclosed response to the Office of Legislative Auditor's (OLA) report on the division of Labor and Industry for a period beginning May 31, 2011 and ending May 18, 2014.

Of the four (4) audit findings, the department has initiated measures to strengthen internal controls and improve processes to mitigate deficiencies identified in the March 2015 audit report.

DLLR would like to thank the audit staff who conducted the audit of the Division of Labor and Industry. Their professionalism and respect to our staff and processes is much appreciated.

Should you have any questions, feel free to contact me or our Acting Commissioner, Craig Lowery, of the Division.

Best Regards,

A handwritten signature in cursive script that reads "Kelly M. Schulz".

Kelly M. Schulz
Secretary

KMS/cdl

**Department of Labor, Licensing, and Regulation
Division of Labor and Industry
Response to Legislative Audit
5/31/2011 – 5/18/2014**

Findings, Recommendations, and Response

Cash Receipts

Finding 1

Proper controls had not been established over collections received at several locations.

Recommendation 1

We recommend that DLI

- a. immediately record cash receipts upon receipt,**
- b. deposit all cash receipts in a timely manner,**
- c. perform independent deposit verifications from initial recordation to bank records,**
- d. ensure employees involved with cash receipts functions are independent from the billing functions, and**
- e. ensure remotely deposited checks are appropriately secured and destroyed in compliance with the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*.**

Response: We Concur and have abated all deficiencies.

The Division has implemented all recommendations and is focused upon developing a sustaining process of management review when duties and responsibilities of staff are modified. Although not an acceptable reason, many of the previously established work controls that satisfied the separation of duties were overlooked when the Division instituted changes in operational procedures and consolidation of duties to obtain efficiencies.

**Department of Labor, Licensing, and Regulation
Division of Labor and Industry
Response to Legislative Audit
5/31/2011 – 5/18/2014**

Prevailing Wage

Finding 2

DLI had not established comprehensive procedures for the review of certified payroll reports received from contractors.

Recommendation 2

We recommend that DLI

- a. establish and implement comprehensive policies that define the priorities for the selection and review of certified payroll reports, which consider timeliness, significance and risk, and that identify the documentation and supervisory review requirements;**
- b. adequately document the work performed by investigators, and the approval of supervisory personnel of the review results, including the final disposition of the flagged payroll reports; and**
- c. take the necessary action to ensure the data recorded in the prevailing wage system accurately reflects the number and value of projects being monitored for compliance with the State's prevailing wage laws.**

Response: We Concur.

The Division had implemented a basic procedure for review of certified payroll reports, but it lacked written documentation and full communication to affected staff. When contractors request a close-out report from the Division, a comprehensive review of all payroll submittals is undertaken for that project. The Division has been reviewing the process and is now preparing a comprehensive written procedure to be used by investigators and the supervisor when reviewing these close-out requests. This process will include documentation and supervisory review. The procedure and reporting system will be fully applied and fully implemented on or before April 30, 2015. Additionally, the Division has requested an assessment of the IT system that will be focused on accuracy of the number and value of the projects being monitored.

**Department of Labor, Licensing, and Regulation
Division of Labor and Industry
Response to Legislative Audit
5/31/2011 – 5/18/2014**

Regulatory Management System

Background

Finding 3

DLI lacked assurance that the outsourced management system was protected against operational and security risks.

Recommendation 3

We recommend that DLI

- a. seek to amend the existing regulatory management system contract and ensure that future contracts include provisions requiring service organizations to annually obtain SOC 2 type 2 reviews for outsourced systems, and**
- b. obtain and review these SOC 2 type 2 reports and take appropriate action to ensure that all critical operational and security-related concerns are properly addressed.**

Response: We Concur.

The Division sought the advice and counsel of the Office of Attorney's General regarding the existing contract with the outsourced management systems contractor, concerning these recommendations. We have requested a face to face meeting with the contractor principals to discuss a contract modification. The meeting is being scheduled to coincide with the National Board General Meeting (April 26, 2015) and following the meeting will determine the appropriate plan to achieve the desired outcome. The Office of the Attorney's General advises that all future contracts will include full compliance with the May 2011, American Institute of Certified Public Accountants guidance concerning examinations of service organization controls. The Division will obtain from service organizations an independent auditor's report referred to as a Service Organization Controls (SOC) 2 type 2 report for all future SOC contracts.

**Department of Labor, Licensing, and Regulation
Division of Labor and Industry
Response to Legislative Audit
5/31/2011 – 5/18/2014**

Finding 4

DLI did not perform periodic reviews of user access capabilities for the regulatory management system and numerous users had inappropriate access.

Recommendation 4

We recommend that DLI

- a. perform a periodic documented review of user access capabilities for the regulatory management system and ensure users are assigned only those capabilities needed to perform job duties,**
- b. work with the system vendor to develop appropriate access restrictions and provide output reports that can be used to ensure changes made to the regulatory management system are proper, and**
- c. remove the inappropriate access granted to the aforementioned DLI employees and insurance inspectors.**

Response: We Concur.

The Division on November 20, 2014, implemented the basic recommendations relating to restricting access to only appropriate persons and has developed a sustaining process that includes annual management review of duties and responsibilities of individual access. The Division intends to conduct a meeting with the Service Organization to discuss the application and mechanism to reduce access controls to insurance inspectors. This is an industry specific challenge, because their access and ability to modify data is part of the business model for this enterprise. The meeting is being scheduled to coincide with the National Board General Meeting (April 26, 2015) and following the meeting will determine the appropriate plan to achieve the desired outcome.

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

Edward J. Welsh, CFE
Senior Auditor

Timothy S. Rice
Staff Auditor