



Department of Legislative Services
Office of Legislative Audits

Uninsured Employers' Fund

Report Dated January 3, 2018



Report Overview

- The Uninsured Employers' Fund (UEF) is responsible for paying workers' compensation awards to claimants who failed to receive payments from their employers that did not have workers' compensation insurance, as required.
 - The report included 8 findings, 7 of which were repeated from the preceding audit report.
 - OLA determined that UEF's accountability and compliance level was unsatisfactory, in accordance with the rating system OLA established in conformity with State law.
 - The primary factors contributing to the unsatisfactory rating were the significance of the audit findings and the number of repeat findings, including all 7 findings from the preceding audit report. Some of the current findings have been commented upon in preceding reports dating back to May 2009.
-



Department of Legislative Services Office of Legislative Audits

Key Findings

- UEF did not conduct independent reviews to ensure the accuracy of accounts receivable transactions.
 - UEF did not adequately monitor and pursue the collection of delinquent accounts nor establish a process to refer delinquent employers to State licensing authorities for license suspension.
 - UEF did not adequately review indemnity and medical claims payments for propriety.
 - UEF violated State procurement regulations to obtain claims processing and related services from 11 vendors, did not have written agreements, and did not verify their billings.
 - UEF did not have adequate procedures and controls to ensure that all collections, totaling \$9.5 million during FY 2016, were deposited.
 - A number of security and control deficiencies were noted with UEF's information systems, including the storage of sensitive personally identifiable information in clear text.
-



Accounts Receivable (Finding 1)

UEF did not conduct independent reviews of accounts receivable (A/R) transactions.

- UEF did not independently verify the accuracy of Workers' Compensation Commission (WCC) awards entered in its A/R system, which is used to automatically calculate assessments and billings to employers and insurance companies. Our test of 10 awards disclosed that the assessments for 6 awards were improperly calculated because the awards were not entered accurately.
- The three employees who processed adjustments to the A/R records could do so without independent review and approval.

UEF maintains A/R records for billings to insurance companies and employers for assessments (2% on certain WCC awards), WCC assessed fines and penalties, and reimbursements due from uninsured employers for claimant awards and medical payments made on their behalf.



Accounts Receivable (Finding 2)

UEF did not adequately monitor and pursue collection of delinquent accounts.

- UEF's automated A/R system did not generate dunning notices and it produced inaccurate and unreliable account aging reports for use in monitoring UEF's A/R.
 - UEF did not refer delinquent accounts to the Department of Budget and Management's Central Collection Unit (CCU) as required. As of January 2017, there were 3,980 delinquent accounts totaling \$5.2 million that should have been referred to CCU. This included 31 delinquent accounts totaling approximately \$1.7 million that had been delinquent for periods ranging from 187 days to more than 9 years. There was a \$35,300 account delinquent for more than 25 years.
 - UEF had not established a process to identify and refer delinquent employers to State licensing authorities for license suspension.
-



Claims Processing (Finding 3)

UEF did not adequately review indemnity and medical claim payments for propriety.

- UEF did not conduct independent supervisory reviews of indemnity payments for propriety. During the period from January 2014 to April 2017, indemnification payments totaled \$12.1 million.
- Payments to medical providers were made without obtaining and reviewing any documentation to support the claims. During the period from January 2014 to April 2017, medical provider payments totaled \$13.5 million.

UEF's payments to claimants are based on awards determined by the WCC. These awards include funds for the indemnification of injuries and for future medical claims. Indemnification payments are made to the claimants in biweekly installments or as a lump sum. Medical claim payments are made as incurred directly to medical providers for services provided to claimants.



Claims Processing (Finding 4)

UEF violated numerous State procurement regulations to obtain claims processing and related services costing \$3.5 million over 3.25 years.

- UEF's agreement with its former claims processing vendor (with payments totaling \$1.3 million) was not competitively procured. Also, the agreement did not include critical provisions, including the term and maximum contract value, and was not submitted for control agency review and approval, including by the Board of Public Works (BPW).
 - UEF did not have written agreements for the 10 other vendors (payments totaling \$2.2 million) that the claims processing vendor used to assist in verifying claims. These vendors were also not competitively procured.
 - UEF did not submit to BPW an emergency contract entered into with another vendor to perform services beginning in September 2017 that were previously rendered by the former claims processing vendor and its 10 vendors.
-



Department of Legislative Services Office of Legislative Audits

Claims Processing (Finding 4 - cont.)

UEF did not verify the propriety of amounts paid to the former claims processing vendor and the additional 10 vendors nor ensure appropriate services were provided.

Claims Processing Vendor

- UEF paid for individuals not in the agreement and invoices did not consistently report hours worked for each individual that was billed.
- UEF paid for alleged cost savings without reviewing medical bills submitted by providers to verify the savings were achieved. For one provider billing, UEF paid the vendor \$26,419 for vendor-claimed cost savings totaling \$94,326 without confirming that savings were actually achieved.
- UEF paid an administrative fee that had not been negotiated nor included in the agreement.

Other 10 Vendors

- UEF paid these vendors directly without verifying the propriety of the charges or assessing if appropriate services were performed.
-



Cash Receipts (Finding 5)

UEF had not established adequate controls over collections from employers and insurance companies, which totaled \$9.5 million during FY 2016. For example,

- Collections were not properly verified as being deposited. We identified 4 checks totaling \$2,655 that were not actually deposited until 14 to 21 days after the deposit dates recorded on UEF records.
- UEF routinely stored collections in an unlocked desk drawer that was accessible to numerous employees throughout the day prior to deposit. Additionally, deposits were not made timely.
- A temporary employee took collections home overnight to allow for deposit on the way to work the next business day. According to UEF's records, 31 deposits totaling \$1.2 million were taken home by this individual.
- Three employees involved in the collection process were also responsible for updating the A/R records.



Information Systems Security and Control

- Sensitive personally identifiable information was stored in clear text on the server that hosted accounts receivable and claims processing software applications. We determined that one file contained 676,727 unique social security numbers in clear text and was not protected by other substantial mitigating controls (**Finding 6**).
 - Security event monitoring, access controls, and user access monitoring were not sufficient for the server that hosts UEF's accounts receivable and accounts payable applications. We also found that security reports were not periodically generated and reviewed to ensure assigned user capabilities were proper, numerous users had unnecessary modification access to files and programs, and UEF permitted one employee to use another employee's userid to process certain transactions (**Finding 7**).
 - UEF did not have a disaster recovery plan for recovering from disaster scenarios (**Finding 8**).
-



Conclusion

UEF should:

- conduct independent reviews to ensure awards and adjustments are accurately recorded in the A/R system;
- correct deficiencies with its A/R system and refer delinquent accounts to CCU for collection and to State licensing authorities for license suspension;
- conduct independent reviews of indemnity payments and establish a procedure to ensure that medical claims payments are proper;
- comply with State procurement regulations and ensure that invoices are supported and agree to contract-approved rates and level of services; and
- implement recommended actions to provide appropriate controls over collections and information systems security (including the development of a disaster recovery plan).