

Audit Report

---

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

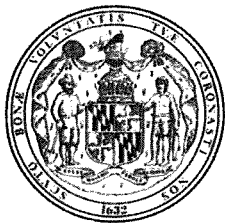
September 2012

---



**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

- 
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
  - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
  - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
  - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

September 19, 2012

Bruce A. Myers, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Labor, Licensing and Regulation – Division of Unemployment Insurance (DUI) for the period beginning June 1, 2008 and ending January 31, 2011. DUI administers the State's Unemployment Insurance Program that is funded by unemployment insurance tax contributions collected from employers.

Our audit disclosed that DUI's use of computer matching techniques to detect improper payments could be improved. DUI did not use available employee wage information as part of its periodic computer matching procedures to identify claimants who may be improperly receiving unemployment insurance benefits. While DUI matched claimants with the national database of newly hired employees, available wage information for all employees was excluded from the matches. The use of national wage information would provide more comprehensive match results.

In addition, DUI did not perform targeted automated matching procedures to identify unemployment insurance benefits improperly paid to claimants after death, while incarcerated in a State correctional facility, or while employed at a State agency. Furthermore, DUI periodically conducted matches of claimant addresses with the addresses of DUI employees or other claimants; however, the match results were not fully investigated. During our audit, we performed matches of DUI claimant records with U.S. Social Security Administration (SSA) death records, State incarceration records, and State payroll records. We also reviewed certain results of DUI's address matches conducted in calendar year 2012. As a result, we identified potential improper benefit payments totaling approximately \$344,000.

Furthermore, DUI had not implemented procedures and controls to ensure claimant addresses in its benefit records were accurate and in agreement with the records of the bank that managed the debit card program for issuance of benefits. Finally, a computer programming error allowed employers to improperly receive certification for Job Creation and Recovery tax credits, and user access to critical DUI information system data files was not properly restricted.

The Department of Labor, Licensing and Regulation (DLLR) – Office of the Secretary’s response to this audit, on behalf of DUI, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DLLR and DUI.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA  
Acting Legislative Auditor

# Table of Contents

<b>Background Information</b>	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
<b>Findings and Recommendations</b>	5
<b>Automated Match Procedures</b>	
Finding 1 – Available Wage Information Was Not Used in Automated Matches to Identify Improper Payments	5
Finding 2 – DUI Did Not Maximize Use of Targeted Matching Procedures to Identify Improper Payments	7
<b>Claimant Records</b>	
Finding 3 – A Process to Ensure Benefit Records Reflected Current and Accurate Claimant Addresses Was Not Established	9
<b>Job Creation and Recovery Tax Credit Program</b>	
Finding 4 – A Computer System Programming Error Allowed Employers to be Improperly Certified to Receive Tax Credits	10
<b>Information Systems Security and Control</b>	
Finding 5 – User Access Controls Over Critical Data Files Were Inadequate	11
<b>Audit Scope, Objectives, and Methodology</b>	13
<b>Agency Response</b>	Appendix

## **Background Information**

### **Agency Responsibilities**

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Department of Labor, Licensing and Regulation. According to DUI records, during calendar year 2011, DUI collected approximately \$1.82 billion, consisting of approximately \$963 million in unemployment insurance taxes from employers and approximately \$859 million in reimbursements from certain non-profit employers, other states, and the federal government.

Unemployment insurance benefits paid to approximately 243,000 claimants during calendar year 2011 totaled approximately \$1.61 billion, of which approximately \$768 million was funded by the federal government. As of February 2012, the maximum amount of benefits an individual could receive was based on 26 weeks at \$430 per week and could be extended for up to 47 weeks through the Federal Extended Benefits Program.

As of the end of calendar year 2011, the Maryland Unemployment Insurance Trust Fund had a balance of approximately \$418 million. According to the State's records, DUI's fiscal year 2011 operating expenditures totaled approximately \$69 million.

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.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the seven findings contained in our preceding audit report on DUI dated February 27, 2009. We determined that DUI had satisfactorily addressed these findings.

# Findings and Recommendations

## Automated Match Procedures

### Background

State law allows the Department of Labor, Licensing and Regulation's Division of Unemployment Insurance (DUI) to recover benefits paid to claimants who are subsequently found to be ineligible, and in some cases, to assess penalties, including interest, on overpayments made to claimants who made a false statement or failed to disclose a material fact in order to obtain the benefits. DUI performs various automated matches of benefits paid, as reflected in the Maryland Automated Benefits System (MABS), and other manual processes to help detect potential and actual improper benefit payments. According to DUI's accounts receivable records, as of December 31, 2011, overpayment receivables totaled approximately \$149.6 million and approximately \$25.4 million in overpayments were recovered during calendar year 2011.

### Finding 1

**DUI did not use available wage information to maximize its efforts to detect and identify claimants potentially receiving improper benefit payments.**

### Analysis

At the time of our audit, DUI had not used available wage information since March 31, 2009 to determine if claimants were receiving unemployment insurance benefits while earning wages. Prior to this date, DUI conducted periodic computer matches of benefits paid, as reflected in MABS, with wage information reported by Maryland employers. This match process was replaced with a match conducted on its behalf by the federal Office of Child Support Enforcement (OCSE); however, employee wage information was not included in the matches. OCSE operates the National Directory of New Hires (NDNH) which is a national database of wage and employment information available to states for authorized purposes. On a national level, the NDNH includes data on new employees as well as quarterly wage data for all employees as reported by all states, including wage data reported by DUI for Maryland employees.

Specifically, DUI contracted with OCSE to perform a weekly match of claimants with the NDNH to identify claimants that may be improperly receiving unemployment insurance benefits. The match results identified Maryland claimants whose names and social security numbers matched those of newly hired employees nationwide. However, quarterly wage information for both existing and new employees was excluded from the match process and DUI was unaware it could request OCSE to include wage data in the matches. Including the

national wage information would provide more comprehensive results since employers may not always separately report newly hired employees. It could also help DUI prioritize its collection follow-up efforts by identifying claimants with a higher probability of potentially receiving improper benefit payments. For example, identified claimants with both significant quarterly wages and benefits would more likely represent overpayments. In addition, quarterly wage matches are required by federal regulations. We were informed that quarterly matches using Maryland wage information (but not national) were reinstated as of August 2011.

We performed an automated match between DUI's quarterly employee wage records for Maryland employers for the third quarter of calendar year 2010 and DUI's paid benefits claims data for the same period. Our match disclosed 227 claimants who received benefit payments totaling approximately \$1.4 million and employer-reported wages of \$5,000 or more totaling approximately \$2.7 million. We tested 71 of these claimants with employer-reported wages totaling approximately \$1.6 million and benefit payments totaling approximately \$421,700. Our test disclosed that, while DUI had taken steps to investigate 43 of these claimants as a result of other match processes, DUI had not identified 28 claimants that received benefit payments totaling approximately \$167,200 to investigate if benefit payments were proper.

During calendar year 2010, the NDNH computer match conducted for DUI identified 6,600 instances in which a claimant's social security number and name matched an employee that was reported as being newly hired. DUI prioritized the match results for follow-up purposes.

#### **Recommendation 1**

##### **We recommend that DUI**

- a. request OCSE to incorporate national wage information into its NDNH matching procedures; and**
- b. investigate the cases identified by the NDNH match, as well as the aforementioned match results, and take appropriate action, including recovery of identified improper payments.**



**Finding 2****DUI did not maximize its use of certain targeted matching procedures to identify benefit payments with a higher likelihood of being improper.****Analysis**

DUI could enhance its use of computer matching procedures to detect improper payments. Specifically, DUI did not perform certain targeted automated matches to identify claimant payments with a higher likelihood of being improper, such as claimants who were paid benefits after their date of death, while incarcerated in a State correctional facility, or while employed by a State agency. Furthermore, with respect to existing quarterly matches it performed to detect claimants with the same addresses as DUI employees or other claimants, DUI could not formally document that all required investigations were conducted based on the results.

During our audit, we performed matches of DUI claimant records with U.S. Social Security Administration (SSA) death records, State incarceration records, and State payroll records. We also performed a review of the results of DUI's address matches conducted in calendar year 2010. As a result, we identified potential improper benefit payments totaling approximately \$344,000.

- Using claimant social security numbers (SSN), which DUI verifies during the initial application process, we performed a match between SSA death records and DUI benefit records for the period from January 2009 through May 2011; the match disclosed 19 claimants who were paid benefits, totaling approximately \$124,000, for periods ranging from 2 to 37 weeks following the date of death. We verified the dates of death, on a test basis, to the Department of Health and Mental Hygiene Vital Records Division.
- Our match of incarceration records maintained by the Department of Public Safety and Correctional Services for the period from January 1, 2008 through July 11, 2011 and DUI's benefit records for calendar years 2009, 2010, and 2011 (through June) disclosed 30 claimants which appeared to have been issued benefits, totaling approximately \$175,000, while incarcerated in a State correctional facility.
- We performed a match of State employee payroll records for certain pay periods ending during June 2011 and DUI's benefit records for corresponding periods, based on SSNs, and found 186 claimants with the same SSNs as State employees. Our test of 18 claimants disclosed that 10 claimants were transitioning to unemployment and, therefore, were properly receiving benefits. However, 8 claimants had collected benefits totaling approximately \$20,000 while employed by the State and earning wages totaling

approximately \$42,000. For example, for the period from January to June 2011, one claimant received \$5,800 in benefits while also receiving wages from one State agency totaling approximately \$9,700. While these match results should also be identified in the wage matches discussed in finding 1 in this report, a targeted match of State employee payroll records would provide a more precise and timely means to identify these situations for immediate follow-up and resolution.

- Results from targeted quarterly matches that DUI conducted of the addresses of unemployment insurance benefit claimants with the addresses of DUI employees or other claimants were not fully investigated. We reviewed the calendar year 2010 match results for 57 claimants, all of which had addresses that matched addresses of other claimants. Our review disclosed that a formal resolution for benefit overpayments did not exist for 33 claimants. Our detailed test of 7 of these claimants disclosed potential overpayments totaling approximately \$25,000.

Upon bringing the results of our automated matches and limited review to DUI's attention, DUI conducted a thorough review of the 64 claimants that we identified as possible overpayments. DUI determined that improper benefits were paid to 57 claimants resulting in assessments for overpayments totaling approximately \$392,400 that had not already been identified by DUI through other methods.

According to State law, generally, in order for an individual to be eligible for benefits, a claimant must be unemployed and be able to work, available for work, and actively seeking work.

## **Recommendation 2**

### **We recommend that DUI**

- a. in coordination with the appropriate State and federal agencies, establish periodic targeted matching procedures to help detect improper payments to deceased, incarcerated, or State-employed claimants; and**
- b. fully investigate the results of all targeted matches performed and take appropriate action, such as the establishment and recovery of benefit overpayments, and legal action, if warranted.**

## Claimant Records

### Background

DUI contracted with a bank to implement a debit card program, beginning in December 2008, for the issuance of unemployment insurance benefit payments. Under this program, based on claimant and benefit information submitted by DUI, the bank establishes a debit card account for each claimant's benefits and mails a debit card to the claimant based on the address he or she provided. Benefits are deposited in eligible claimants' accounts every two weeks. These debit cards, which are valid for a two-year period, can then be used by claimants to make purchases or withdrawals up to the amount of benefits in their accounts. According to DUI's instructions in place during our audit period, claimants were required to contact both DUI and the bank to request an address change.

### Finding 3

**DUI did not have a process to ensure that its benefit records reflected the most current and accurate claimant addresses.**

### Analysis

DUI had not implemented adequate procedures to ensure that claimant addresses recorded in its benefit records were accurate and in agreement with the bank's debit cardholder account records. Although claimants were instructed to notify both DUI and the bank of address changes, there was no process in place to ensure that address changes processed by the bank at the request of claimants were also communicated to DUI. Accordingly, we noted that claimant addresses reflected in the official DUI records did not always agree with the bank's debit cardholder account records. Since the official DUI records are used for formal communication with claimants, including tax documents, as well as for its various matching procedures, the accuracy of these records is important to the integrity of the unemployment insurance program. Furthermore, improper address changes made in the bank's records could allow debit cards (including replacement cards) to be redirected, possibly allowing improper access to benefits.

Although DUI's contract with the bank allows DUI to have unrestricted access to the cardholder banking information (including addresses) upon request, DUI had not performed a comparison of the address information on DUI's records to the bank's records to determine if there were differences. An automated match we performed comparing claimant addresses on DUI's records and the bank's records (as of October 3, 2011) disclosed different addresses and zip codes for approximately 12,400 claimants with active debit accounts receiving benefits in calendar year 2011 (as of September 30, 2011) totaling approximately \$78.2 million.

### **Recommendation 3**

**We recommend that DUI**

- a. establish a process to ensure its claimant records reflect the most current and accurate claimant addresses, and**
- b. perform periodic comparisons to ensure its claimant address records agree to the bank's cardholder account information.**

## **Job Creation and Recovery Tax Credit Program**

### **Background**

Chapter 1, Laws of Maryland 2010, established the Job Creation and Recovery (JCR) tax credit, which was available to employers who hired employees meeting certain qualification requirements during the period from March 25, 2010 through December 31, 2010. The primary purpose of the JCR tax credit program was to encourage the creation of Maryland job opportunities for individuals collecting unemployment insurance benefits, thus reducing the amount of such benefits required to be paid by DUI and funded by Maryland employers. Employers can claim a tax credit of up to \$5,000 for each qualified employee hired; the tax credit should be taken in the taxable year in which the the qualified employee remained employed for a 12-month period.

To apply for the JCR tax credit, employers must complete an online application that electronically cross-references the submitted employee information (such as name and social security number) against DUI's MABS to determine if the hired employee qualifies for the employer to obtain the JCR tax credit. To qualify, the hired employee must have received benefits during the preceding 12 months. If the online application program determines that the employee qualifies, the program provides the employer with an electronic certificate indicating that a JCR tax credit may be claimed on the employer's tax return.

### **Finding 4**

**A system programming error allowed employers to be improperly certified to receive tax credits.**

### **Analysis**

The online tax credit application system was incorrectly programmed to compare individuals listed on the application to DUI's record of individuals that had applied for benefits rather than to DUI's record of individuals that were receiving or had received benefits within the past 12 months of the date of hire, as required.

Therefore, qualified employers could be certified to receive JCR tax credits for individuals who had applied for unemployment benefits, but had not received benefit payments for various reasons (such as a disqualification).

An automated match we performed comparing the JCR tax credit records of individuals hired by employers certified for the tax credit as of May 30, 2011 to DUI's unemployment recipient records for calendar years 2009 and 2010 disclosed that tax credits were granted to employers for 89 individuals who had not received any benefits in the required 12-month period. This represented a potential of \$445,000 in improper tax credits based on the maximum tax credit available for each certified individual employed for one year. After we brought this issue to DUI's attention, on June 22, 2011, a correction was made to fix the programming error. As of December 2011, DUI was in the process of notifying the employers that received tax credit certifications for unqualified employees and notifying the Comptroller of Maryland to ensure that tax credits were not claimed on tax returns or that tax returns were adjusted as necessary.

According to the records of the Department of Labor, Licensing and Regulation as of May 30, 2011, 882 employers were certified to claim tax credits for 1,886 individuals hired between March 2010 and December 2010. Therefore, based on the maximum \$5,000 tax credit for each of these individuals, DUI has certified JCR tax credits potentially totaling \$9.4 million.

#### **Recommendation 4**

**We recommend that DUI, in conjunction with DLLR, ensure**

- a. that the Comptroller of Maryland has been notified of all employers who may have been granted tax credits for ineligible individuals, and**
- b. that automated system programs are thoroughly reviewed and tested before being placed into production.**

### **Information Systems Security and Control**

#### **Finding 5**

**User access controls over critical production data files were inadequate.**

#### **Analysis**

User access controls over critical production data files were inadequate. Specifically, we noted that 16 users had unnecessary, logged modification access to a number of critical data files in the Maryland Unemployment Insurance Tax

System (UITAX) and the Maryland Automated Benefits System (MABS). As a result of this condition, erroneous or unauthorized changes to critical production data could occur.

The Department of Information Technology *Information Security Policy* states that each agency must establish an authorization process that specifically ensures that access to information is strictly controlled and audited, and that it supports the concept of “least possible privileges.”

**Recommendation 5**

**We recommend that modification access to critical data files be restricted to only those individuals who require such access for their job duties.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Department of Labor, Licensing and Regulation (DLLR) – Division of Unemployment Insurance (DUI) for the period beginning June 1, 2008 and ending January 31, 2011. 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. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality 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. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DUI's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

To accomplish our objectives, we also performed various data extracts of pertinent information from the Maryland Automated Benefits System (MABS), the Maryland Unemployment Insurance Tax System (UITAX), state employee payroll data from the Central Payroll Bureau, death records from the U.S. Social Security Administration's Death Master File, and incarceration records maintained by the Department of Public Safety and Correctional Services. We performed various tests of the relevant data and determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit.

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 audit of the Office of the Secretary. In addition, our audit

did not include an evaluation of internal controls for federal financial assistance programs or an assessment of DUI's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DUI.

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 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.

DLLR's response to our findings and recommendations, on behalf of DUI, 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.



September 19, 2012

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

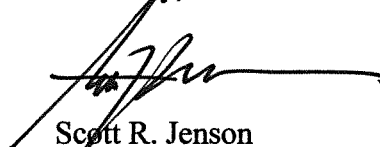
Dear Mr. Barnickel:

The Department of Labor, Licensing and Regulation ("DLLR") has reviewed the draft audit report dated September 2012 of the Division of Unemployment Insurance ("DUI"). The Department appreciates the thorough examination of our Unemployment Insurance program by your auditors and their professional interaction with DUI staff. While we are pleased that the Division had no repeat findings, the Department understands that we still have work to do.

Attached please find DLLR's responses to the draft audit report. The responses are in the same order as presented in the draft report.

Thank you for the opportunity to respond to the draft audit report. If you or your staff has any questions concerning the responses, please do not hesitate to contact me.

Sincerely,



Scott R. Jenson  
Interim Secretary

Attachment

cc: Barbara Kittrell  
Samuel K. Smith  
Gary Holland  
Julie Ellen Squire  
David McGlone  
Maureen O'Connor  
Melvin Kincaid, Sr.

## Response to Finding 1

### Finding 1

**DUI did not use available wage information to maximize its efforts to detect and identify claimants potentially receiving improper benefit payments.**

### Recommendation 1

- a. Request OCSE to incorporate national wage information into its NDNH matching procedures; and**
- b. Investigate the cases identified by the NDNH match, as well as the aforementioned match results, and take appropriate action, including recovery of identified improper payments.**

Response - DLLR agrees with the recommendations.

- a. The Division of Unemployment Insurance concurs with the recommendation to incorporate national NDNH wage information into our matching procedures. The Division is working closely with DLLR's Office of Information Technology to institute this process by the end of this year.
- b. The Division of Unemployment Insurance continues to research and investigate all NDNH match cases, including the results mentioned in the finding, which will be completed by December 31, 2012. The Division will take all appropriate action in cases identified by the NDNH wage match on an ongoing basis.

## Response to Finding 2

### Finding 2

**DUI did not maximize its use of certain targeted matching procedures to identify benefit payments with a higher likelihood of being improper.**

### Recommendation 2

**We recommend that the Division of Unemployment Insurance**

- a. In coordination with the appropriate State and federal agencies, establish periodic targeted matching procedures to help detect improper payments to deceased, incarcerated, or State employed claimants; and**
- b. Fully investigate the results of all targeted matches performed and take appropriate action, such as the establishment and recovery of benefit overpayments, and legal action, if warranted.**

Response - DLLR agrees with the recommendations.

- a. The Division of Unemployment Insurance agrees with the recommendation for targeted matching procedures.

The Division is coordinating with the Department of Health and Mental Hygiene (DHMH), Vital Statistics Administration to establish a monthly crossmatch of Unemployment Insurance claimant records with DHMH death records. The Division expects to have this process in place by December 2012.

In July of 2012, the Division established a crossmatch procedure for individuals incarcerated in the State prison system through a Memorandum of Understanding with the Department of Public Safety and Correctional Services (DPSCS). The monthly listing of incarcerated individuals identifies any persons possibly receiving unemployment insurance benefits improperly with cases assigned to one of our Adjudication Centers for appropriate action.

The Division routinely crossmatches DLLR payroll records against unemployment insurance payment records. The Division has contacted the Central Payroll Bureau and we have had initial discussions to secure payroll information for all State of Maryland employees. We anticipate the implementation of this crossmatch by April of 2013.

- b. The Division of Unemployment Insurance agrees with the recommendation to fully investigate and take appropriate action on all matches performed on an ongoing basis.

The Division has begun working from the DPSCS crossmatch and claimants are being denied benefits as a result of the investigations. The crossmatch for deceased individuals is not yet finalized, but we expect to start investigation of matches by December 2012. The State Employees crossmatch is in the requirements stage and should be in place by April 2013.

## Response to Finding 3

### Finding 3

**DUI did not have a process to ensure that its benefit records reflected the most current and accurate claimant addresses.**

### Recommendation 3

- a. Establish a process to ensure its claimant records reflect the most current and accurate claimant addresses, and**
- b. Perform periodic comparisons to ensure its claimant address records agree to the bank's cardholder account information.**

Response - DLLR agrees with the recommendations.

- a. The Division of Unemployment Insurance concurs with the recommendation to ensure its claimant address records are current and accurate. As of November 17, 2011, the Division revamped its address change policy so that all claimant address changes will be made through the Division; Citibank will no longer accept address changes from claimants and will refer claimant calls for address changes to the Division. The Division will run a cross match with Citibank to overlay all addresses with the most current address displayed on the claimant profile in the Division of Unemployment Insurance's Maryland Automated Benefits System ("MABS") during the month of October 2012.
- b. The Division of Unemployment Insurance will perform periodic comparisons to ensure its claimant address records agree to the bank's cardholder account information on a quarterly basis beginning in 2013.

## Response to Finding 4

### **Finding 4**

**A system programming error allowed employers to be improperly certified to receive tax credits.**

### **Recommendation 4**

**We recommend that the Division of Unemployment Insurance, in conjunction with DLLR, ensure**

- a. That the Comptroller of Maryland has been notified of all employers who may have been granted tax credits for ineligible individuals, and**
- b. That automated system programs are thoroughly reviewed and tested before being placed into production.**

Response - DLLR agrees with the finding and the Office of the Secretary has taken the following corrective actions:

- a. In early November 2011 the Office of the Secretary contacted the Comptroller's office and notified them of the ineligible individuals certified as eligible under the JCR tax credit. Working with the Comptroller's office DLLR notified all of the businesses affected by the improperly certified tax credit and advised them of the corrective actions to take – either to not use the incorrect certification or, if the certification had already been used on a tax return to contact the Comptroller's office directly. DLLR and the Comptroller's office offered information and assistance, including contact numbers, to the employers with the improper certifications.
- b. Electronic programming procedures are in place for ensuring that only eligible employees meeting the JCR tax credit program requirements are given to employers and properly being certified for the JCR tax credit program. As noted above, changes were made to the programming in June 2011 to correct the error. In addition, the staff in the Office of Information Technology has included additional levels of supervisory review to prevent similar errors in programming.

## Response to Finding 5

### Finding 5

User access controls over critical product data files were inadequate.

### Recommendation 5

We recommend that modification access to critical data files be restricted to only those individuals who require such access for their job duties.

Response - DLLR agrees with the recommendation and has implemented the recommended changes to dataset rules as follows:

- a. UITAX dataset - security rules were modified 3/3/2011 for user IDs identified by the audit team and changed from having modification access to read only
- b. MABS dataset - security rules were modified 3/11/2011 for user IDs identified by the audit team and changed from having modification access to read only

AUDIT TEAM

**Peter J. Klemans, CPA**  
**Matthew L. Streett, CPA, CFE**  
Audit Managers

**Richard L. Carter, CISA**  
Information Systems Audit Manager

**Edward J. Welsh, CFE**  
Senior Auditor

**John C. Venturella**  
Information Systems Senior Auditor

**Brian S. Han**  
**Henry H. Startzman IV**  
Staff Auditors