

Audit Report

Maryland Insurance Administration

June 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

June 22, 2011

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Executive Director

Bruce A. Myers, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Maryland Insurance Administration (MIA) for the period beginning January 1, 2008 and ending September 28, 2010. MIA is responsible for licensing and regulating insurers, insurance agents, and brokers who conduct business in the State, and for monitoring the financial solvency of licensed insurers.

Our audit disclosed certain control deficiencies related to the processing of insurance producer licenses. For example, MIA did not adequately verify the validity of all such licenses issued from its automated system. In addition, MIA did not adequately reconcile its premium tax revenue accounting records with the corresponding State records, and lacked adequate control over cash collections received through the mail. Our audit also disclosed that MIA did not investigate numerous referrals involving title companies suspected of violating certain requirements of the Maryland Affordable Housing Trust.

Additionally, some of MIA's information technology contracts with third party providers lacked essential provisions needed to obligate the providers to address certain significant information technology security and operational risks, including the safeguarding of sensitive data. Finally, control deficiencies existed over MIA's information systems.

An executive summary of our findings can be found on page 5 of this report. MIA's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by MIA during the course of this audit.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on Maryland Insurance Administration (MIA) June 2011

- **Controls in effect over producer licenses were not adequate. Specifically, MIA did not verify the propriety of licenses issued, and certain system users could process and approve licensing applications without independent review and approval.**

MIA should verify, at least on a test basis, the propriety of producer licenses issued including those issued during our audit period.

- **MIA did not properly reconcile its records of premium tax revenues to the corresponding State accounting records.**

MIA should properly reconcile its premium tax revenue accounting records to the corresponding State records.

- **MIA lacked proper controls over mail receipts.**

MIA should take the recommended actions to improve controls over its mail receipts.

- **MIA did not investigate numerous title insurance companies referred by the Department of Housing and Community Development for suspected violations of applicable regulations established by the Maryland Affordable Housing Trust.**

MIA should investigate all referrals of suspected regulatory violations involving title insurance companies and take corrective action as warranted in a timely manner.

- **Contracts with certain information technology service providers lacked certain provisions needed to obligate the vendor to address related security and operational risks.**

MIA should include applicable provisions in such contracts to protect against security and operational risks.

- **A number of security and control deficiencies were noted with regard to MIA's information systems. For example, a contractor was granted excessive access to MIA's network and sensitive personal information stored on the network.**

MIA should take the recommended actions to improve controls and security.

Background Information

Agency Responsibilities

The Maryland Insurance Administration (MIA) operates under the authority of the Insurance Article, Title 2, of the Annotated Code of Maryland. MIA is responsible for licensing and regulating insurers, insurance agents and brokers who conduct business in the State, and for monitoring the financial solvency of licensed insurers. According to MIA's records, as of December 31, 2010, there were 66 domestic (based in Maryland) and approximately 1,400 foreign (based in other states) insurers authorized to conduct business in the State. MIA's records also indicated that direct premiums written by domestic and foreign companies operating in Maryland in calendar year 2009 totaled \$27 billion.

The Insurance Article, Section 19-802 of the Annotated Code of Maryland established the Maryland Health Care Provider Rate Stabilization Fund, effective April 1, 2005, to serve several purposes, including retention of certain health care providers in the State by temporarily subsidizing provider malpractice insurance premiums, increasing fee-for-service rates paid to providers by the Maryland Medical Assistance Program, and increasing payments to managed care organizations that serve the Program.

The Office of Legislative Audits is required by state law to annually audit the receipts and disbursements of the Maryland Health Care Provider Rate Stabilization Fund which is administered by the Commissioner of MIA. The results of those audits, which are separately reported from the audits of MIA, were most recently commented upon in our report on the Fund dated March 11, 2011 for the year ending December 31, 2010.

According to the State's records, during fiscal year 2010, MIA's revenues (which primarily consisted of premium taxes) and expenditures totaled approximately \$311 million and \$26 million, respectively.

Maryland Health Insurance Plan

As required by Chapter 259, Laws of Maryland, 2008, effective October 1, 2008, the Maryland Health Insurance Plan (MHIP) became an independent unit of State government. Accordingly, MHIP was not included within the scope of our current audit of MIA. Our current audit did, however, include a review of support services (such as processing of invoices and payroll) provided by MIA on behalf of MHIP during the period from October 1, 2008 through June 30, 2009. MIA discontinued providing such services to MHIP as of July 1, 2009.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of twelve findings contained in our preceding audit report dated December 8, 2008. We determined that MIA satisfactorily resolved nine of these findings. The three remaining findings are repeated in this report. Our audit did not include a review of three additional findings contained in our preceding report which related to MHIP. As previously stated, MHIP became an independent State agency effective October 1, 2008 and will be audited separately, at which time the status of the three preceding MHIP findings will be determined.

Findings and Recommendations

Producer Licensing

Finding 1

The Maryland Insurance Administration (MIA) lacked adequate controls to ensure the propriety of producer licenses issued.

Analysis

MIA did not routinely verify that producer licenses issued from its automated licensing system were valid by comparing licenses issued to related supporting documentation. Furthermore, when an independent management employee did review the propriety of certain producer licenses issued between January and August 2009, the review process was not comprehensive. Specifically, the licenses reviewed included only those for which the related application did not initially pass all system edit functions (for example, the fee had not been paid or the applicant had disclosed a criminal conviction) and were placed in a pending status. Moreover, these reviews did not include an examination of supporting documentation to ensure that those applications were appropriately resolved prior to issuing the related license. In addition, although required by their job duties, six employees had full system access which permitted them to process and approve license applications without independent review and approval. Such access would enable these employees to potentially change application information to circumvent the system's edit functions. Similar conditions were commented upon in our preceding audit report.

An insurance producer is an individual who, for compensation, sells, solicits, or negotiates insurance contracts, or the renewal of insurance contracts for persons issuing such contracts. MIA is responsible for licensing producers based on certain established criteria, such as education or experience requirements.

According to MIA's records, during fiscal year 2010, approximately 64,000 applications for producer licenses (including renewal applications) were approved.

Recommendation 1

We recommend that independent supervisory personnel verify, at least on a test basis, producer licenses issued by reviewing the applicable authorized supporting documentation (repeat).

Premium Taxes

Finding 2

MIA did not properly reconcile its records of premium tax revenues with the corresponding State accounting records.

Analysis

MIA did not properly reconcile its records of premium tax revenues with the corresponding State accounting records. Specifically, when MIA completed certain monthly reconciliations, it did not ensure that outstanding reconciling items were promptly resolved. For example, MIA's August 2010 reconciliation disclosed four premium tax revenue transactions totaling \$786,813 that it had incorrectly recorded in the State's accounting records during April 2010. However, the incorrect recordation was not resolved during MIA's reconciliations of April through July 2010 and was not resolved until corrective action was initiated by another affected State agency in August 2010.

The lack of comprehensive reconciliations has been commented upon in our five preceding audit reports dating back to November 1996.

The Insurance Article of the Annotated Code of Maryland generally provides for the imposition of an annual tax on insurance companies for premiums derived from insurance business transacted in the State. According to MIA's records, premium taxes collected and deposited to the State's General Fund totaled approximately \$277 million during fiscal year 2010.

Recommendation 2

We recommend that MIA

- a. properly reconcile its premium tax records with the corresponding State records (repeat), and**
- b. promptly resolve and document all identified reconciling items (repeat).**

Cash Receipts

Finding 3

MIA lacked adequate controls over its mail receipts.

Analysis

MIA lacked adequate controls over its mail receipts, which primarily included premium taxes, assessments, and licensing fees and totaled approximately \$98 million during fiscal year 2010. Specifically, we noted that mail collections received by MIA after preparation of its daily deposit were not recorded or restrictively endorsed until the following business day. In addition, although we were advised by MIA that these receipts were kept in a locked safe overnight, the employee who verified that all recorded cash receipts were deposited also had access to the safe. As a result of these conditions, cash receipts could potentially be misappropriated without detection.

The Comptroller of Maryland's *Accounting Procedures Manual* states that receipts should be recorded and restrictively endorsed "for deposit only" immediately upon receipt. Furthermore, the *Manual* states that the reconciliation of recorded cash receipts to amounts deposited should be performed by an employee independent of the cash receipts functions.

Recommendation 3

We recommend that

- a. mail receipts be immediately restrictively endorsed and recorded when received, and**
- b. collections not be accessible to the employee who performs the daily deposit verifications.**

Title Company Referrals

Finding 4

MIA did not investigate numerous title insurance companies referred to it by the Department of Housing and Community Development.

Analysis

MIA did not investigate numerous title insurance companies referred to it by the Department of Housing and Community Development (DHCD) for non-compliance with certain applicable requirements of the Maryland Affordable Housing Trust (MAHT). Specifically, during August 2009 and August 2010, DHCD referred 535 and 538 such cases, respectively, to MIA related to instances in which the title companies did not submit required annual reports during

calendar years 2008 and 2009. However, our review disclosed that as of November 2010, MIA had assigned for investigation only 225 of the aforementioned 1,073 cases (21 percent). According to the fiscal year 2010 MAHT annual report, 1,136 title companies participated in the MAHT program as of December 2009.

MAHT is a charitable public corporation administered by DHCD to promote affordable housing in the State. It acquires funds through interest earned on title insurance companies' escrow accounts. According to the MAHT annual report, in fiscal year 2010, funds received from the title companies by MAHT totaled approximately \$950,000. State regulations require these companies to submit annual reports to DHCD that identify funds to be remitted to MAHT. In our February 2009 audit report on DHCD – Office of the Secretary, we commented that a significant number of title companies had not submitted such reports as required and that MIA agreed to assist DHCD in monitoring and enforcing compliance with reporting requirements as part of its oversight responsibilities of title companies. Accordingly, we recommended that DHCD, in conjunction with MIA, take action to address the title companies that had not submitted required annual reports.

State regulations grant MIA (not DHCD) the authority to impose penalties, sanctions, and other forms of legal enforcement against any title company that fails to comply with MAHT requirements.

Recommendation 4

We recommend that MIA

- a. assign and investigate all title companies referred by DHCD in a timely manner, and**
- b. take appropriate action against any title company found to be in non-compliance with applicable State regulations.**

Information Technology Service Contracts

The MIA has contracted with information technology vendors for various examination, licensing, and continuing education services. These services include maintaining an electronic examination database to include online examinations, and examination grading and reporting, and maintaining a continuing education database of courses, providers, and individual licensees and related reporting services. These databases contain certain sensitive personal information such as social security numbers.

Each of these contracts provide that the applicable vendors' sole compensation for the services provided shall be a portion of the related individual exam and/or licensing fees paid to the vendors by license applicants.

Finding 5

MIA's contracts with two vendors did not include provisions obligating the vendors to address certain significant information technology security and operational risks.

Analysis

MIA's contracts with two vendors did not include provisions obligating the vendors to address certain significant information technology security and operational risks. Specifically, the contracts did not establish expectations relative to significant risks, and MIA did not ensure appropriate monitoring mechanisms (for example, an independent report on controls at a service organization) were in place in order to reduce the risks associated with outsourcing information technology operations as outlined in guidance issued by the Cloud Security Alliance. For example, as confirmed with the vendor by MIA after our inquiries, one contract lacked specific provisions addressing the following issues:

Data Security

- Migration of data both within the vendor's operating environment and to alternate service provider organizations
- Controls to prevent impermissible copying and/or removal of MIA's data

Data Segregation

- The segregation of MIA's data from data of other vendor clients when systems for multiple clients are hosted on the same server
- Periodic monitoring to ensure that vendor data segregation policies are not violated

Contract Termination and Service Exit Plan

- Upon contract termination, the process for the safe return of MIA's data

The Cloud Security Alliance, a not-for-profit organization with a mission to promote the use of best practices for providing security assurance within cloud computing, has issued "*Security Guidance for Critical Areas of Focus in Cloud Computing*" dated December 2009, which addresses security best practices when using services of this nature and has been widely adopted. Cloud computing refers to the use of Internet-based services and resources to provide computing

services, such as data processing and storage, to customers. These services are typically performed by vendors (service organizations). This guidance outlines the operational and security risks associated with these services and the related recommendations to mitigate these risks. Furthermore, the American Institute of Certified Public Accountants has provided detailed guidance for performing an examination to report on a service organization's controls over its system relevant to security, availability, processing integrity, confidentiality, and privacy.

We were advised by MIA management that it recognized these risks; however, it believed that the Maryland Department of Information Technology, as the State's IT oversight agency, should provide guidance to State agencies on how to address these risks. Nevertheless, MIA is ultimately responsible for its contracts and the risks associated with them.

Recommendation 5

We recommend that, for future IT contracts involving cloud computing services with significant risks, MIA

- a. include provisions that require the vendor to address critical security and operational risks, including safeguards for sensitive data; and**
- b. periodically ensure that the applicable vendors have addressed those risks. For example, MIA should consider requiring the vendor to periodically obtain an independent examination of its controls applicable to MIA's data.**

Information Systems Security and Control

Background

MIA's Management Information Systems Division manages the development, maintenance, and support of the MIA information technology infrastructure including all related networking and telecommunications systems. The Division maintains a network which includes email, application and database servers, and connectivity to the Internet.

Finding 6

Access controls over a critical server and controls over database and server monitoring were not adequate.

Analysis

Access controls over a critical server and controls over database and server monitoring were not adequate. Specifically, we noted the following conditions:

- Eight programmers were improperly granted full administrator capabilities on a critical licensing server. As a result, these programmers could modify production data files and program files without management’s knowledge. A similar condition has been commented upon in our two preceding audit reports.
- A key licensing database was not configured to log critical security-related events (for example, deletion or modification of database objects). As a result, unauthorized direct changes made to the database could go undetected by management.
- Although the logging of security events for two critical application servers was enabled, we were advised that the security logs were only reviewed on an “as needed basis” and were not reviewed on a regular basis. As a result, any unauthorized changes made to the applications residing on these servers could go undetected.

Recommendation 6

We recommend that MIA

- review access rights on its critical servers and limit administrative access to only those individuals requiring such access (repeat);**
- log all significant database security and audit events; and**
- regularly generate and review security and audit logs for critical databases and servers, and document and retain these reviews for future reference.**

Finding 7

A contractor had excessive access to the MIA network and sensitive personal information stored on the network.

Analysis

A contractor had excessive access to the MIA network and sensitive personal information stored on the network. Specifically, we noted the following conditions:

- A third party contractor had remote network level access to all MIA internal devices over all ports. Access control lists which could properly limit the remote access were not applied to this contractor.
- This contractor had complete access to numerous files containing sensitive personal information (including name, dates of birth, addresses, and social security numbers) stored in plain text on an internal application server. This

sensitive personal information residing on the server is commonly sought by criminals for use in identity theft. Accordingly, appropriate information system security controls should exist to ensure that this information is safeguarded and not improperly disclosed.

Recommendation 7

We recommend that MIA

- a. secure its network from risks associated with untrusted third parties such as the aforementioned contractor, and**
- b. ensure that sensitive data are properly restricted from unauthorized access.**

Audit Scope, Objectives, and Methodology

We have audited the Maryland Insurance Administration (MIA) for the period beginning January 1, 2008 and ending September 28, 2010. 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 MIA's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report of MIA. Our audit did not include a review of three findings contained in our preceding report which relate to the Maryland Health Insurance Plan (MHIP), because MHIP became an independent State agency on October 1, 2008 and will be audited separately.

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 purchases and disbursements, cash receipts, information systems security and control, accounts receivable, producer licensing, and payroll. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MIA'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.

MIA provided support services (such as invoice and payroll processing) to the Maryland Health Insurance Plan during the period from October 1, 2008 through June 30, 2009. These support services are included in the scope of our audit.

MIA'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 the 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 MIA'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 MIA that did not warrant inclusion in this report.

MIA's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MIA regarding the results of our review of its response.

APPENDIX

MARTIN O'MALLEY
Governor

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Lt. Governor



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June 17, 2011

Mr. Bruce Myers
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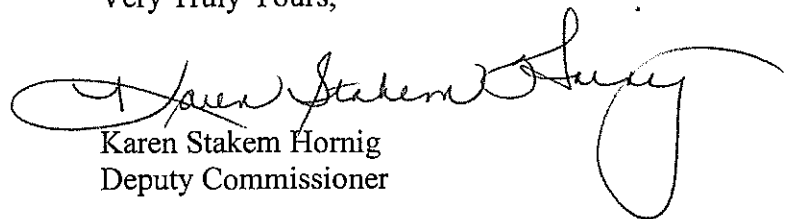
RE: Maryland Insurance Administration Fiscal Audit
January 1, 2008 and ending September 28, 2010

Dear Mr. Myers:

In response to your letter dated June 3, 2011, please find enclosed the Maryland Insurance Administration's response to the audit report comments and recommendations issued by the Office of Legislative Auditors. This response was also transmitted on today's date via electronic mail to response@ola.state.md.us.

If you have any questions or concerns, please feel free to contact me.

Very Truly Yours,



Karen Stakem Hornig
Deputy Commissioner

Enclosure

cc: Therese M. Goldsmith, Insurance Commissioner
Beth Sammis, Deputy Commissioner
Sabrina Well, Associate Commissioner for Administration

Producer Licensing

Finding 1

The Maryland Insurance Administration (MIA) lacked adequate controls to ensure the propriety of producer licenses issued.

Recommendation 1

We recommend that independent supervisory personnel verify, at least on a test basis, producer licenses issued by reviewing the applicable authorized supporting documentation (repeat).

MIA's Response to Recommendation 1

The MIA agrees with Recommendation 1. By the end of the first quarter of FY 2012, the Producer Licensing Unit will implement the following process for verifying the validity of producer licenses. Each month, a member of the Human Resources Unit staff, under the supervision of the Associate Commissioner of Administration, will review fifteen (15) randomly selected applications (both paper and online) along with the applicable supporting documentations. The individual who will be conducting the monthly verification has no other role in the producer licensing process.

Premium Taxes

Finding 2

MIA did not properly reconcile its records of premium tax revenues with the corresponding State accounting records.

Recommendation 2

We recommend that MIA

- a. properly reconcile its premium tax records with the corresponding State records (repeat), and**
- b. promptly resolve and document all identified reconciling items (repeat).**

MIA Response to Recommendation 2

The MIA agrees with Recommendation 2. The Premium Tax function will be transferred to the Fiscal Unit of the Administration Division effective June 20, 2011. By July 10, 2011, procedures will be implemented that require monthly reconciliation, by the 10th day of each month, of the MIA's internal accounting system to the State's accounting system. Additionally, the Fiscal Unit will maintain a log that notes and documents discrepancies and how those discrepancies are resolved.

Additionally, the MIA has begun to consult with the Comptroller's Office and other State agencies that accept online payments. It is MIA's goal to implement an online payment system implemented by the end of calendar year, which will assist in reconciling the internal receipting system to the state's accounting records.

Cash Receipts

Finding 3

MIA lacked adequate controls over its mail receipts.

Recommendation 3

We recommend that

- a. mail receipts be immediately restrictively endorsed and recorded when received, and**
- b. collections not be accessible to the employee who performs the daily deposit verifications.**

MIA Response to Recommendation 3

The MIA agrees with Recommendation 3. Effective June 14, 2011, the MIA's Fiscal Unit began restrictively endorsing all receipts immediately upon their receipt and collections are no longer accessible to the employee who performs the daily deposit verifications.

Since the auditors' last visit, the MIA has made several changes to further ensure adequate separation of duties. After payments are processed by the cashier, the checks and other forms of payment, the cash register tape, and the deposit slip are given to another employee, who validates the deposit slip by running another total on the individual receipts. This employee then gives the deposits, in a sealed bag, to the mailroom clerk for courier pickup. MIA has also changed the safe combination so that our Fiscal Officer, who posts the receipts, no longer has access to the receipts records.

Title Company Referrals

Finding 4

MIA did not investigate numerous title insurance companies referred to it by the Department of Housing and Community Development.

Recommendation 4

We recommend that MIA

- a. assign and investigate all title companies referred by DHCD in a timely manner, and**
- b. take appropriate action against any title company found to be in non-compliance with applicable State regulations.**

MIA Response to Recommendation 4

The MIA is committed to improving the speed with which MAHT cases are handled and to taking appropriate enforcement actions against all title companies found to be in non-compliance with applicable State laws and regulations.

Since the economic downturn of September 2008, the Producer Enforcement Unit has experienced a dramatic increase in the number of enforcement cases against title insurance producers, including a significant increase in the number of MAHT cases. The first MAHT referrals were transmitted to the MIA for enforcement action on December 12, 2007. Cases were transmitted to the MIA in batches of fifty (50) cases at a time until August of 2009 when, due to a change in MAHT's procedures, the MIA received 548 cases.

As is demonstrated in the following table, the Department of Housing and Community Development, in just two separate occurrences, has transferred 1,083 MAHT cases to the MIA. One-half of these came to the MIA shortly before this audit. The MIA anticipates another large group of cases in the summer of 2011.

Calendar Year	Date Referred to MIA	Number of Cases
2008	August 2009	548
2009	August 2010	535
2010 (anticipated)	Summer 2011	519

To respond to this increase, the MIA added two dedicated MAHT officers, three enforcement officers dedicated to title issues, and one supervising enforcement officer dedicated to title-related investigations. However, the growth of the case load continues to out pace staff capacity.

As a result, the MIA is developing a plan to assign and investigate all current cases by the end of calendar year 2011 and decrease the number of MAHT referrals for calendar year 2011 by 50%. This plan will include a multi-faceted approach to address the problem of non-compliance and will include the following.

- **Staffing.** The implementation of a staffing plan to handle the processing of the current MAHT cases transferred from DHCD. The staffing plan will utilize current MIA employees and will be in effect by July 15, 2011.
- **Improved Processes.** Members of the MIA staff began meeting on June 15, 2011 to evaluate current procedures in preparation for the Summer 2011 transmission of MAHT cases. The goal of this review is to ensure that the MIA is employing effective methods for managing the case load including: continued ongoing communication with MAHT staff members; efficient initial evaluation of cases; clear and quick written communication to producers in violation of MAHT laws; and the use show cause orders and other enforcement tools. Staff will have revised procedures in place by July 15, 2011.
- **Improved Producer Education.** Because 75% of the MAHT referrals involve failure of producers to file their annual report, there is a need for the MIA to redouble education efforts to make producers fully aware of their MAHT obligations. In March 1, 2011, the MIA published Bulletin #11-04 to educate producers about applicable MAHT state laws and regulations. Between now and the March 31, 2012 report filing deadline, the MIA

will work with MAHT and with producers organizations (including the Maryland Land Title Association) to raise the awareness of MAHT obligations throughout the State.

- **Regulatory Changes.** The MIA is exploring a regulatory change that would require producers seeking initial or renewal applications to provide information concerning compliance with MAHT requirements.

Information Technology Service Contracts

Finding 5

MIA's contracts with two vendors did not include provisions obligating the vendors to address certain significant information technology security and operational risks.

Recommendation 5

We recommend that, for future IT contracts involving cloud computing services with significant risks, MIA

- a. include provisions that require the vendor to address critical security and operational risks, including safeguards for sensitive data; and**
- b. periodically ensure that the applicable vendors have addressed those risks. For example, MIA should consider requiring the vendor to periodically obtain an independent examination of its controls applicable to MIA's data.**

MIA Response

The MIA agrees with Recommendation 5. On June 15, 2011, MIA's counsel was asked to pursue addendums for the two contracts at issue. The addendums will address information technology security and operational risks. Going forward, all contracts for information technology services will contain provisions that appropriately address security and operational risks.

Information Systems Security and Control

Finding 6

Access controls over a critical server and controls over database and server monitoring were not adequate.

Recommendation 6

We recommend that MIA

- a. review access rights on its critical servers and limit administrative access to only those individuals requiring such access (repeat);**
- b. log all significant database security and audit events; and**
- c. regularly generate and review security and audit logs for critical databases and servers, and document and retain these reviews for future reference.**

MIA Response

The MIA agrees with Recommendation 6. On March 30, 2011, administrative rights were removed for all but two MIS staff members (one being the Director).

Beginning July 1, 2011, an MIS staff member will be tasked with updating the database security and audit events spreadsheet. The spreadsheet will include a field for entry of a daily log of all security and audit occurrences. Each month, MIS staff will be convened to review and discuss those events that raise potential security concerns. The results of this monthly meeting will be logged.

Finding 7

A contractor had excessive access to the MIA network and sensitive personal information stored on the network.

Recommendation 7

We recommend that MIA

- a. secure its network from risks associated with untrusted third parties such as the aforementioned contractor, and**
- b. ensure that sensitive data are properly restricted from unauthorized access.**

MIA Response

The MIA agrees with this recommendation. This account was terminated on March 30, 2011. All future information technology contractors will receive print-outs rather than log-in access.

It must be noted, however, that the MIA only engages the services of contractors who are vetted through the State's procurement process. The MIA does not engage the services of untrusted contractors.

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