



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

April 1, 2019

Gregory A. Hook, CPA
Legislative Auditor

Senator Nancy J. King, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator King and Delegate McIntosh:

The Office of Legislative Audits (OLA) has reviewed the actions taken by the Uninsured Employers' Fund (UEF) to resolve the seven repeat findings in our January 3, 2018 audit report. This review was conducted in accordance with a requirement specified in the April 2018 *Joint Chairmen's Report* (JCR), page 9. The JCR required that, prior to the release of \$100,000 of its administrative appropriation for fiscal year 2019, UEF must take corrective action with respect to all repeat audit findings on or before November 1, 2018. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year.

The January 3, 2018 audit report of UEF contained seven repeat audit findings (Findings 1, 2, 3, 4, 5, 7, and 8) that were addressed by 15 recommendations. In that report, we concluded that UEF's accountability and compliance rating was unsatisfactory. As a result, we subsequently performed a follow-up review, in which we evaluated the status of 5 of the findings (including 4 repeat findings) from the January 3, 2018 audit report. In our follow-up review report, dated November 2, 2018, we concluded that UEF had not fully resolved any of the 4 repeat findings subject to review.

In response to the April 2018 JCR requirement, UEF provided a report to OLA, dated January 10, 2019, detailing the corrective actions that it had taken with respect to the repeat audit findings (**Exhibit 1**). UEF's status report did not specifically address all of the repeat recommendations and we concluded that the responses generally lacked sufficient detail regarding the corrective actions taken by UEF. Consequently, we held discussions with UEF management, during which UEF clarified the implementation status of each recommendation and

provided additional details regarding the corrective actions that UEF had completed and that remained ongoing. Based on these discussions, UEF represented that corrective actions had been completed to address five of the repeat findings (Findings 1, 3, 5, 7, and 8) and that corrective actions were ongoing for Findings 2 and 4. UEF's status report also addressed certain recommendations that were not applicable to repeat findings; consequently, we did not assess the corrective actions taken for these recommendations.

In addition to the aforementioned discussion with UEF personnel to clarify our understanding of the corrective actions undertaken, we also considered the results of our prior follow-up review, reviewed the January 10, 2019 UEF status report and related documentation, and performed limited tests and analyses of information to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards. Based on our review, we determined that UEF had taken sufficient actions to fully correct Finding 4 and had resolved at least half of the repeat recommendations related to Findings 3, 5, and 7 (**Exhibit 2**). Our assessment of the findings not deemed to be resolved is included in **Exhibit 3**. We offered to meet with UEF to discuss our review results; however, UEF declined citing pressing workload issues. Nevertheless, we believe that our assessments are appropriate and reflective of the corrective actions taken by UEF.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,



Gregory A. Hook, CPA
Legislative Auditor

cc: Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly Hettleman, Co-Chair, Joint Audit Committee
Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
Honorable David R. Brinkley, Secretary, Department of Budget and Management
Michael W. Burns, Executive Director, Uninsured Employers' Fund
Martin E. Lewis, Chairman of the Board, Uninsured Employers' Fund
Joan Peacock, Manager, Audit Compliance Unit, Department of Budget and Management
Victoria L. Gruber, Executive Director, Department of Legislative Service
Laura M. Vykol, Senior Policy Analyst, Department of Legislative

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

LAWRENCE J. HOGAN, JR.
GOVERNOR

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January 10, 2019

Gregory A. Hook, CPA
Acting Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

Please accept this letter as the Maryland Uninsured Employer's Fund (UEF) latest status report for the fiscal compliance audit for the period beginning November 14, 2013 and ending November 27, 2016 for your review and consideration.

As you are aware, we continue the ongoing process of responding to the Findings and Recommendations contained in the audit as well as the Follow-Up Review report from November of 2018.

For purposes of this latest report please note that the UEF adopts and incorporates by reference each of the prior reports submitted to the Office of Legislative Audits (OLA) by the UEF during this process. This response will add relevant current information to those prior submissions.

The UEF updates as to the Audit Findings are as follows:

- 1) Finding 1 - The UEF did not conduct independent reviews of accounts receivable transactions:

The UEF continues to implement this finding. The UEF is in the process of hiring a new staff person – currently designated as a Fiscal Accounts Technician II – part of

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

whose projected work duties will be to work on this issue. This new staff position will work with other staff to continue to develop procedures regarding this finding.

- 2) Finding 2 - The UEF did not adequately monitor and pursue collection of delinquent accounts. As of January 5, 2017, there were 3,980 delinquent accounts totaling \$5.2 million that should have been referred to the Department of Budget and Management's (DBM) Central Collection Unit (CCU).

The UEF continues to focus in on debt collection, continuing to emphasize a procedure for collection from the onset of debts. This process is designed to prevent the past practice of allowing debts to go uncollected for years.

The UEF is engaged in a review of the entire agency collection process, including a review of several contractual positions, in order to continue to make the collection process more cogent, effective and successful. The hiring of a competent Third-Party Clams Administrator in September of 2017 has resulted in a significant increase in data which has an added benefit of assisting with collections.

The UEF has made proposals to the CCU regarding jurisdiction over and collection of debts and continues to work with the CCU to utilize the new CCU data system to enable both entities to collect debts more efficiently.

- 3) Finding 3 - The UEF did not adequately review indemnity and medical claim payments for propriety.

The UEF reviews payments randomly and is continuing to refine that process. In addition, the UEF has obtained the reclassification of a position to a Program Manager IV which will serve as the agency's Claims Administrator/Manager whose job responsibilities will include involvement with this review process. This position is currently being advertised and will be hired in the coming months.

- 4) Finding 4 - The UEF violated State Procurement regulations to obtain claims processing and related services from 11 vendors, did not have written agreements, and did not adequately monitor the vendor's services and verify their billings.

The UEF signed an Emergency Contract with the Corvel Corporation for workers' compensation Third Party Claims Administration services effective September 1, 2017. Based on available information this would appear to have been the first written contract for such services ever entered into by the UEF in its history. Because of the lack of relevant accurate empirical data, the implementation of the Emergency Contract has required modifications in order to respond to various needs and requirements discovered during the implementation of the Contract. The UEF is working with DBM staff on a series of contract modifications as a result which will be presented to the Board of Public Works (BPW) for approval.

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

Additionally, the UEF, again working with DBM staff, has prepared and issued a Request for Proposals (RFP) for Third Party Claims Administration (TPA) Services. This RFP, issued on October 4, 2018, is the first such RFP for such TPA services ever issued by the agency. Unsurprisingly, the RFP process has required several amendments but continues to move forward, with award and submission to the BPW for approval anticipated to take place early this year.

Finally, the UEF is developing a process to insure all contracts entered into comply with the requirements of State law.

- 5) Finding 5 – The UEF did not have adequate procedures and controls to ensure that all collections were deposited.

In addition to already established procedures, the UEF is currently working with the Maryland Treasurer's office (Treasurer) to establish a procedure for remote deposit of all receipts. Because of the recent RFP for banking services engaged in by the Treasurer, the actual establishment of this procedure will require additional time as the Treasurer works to implement the requirements of banking changes for state agencies. It is anticipated that the Fiscal Accounts Technician II staff position will be involved in insuring adequate agency response to this finding as well.

- 6) Finding 6 – Sensitive Personally Identifiable Information maintained by the UEF was stored without adequate safeguards.

The UEF, working with its contractor and DoIT, believes this finding has been addressed.

- 7) Finding 7 – Security event monitoring, access controls, and user access monitoring were not sufficient.

The UEF, working with its contractor and DoIT, believes that it has addressed this finding. The UEF continues to work with the named parties to insure compliance on an ongoing basis.

- 8) Finding 8 – The UEF did not have an information systems disaster recovery plan.

The UEF has drafted a disaster recovery plan with the assistance of its technical contractor, D P Solutions. This plan includes backup of all relevant UEF systems by outside agencies – either DoIT or DP Solutions as relevant. The UEF has also arranged with D P Solutions to utilize their facility and equipment in the event that events require such actions be taken to continue the agency's functions.

As you are aware, most of these audit findings are repeat findings which exist in the current audit because of the failure of prior UEF leadership to recognize, address and resolve them. Dealing with, and addressing, these audit findings has not been, unfortunately, the only issue facing the current UEF leadership since their involvement began here. The condition of the

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

UEF at that time made this process a challenge for all involved and the staff at the UEF appreciates the cooperation, professionalism and understanding exhibited by the OLA and its staff during this audit process and the follow-up review in light of the facts and circumstances present.

The UEF remains available to meet with you, or with your staff, at any time if you wish to discuss any of these items in more detail.

The UEF appreciates working with the Office of Legislative Audits to deal with the findings of the OLA audit and to address the Recommendations contained in the relevant audit as part of our ongoing program to fix, and improve, the agency's function and performance.

Thank you.

Respectfully submitted,

Michael W. Burns

The Honorable Michael W. Burns, Esquire
Director

Exhibit 2 to April 1, 2019 Letter to Joint Chairmen

Status of Repeat Findings in OLA's January 3, 2018 Audit Report on the Uninsured Employers' Fund (UEF)

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Accounts Receivable	
1. We recommend that UEF establish a process to ensure the propriety of transactions recorded in its accounts receivable records. Specifically, we recommend that UEF perform independent reviews to ensure that all WCC awards and properly authorized adjustments are accurately entered into its accounts receivable records.	Not Resolved
2. We recommend that UEF a. investigate and take the necessary corrective actions to resolve the noted deficiencies (generate dunning notices and produce accurate accounts receivable aging reports) to ensure that the accounting system provides sufficient information to monitor and pursue collection activities.	Not Resolved
b. refer delinquent accounts to CCU for collection as required.	Not Resolved
c. establish a process to identify and refer delinquent employers to applicable State licensing authorities for license or permit suspension.	Not Resolved
Claims Processing	
3. We recommend that UEF a. conduct independent supervisory reviews of indemnity payments to ensure the payments are valid and accurate.	Resolved
b. establish a documented procedure to verify, at least on a test basis, that medical claim payments were proper based on supporting documentation.	Not Resolved
4. We recommend that UEF a. comply with the procurement and contract provisions of the State procurement regulations by soliciting competitive bids and executing written contracts for the claims processing and related services that include all relevant contract provisions.	Resolved
Cash Receipts	
5. We recommend that UEF ensure that a. The initial record of collections is forwarded directly to an independent employee to perform the deposit verification function.	Resolved
d. The cash receipts and accounts receivable duties are adequately separated.	Not Resolved

Exhibit 2 to April 1, 2019 Letter to Joint Chairmen

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Information Systems Security and Control	
7. We recommend that UEF <ul style="list-style-type: none"> a. enable security auditing for files on the dedicated server which hosts UEF's critical applications. 	Resolved
<ul style="list-style-type: none"> b. Generate and review, on a weekly basis, reports of critical security events, document these reviews, and retain the documentation for future reference. 	Resolved
<ul style="list-style-type: none"> c. limit modification access to critical files and programs on the dedicated server to only those employees who require such access for their job duties. 	Resolved
<ul style="list-style-type: none"> d. periodically generate system security reports and use these reports to ensure users cannot perform incompatible functions and are assigned only those capabilities needed to perform their job duties. 	Not Resolved
<ul style="list-style-type: none"> e. prohibit the sharing of userids. 	Resolved
8. We recommend that UEF develop and implement a comprehensive disaster recovery plan, in accordance with the <i>Information Technology (IT) Disaster Recovery Guidelines</i> .	Not Resolved

Exhibit 3 to April 1, 2019 Letter to Joint Chairmen

OLA's Assessments Regarding Repeat Findings and Recommendations That Were Not Resolved

Prior Report Recommendation – Finding 1

We recommend that UEF establish a process to ensure the propriety of transactions recorded in its accounts receivable records. Specifically, we recommend that UEF perform independent reviews to ensure that all WCC awards and properly authorized adjustments are accurately entered into its accounts receivable records (repeat).

Status: Not Resolved

UEF had not established a sufficient process to ensure the propriety of transactions recorded in its accounts receivable records. UEF management advised us that they transitioned the majority of the accounts receivable process to its claims processing vendor and that it had established a process to review certain transactions recorded in its accounts receivable records. However, the employees performing the reviews were not independent since they could process adjustments to the accounts receivable records and the reviews were only done on a test basis rather than for all adjustments, as recommended.

Prior Report Recommendation – Finding 2

We recommend that UEF

- a. investigate and take the necessary corrective actions to resolve the noted deficiencies (generate dunning notices and produce accurate accounts receivable aging reports) to ensure that the accounting system provides sufficient information to monitor and pursue collection activities (repeat),**
- b. refer delinquent accounts to CCU for collection as required (repeat), and**
- c. establish a process to identify and refer delinquent employers to applicable State licensing authorities for license or permit suspension (repeat).**

Status: Not Resolved

UEF had not resolved the three recommendations related to the collection of delinquent accounts. Specifically, although UEF advised us that it had held preliminary discussions with its IT support vendor about correcting the system deficiencies noted in the report, as of the time of our review, the issues had not been addressed. UEF also advised us that it had not referred delinquent accounts to the State's Central Collection Unit (CCU) since the issuance of our January 2018 audit report. In this regard, UEF management advised us that they made various proposals to CCU to obtain a waiver from the standard referral requirements, but these proposals had not been accepted by CCU. Furthermore, although UEF provided us with an example of a license suspension for one delinquent employer, they did not document the efforts to identify delinquent employers with a business license, and could not provide us with a comprehensive listing of employers that had been referred to State authorities for license suspensions.

Exhibit 3 to April 1, 2019 Letter to Joint Chairmen

Prior Report Recommendation – Finding 3

We recommend that UEF

- b. establish a documented procedure to verify, at least on a test basis, that medical claim payments were proper based on supporting documentation (repeat).**

Status: Not Resolved

UEF had not sufficiently documented its verification of medical claim payments. Specifically, although UEF documented the claims it selected for review, there was no documentation of the basis for selecting the claims for review or what supporting documentation was used in the verification process.

Prior Report Recommendation – Finding 5

We recommend that UEF

- d. ensure that the cash receipts and accounts receivable duties are adequately separated (repeat).**

Status: Not Resolved

UEF had not adequately separated the cash receipts and accounts receivable duties. Specifically, our review of UEF's automated accounts receivable system security reports disclosed that four UEF employees with cash handling responsibilities also had the capabilities to create, adjust, or delete accounts receivable records.

Prior Report Recommendation – Finding 7

We recommend that UEF

- d. periodically generate system security reports and use these reports to ensure users cannot perform incompatible functions and are assigned only those capabilities needed to perform their job duties (repeat).**

Status: Not Resolved

UEF had not periodically generated and reviewed system security reports to ensure that user capabilities were properly assigned and restricted based on the employees' job duties. As a result, UEF had not identified the improper accounts receivable access granted to certain employees (see status of Prior Report Recommendation Finding 5d)

Prior Report Recommendation – Finding 8

We recommend that UEF develop and implement a comprehensive disaster recovery plan, in accordance with the *Information Technology (IT) Disaster Recovery Guidelines* (repeat).

Exhibit 3 to April 1, 2019 Letter to Joint Chairmen

Status: Not Resolved

Although UEF took steps to develop a disaster recovery plan (DRP), it was not in accordance with the IT Guidelines and consequently not comprehensive. Specifically, the DRP did not contain sufficient details describing specific steps, information, and other materials deemed necessary for a complete DRP.

