

Audit Report

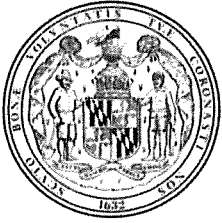
**Department of Budget and Management
Office of Personnel Services and Benefits**

December 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

Karl S. Aro
Executive Director

December 14, 2011

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 Department of Budget and Management (DBM) – Office of Personnel Services and Benefits (OPSB) for the period beginning November 16, 2007 and ending November 2, 2010. OPSB develops the State personnel policies, administers the health care benefit programs for State employees and retirees, and is responsible for other programs, including salary administration and classification, recruitment and examination, and employee relations.

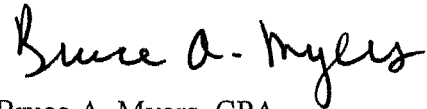
Our audit disclosed that OPSB had requested reimbursements from the Comptroller of Maryland that exceeded the amounts needed to pay healthcare plan administrators for healthcare costs. This practice resulted in an accumulation of funds in OPSB's special bank accounts used to pay healthcare expenditures that exceeded the balance OPSB was authorized to retain in the accounts. As of February 2011, the special bank account balances totaled \$21.4 million, which exceeded the advance authorized by the Comptroller of Maryland of \$2.5 million by \$18.9 million.

Our audit also disclosed that policies regarding the rehiring of employees terminated from State service were not uniform, and certain termination information was not being shared among the State's various personnel systems. Our match of employees in the State Personnel Management System administered by OPSB to employees terminated and barred from future employment by the Maryland Department of Transportation resulted in 61 matches. Our test of these matches found that employees had been subsequently hired by other State agencies.

We also noted deficiencies in internal control and program monitoring, and information system security weaknesses. For example, sensitive personal information was not adequately secured in OPSB's information system.

DBM's response, on behalf of OPSB, to our findings and recommendations is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the audit by OPSB.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive style with a large initial 'B' and 'M'.

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

**Legislative Audit Report on Department of Budget and Management
Office of Personnel Services and Benefits (OPSB)
December 2011**

- **OPSB requested reimbursements that exceeded the related healthcare expenditures paid resulting in an accumulation of funds in its special bank accounts which exceeded the \$2.5 million advance authorized by the Comptroller of Maryland by \$18.9 million.**

OPSB should periodically review the sufficiency of its advances, return any excess balances held, and seek approval of the Comptroller of Maryland for additional advances so that, in the future, reimbursement requests can be limited to actual payments made.

- **Uniform policies were not established governing termination of employees from State service, and certain termination information was not being shared. As a result, we noted certain employees who were disqualified from future employment by the Maryland Department of Transportation that were subsequently hired by other State agencies.**

OPSB, in conjunction with other State agencies that are not in the State Personnel Management System, should attempt to develop uniform policies that govern employees terminated with prejudice from all State agencies. OPSB should also create a comprehensive list of employees terminated with prejudice from all State agencies and make the list accessible to all State agencies for use in future hiring decisions.

- **Deficiencies in monitoring healthcare administrative fees and the audits of health plan administrators were noted. Sufficient internal controls over information system security and cash receipts were not established.**

OPSB should improve its monitoring of programs and internal controls as recommended.

Background Information

Agency Responsibilities

The Department of Budget and Management – Office of Personnel Services and Benefits (OPSB) directs the development of State personnel policies.¹ OPSB also administers the health care benefit programs for State employees and retirees as well as the flexible spending accounts for State employees. OPSB is also responsible for a variety of other programs, including salary administration and classification, recruitment and examination, and employee relations.

Health Benefits Administration

The State obtains health care coverage for its employees and retirees (including their spouses, same-sex domestic partners, and dependents) through three major health insurance providers, which administer preferred provider organization (PPO), point-of-service (POS), and exclusive provider organization (EPO) plans. The State discontinued providing coverage through health maintenance organizations effective July 1, 2009, except for dental insurance. Dental insurance is provided through two plans offered by one provider. The current contracts with the health and dental plan providers cover the period from July 1, 2009 to June 30, 2014.

The State also provides prescription drug and mental health benefits through two other administrators. The current contract for prescription drugs became effective on April 4, 2007 and, including renewals, continues through June 30, 2012. The current mental health contract covers the period from April 1, 2011 to June 30, 2014. Employees and retirees enrolled in the PPO and POS plans are automatically enrolled in the aforementioned mental health plan; the EPO plans include mental health services.

The State directly pays claims for the PPO, POS, EPO, prescription drug, and mental health plans. It self-funds these plans and accepts the risk for all medical costs. Total health benefit payments have increased from approximately \$993 million for fiscal year 2008 to approximately \$1.2 billion for fiscal year 2011, representing an increase of 20.6 percent. Health care enrollment and costs paid in fiscal year 2011 for plan participants, which include State employees, retirees,

¹ OPSB's responsibilities include those policies under the State Personnel Management System, which applies to the employees in most State agencies. Certain agencies, primarily the Maryland Department of Transportation and the University System of Maryland, maintain their own personnel systems and related policies.

same-sex domestic partners, dependents, direct pay participants, and satellite agency participants (such as covered employees of local governments) are summarized in the following table.

Number of Plan Participants in the State of Maryland's Health Benefits Program and the Related Costs for Fiscal Year 2011				
Plan Type	Enrollment (as of 6/30/11)	Claims Paid	Administrative Expenses	Total Payments
PPO	64,369	\$ 430,497,241	\$ 22,839,211	\$ 453,336,452
POS	33,257	215,222,347	14,182,129	229,404,476
EPO	16,256	100,711,857	6,373,743	107,085,600
Prescription Drug	107,808	383,868,823	4,156,448	388,025,271
Mental Health	97,626	16,906,197	2,920,150	19,826,347
Totals		\$1,147,206,465	\$ 50,471,681	\$1,197,678,146

Source: OPSB records (unaudited)

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 14 findings contained in our preceding audit report dated February 19, 2009. We determined that OPSB satisfactorily addressed 12 of these findings. The remaining 2 findings are repeated in this report.

Findings and Recommendations

Special Bank Accounts

Finding 1

Reimbursements requested by the Office of Personnel Services and Benefits (OPSB) exceeded amounts paid to healthcare plan administrators resulting in an accumulation of funds in OPSB's special bank accounts. As of February 2011, the account balances were \$18.9 million greater than the authorized advance.

Analysis

OPSB periodically requested reimbursement amounts that exceeded the payments actually made to the healthcare plan administrators resulting in special bank account balances that were greater than the working fund advance authorized by the Comptroller of Maryland (COM) by \$18.9 million. OPSB maintains four special bank accounts (one for each of the four healthcare plan administrators) that are used to pay healthcare expenditure invoices received weekly from the administrators. Using the State's transmittal process, OPSB subsequently submits requests for reimbursement, generally on a weekly basis, to COM – General Accounting Division (GAD). After GAD approval, the State Treasurer's Office (STO) transfers funds to replenish the special bank accounts.

However, OPSB's requests to GAD did not always agree with the detail invoices received from the healthcare plan administrators which were also submitted to GAD; rather, the requested reimbursement amounts were based on OPSB prepared documents. Submitting reimbursement requests for amounts it cannot substantiate violates GAD policies.

Our test of seven payments to the healthcare administrators and the related reimbursements received from STO during the period from July 2009 to December 2010 disclosed six instances in which the reimbursement amount requested by OPSB exceeded the amount paid to the plan administrators by a total of approximately \$6.9 million. According to the State's accounting records, as of February 2011, COM had authorized a total advance of \$2.5 million from the COM for the four special bank accounts. Nevertheless, OPSB's records as of February 2011 reflected balances (or in effect advances) totaling \$21.4 million in the special bank accounts, which was \$18.9 million greater than the advance authorized by the COM.

OPSB advised us that it has a contractual obligation to pay healthcare claims within 24 hours of receipt of the plan administrators' invoices, and that the \$2.5 million total advance from the COM (which was authorized in July 2000) was not sufficient to cover the healthcare benefit payments processed each week. Thus, OPSB had requested excessive reimbursements in order to accumulate a sufficient cash balance to make the payments to the plan administrators. According to its records, during fiscal year 2010, OPSB disbursed approximately \$729 million from these special bank accounts to healthcare plan administrators (which, on average, is \$14 million weekly). Although the COM has established procedures for obtaining authorization to increase such advances, OPSB did not request an increase. Furthermore, OPSB had not analyzed the account activity to determine the appropriate advance amount. The COM's *Accounting Procedures Manual* requires State agencies to review advances periodically and obtain authorization from the COM to increase the advances as necessary. The *Manual* also requires that reimbursement requests generally be supported by documentation of amounts paid.

Recommendation 1

We recommend that OPSB

- a. in the future, limit its reimbursement requests to the actual payments made to plan administrators; and**
- b. periodically review the sufficiency of its advances, return to the State Treasurer any balances held in excess of the needed advances, and formally request necessary adjustments to the authorized balances as appropriate from the COM.**

Personnel Transaction System

Finding 2 (Policy Issue)

Policies governing the rehiring of employees terminated from State service were not uniform among the State's various personnel systems, and certain termination information was not being shared.

Analysis

Uniform policies that govern the rehiring of State employees terminated from State agencies were not established, and certain termination information was not being shared among the State's various personnel systems.

Although State law authorizes separate personnel systems for certain State entities and authorizes those systems to develop governing regulations, we noted that the

regulations that govern the rehiring of employees terminated with prejudice² from agencies have different requirements. The regulations for the State Personnel Management System (the system for which OBSP is responsible) state that employees terminated with prejudice are barred from future employment in any capacity with the State for three years. On the other hand, regulations that govern employees terminated from the Maryland State Department of Transportation (MDOT) are authorized under the Transportation Article of the Annotated Code of Maryland. Under MDOT regulations, terminated employees from an MDOT agency may be disqualified from future employment at all or certain of the MDOT agencies. Furthermore, each State university under the University System of Maryland (USM) has its own termination and hiring policies. Since State employees do seek other employment opportunities among agencies under the various personnel systems, we believe the State should assess whether there should be uniform policies for rehiring terminated State personnel. As the entity responsible for administering the largest personnel system for Executive Branch agencies, we believe OPSB would be in the best position to coordinate the assessment.

Furthermore, certain mechanisms were not established to share termination information among the various personnel systems. A comprehensive list of employees that were terminated with prejudice from all State agencies was not maintained. Rather, OPSB maintained the list of employees terminated with prejudice only from those State agencies in the State Personnel Management System. This list did not include employees terminated with prejudice from other State agencies that are not part of the State Personnel Management System, including employees disqualified from future employment in MDOT or USM. Furthermore, State agencies that are not in the State Personnel Management System did not have access to the list of employees terminated with prejudice maintained by OPSB. Consequently, employees that were terminated with prejudice from MDOT or USM could be hired by agencies in the State Personnel Management System or vice versa without detection or consideration of past actions.

Our comparison of employees terminated with prejudice from the State Personnel Management System during fiscal years 2008 to 2011 to employees hired by MDOT, USM, or the agencies under the State Personnel Management System during the same period did not disclose any instances in which an employee who was terminated with prejudice being rehired by any State agency. However, our

² Per the Annotated Code of Maryland, an employee may be terminated with prejudice if the employee's actions are egregious to the extent that the employee does not merit employment in any capacity with the State.

data match of the list of MDOT-terminated employees disqualified from future employment at MDOT, or a specified agency within MDOT, to the current list of State employees resulted in 61 matches. Our further test of 12 of those 61 employees revealed 11 of the employees (6 disqualified from employment at any MDOT agency and 5 disqualified from employment at a specified MDOT agency) obtained employment in other State agencies, and 8 of the employees were hired within three years of termination from MDOT agencies. The termination of the final employee (of the 12 tested) by MDOT had not been finalized since the employee had appealed the decision to the Office of Administrative Hearings.

Recommendation 2

We recommend that OPSB, in conjunction with other State agencies that are not in the State Personnel Management System

- a. assess whether uniform policies should be established governing the rehiring of employees terminated with prejudice from all State agencies,**
- b. create a comprehensive list of employees terminated with prejudice from all State agencies, and**
- c. provide access to the comprehensive list of employees terminated with prejudice to all State agencies for use in making future hiring decisions.**

Information Systems Security and Control

Background

OPSB used various automated systems to provide personnel services to the Maryland State Government. In this regard, the Benefit Administration System (BAS) and the State's personnel transaction system are used to support the administration of employee health care benefits and personnel transactions (such as new hires, terminations, and promotions), respectively.

BAS, and its underlying database, support the provision of health care benefits for more than 252,000 active, retired, direct pay, and satellite participants, and their dependents. The BAS database contains sensitive personal information (that is, names, addresses, social security numbers, and dates of birth) for employees, retirees, and dependents.

The personnel transaction system is a web-based application used by numerous State agencies to enter personnel transactions, such as appointments, promotions, and salary adjustments. We were advised that approximately 32,000 personnel transactions involving certain sensitive personal information (that is, employee name and social security number) were processed by the personnel transaction system during calendar year 2010.

Finding 3**Sensitive personally identifiable information was not properly secured.****Analysis**

Sensitive personally identifiable information (PII) was not properly secured.

Specifically, we noted the following conditions:

- Sensitive PII was unnecessarily stored in plain text in log files on a widely accessible web server. We identified three plain text files on this server that contained over 80,000 unique records which included names, social security numbers, addresses, and dates of birth of active and retired State employees and their dependents.
- A web-enabled application transmitted authentication information and sensitive State employee PII in an unencrypted (plain text) format. Unencrypted communications are subject to being intercepted and read by unauthorized individuals. This condition was also commented upon in our preceding audit report.

This sensitive information, which is sought by criminals for use in identity theft, should be protected by appropriate information system security controls.

Recommendation 3**We recommend that OPSB**

- a. either encrypt the plain text files or remove these files from the web server, and**
- b. encrypt communications between remote users and its web-enabled systems (repeat).**

Finding 4**Monitoring of the Benefits Administration System (BAS) database was not adequate.****Analysis**

Monitoring of the BAS database was not adequate. Specifically, we noted the following conditions:

- Certain critical database security and audit events were not logged although the capability to perform such logging existed within the database software. These events should be logged and monitored to help ensure the security of this database. A similar condition was commented upon in our preceding audit report.

- Although the database software was configured to log certain security events (for example, failed logon attempts), the reports generated from these logs only contained security events applicable to one contractor account. Accordingly, most security events that were logged were not reported. A similar condition was commented upon in our preceding audit report.
- We were advised that the security reports that were generated were not reviewed.

Accordingly, significant database security violations could go undetected, thereby permitting unauthorized or inappropriate activities to adversely affect the integrity of the database.

Recommendation 4

We recommend that OPSB

- configure the database software to log all critical security and audit events (repeat);**
- ensure that log reports contain all critical security events for all database users (repeat); and**
- review the aforementioned log reports for unusual items on a timely basis, document these reviews, and retain the documentation for future reference.**

Finding 5

OPSB had not established sufficient controls over the health insurance and prescription drug program eligibility and insurance premium payment records maintained in BAS.

Analysis

OPSB had not established sufficient controls over sensitive health insurance and prescription drug program eligibility records and related premium payments maintained in BAS. For example, our review of the 64 userids with access to BAS disclosed:

- Nine OPSB employees and three group logon IDs had critical access capabilities that enabled the users to add, modify, or delete eligibility records even though the users did not need such access to perform their normal job duties.
- Nine OPSB employees were assigned system capabilities that allowed them to enter health insurance premium payments to BAS without independent supervisory review and approval. Additionally, OPSB did not have a post entry verification process to ensure the propriety of all manual insurance

premium payment entries. As a result of these conditions, inappropriate entries could be recorded in the OPSB's premium payment records.

The State's Department of Information Technology *Information Security Policy* specifies that State agencies are responsible for ensuring separation of duties and assigning appropriate system permissions and responsibilities for agency system users. In addition, the Comptroller of Maryland's *Accounting Procedures Manual* requires State agencies to establish proper segregation of employee duties over financial transactions.

Recommendation 5

We recommend that OPSB comply with the aforementioned *Policy* and *Manual*. Specifically, we recommend OPSB

- a. periodically review critical access capabilities to BAS, and remove access from individuals that do not require such access to perform their normal job duties; and**
- b. establish online independent supervisory review and approval of manual payment entries.**

Health Insurance Administrative Fee

Finding 6

An independent review was not performed of OPSB's calculation of administrative fee payments that totaled \$50.5 million during fiscal year 2011.

Analysis

OPSB had not established adequate internal control over the payment of health insurance administrative fees, as the same supervisory employee calculated the administrative fees and approved and released the fees for payment. Specifically, a supervisor in OPSB's Employee Benefit Division calculated the fees based on the rate specified in the health insurance administrator contracts and the number of participants served during each month by each administrator, and forwarded the calculations to a subordinate employee who entered the payments on the State's Financial Management Information System (FMIS). Subsequently, the supervisory employee who performed the calculations reviewed the payments entered into FMIS and released them to the General Accounting Division for payment. Consequently, there is no independent review of the payments calculated, and erroneous or improper administrative fee payments could be made without timely detection. Our test of administrative fee payments did not disclose any errors.

OPSB contracted with three major health insurance claim administrators to administer the State employees and retirees' health insurance benefits, and pays them administrative fees. According to OPSB records, administrative fees totaled approximately \$50.5 million during fiscal year 2011.

Recommendation 6

We recommend that an employee independent of the administrative fee calculation process review the payments entered into FMIS for accuracy and release them for payment. We advised OPSB on accomplishing the necessary separation of duties using existing personnel.

Audits of Health Plan Administrators

Finding 7

OPSB did not adequately monitor certain aspects of the contracts for audits of health plan administrators.

Analysis

OPSB did not adequately monitor certain aspects of the contracts for audits of health plan administrators, which were intended to help ensure the propriety of claims paid. In this regard, OPSB contracts with a private firm to audit the administrators of the State's health insurance, prescription drug, dental benefit, and mental health benefit plans and the flexible spending accounts. The audits include administrative procedures, such as claims processing, and performance guarantees for all plans. For example, our review disclosed the following conditions:

- OPSB did not ensure that certain claims audits were adequately staffed. The audit contract specifies the audit staffing requirements and OPSB is billed for the related audit hours. However, OPSB did not ensure that those staffing requirements were fulfilled nor obtain supporting documentation (such as time records) for the hours billed.
- OPSB did not document its efforts to investigate and resolve certain findings disclosed in the audit reports related to the claims activity administered by the prescription benefit manager. Specifically, the fiscal year 2008 and 2009 audit reports indicated that OPSB had incurred costs totaling approximately \$45,700 for prescriptions that were filled for individuals who were not covered under the State's prescription drug plan at the time the prescriptions were filled. The audit firm recommended that OPSB and its prescription benefit manager review these findings and take appropriate action, such as reimburse the State. Although we were advised by OPSB management personnel that the findings were reviewed with the prescription benefit

manager, there was no documentation to substantiate how the questionable costs were resolved, and OPSB did not recover any of the costs from the prescription benefit manager.

OPSB relies upon these audits to ensure that claims payments, which according to OPSB records totaled approximately \$1.1 billion during fiscal year 2011, were processed in accordance with the health insurance contract provisions (for example, timely and accurately). These audits are conducted each plan year (which correlates to the State's fiscal year). The most recent contract audited covers the period from April 19, 2007 to July 31, 2011 and, as of April 2011, OPSB had paid the contractor approximately \$3 million during the term of the contract.

Recommendation 7

We recommend that OPSB monitor contractor activity to ensure that

- a. contractual provisions pertaining to staffing requirements are complied with, and**
- b. the external auditors' findings are pursued and resolved and documentation evidencing resolution is maintained.**

Cash Receipts

Finding 8

OPSB had not established adequate controls over certain aspect of the cash receipts process.

Analysis

Controls were not adequate over cash receipts, which totaled approximately \$34.7 million during calendar year 2010. These collections are primarily prescription drug rebates and premium payments for the State health insurance paid by certain participants, such as local governments for their covered employees. Specifically, we noted the following conditions:

- Collections were not recorded immediately upon receipt. Rather, the employee who initially received the collections restrictively endorsed the checks and forwarded the collections to one of four employees, who recorded the collections in a cash receipts log and processed the collections for deposit.

- Cash receipts were not sufficiently safeguarded prior to deposit. Although receipts were kept overnight in a locked cabinet, the key to the cabinet was kept in an employee's desk drawer, and was readily accessible by at least three other employees.
- Verifications to ensure all recorded collections were deposited were not always performed timely. For example, deposit verifications of collections totaling approximately \$2 million received between October 12, 2010 and December 29, 2010 were not performed until January 4, 2011, after we brought the situation to OPSB's attention.

As a result of these conditions, OPSB may not readily establish accountability in the event collections are missed. The Comptroller of Maryland's *Accounting Procedures Manual* requires the immediate recording of cash receipts and that receipts be adequately safeguarded until deposited.

Recommendation 8

We recommend that OPSB

- a. ensure that collections are recorded immediately upon receipt,**
- b. sufficiently safeguard collections prior to deposit by restricting employee access to the locked cabinet, and**
- c. perform deposit verifications timely.**

Audit Scope, Objectives, and Methodology

We have audited the Department of Budget and Management (DBM) – Office of Personnel Services and Benefits (OPSB) for the period beginning November 16, 2007 and ending November 2, 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 and 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 OPSB'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 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 primary areas addressed by this audit included OPSB's payment of State employees and retirees health insurance and prescription drug benefit claims, monitoring of health insurance providers and the prescription drug benefit administrator, monitoring prescription drug discounts and rebates, information system security, cash receipts and administration of flexible spending accounts. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OPSB'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.

Our audit did not include certain support services provided to OPSB by the DBM – Office of the Secretary. These support services (such as payroll) are included within the scope of our audit of the Office of the Secretary. However, our audit did include procurement services provided to OPSB by the DBM – Office of the Secretary, related to the State employee health care contracts.

OPSB'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 OPSB's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to OPSB that did not warrant inclusion in this report.

DBM's response, on behalf of OPSB, 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 OPSB regarding the results of our review of its response.



MARTIN O'MALLEY
Governor

ANTHONY BROWN
Lieutenant Governor

T. ELOISE FOSTER
Secretary

DAVID C. ROMANS
Deputy Secretary

December 14, 2011

Mr. Bruce A. Myers, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Budget and Management has reviewed your draft audit report on the Department of Budget and Management – Office of Personnel Services and Benefits (OPSB) for the period beginning November 16, 2007 and ending November 2, 2010. As requested, our responses to the findings in the report are attached.

If you have any questions or need additional information, you may contact me at 410-260-7041 or Dick Ihrie, the Department's compliance auditor, at 410-260-6058.

Sincerely,

A handwritten signature in cursive script that reads "T. Eloise Foster".

T. Eloise Foster
Secretary

cc: Cynthia A. Kollner, Executive Director, OPSB
David C. Romans, Deputy Secretary, DBM
Joan M. Peacock, Manager, Audit Compliance Unit, DBM
Charles R. (Dick) Ihrie, Compliance Auditor, DBM

~Effective Resource Management~

45 Calvert Street • Annapolis, MD 21401-1907

Tel: (410) 260-7041 • Fax: (410) 974-2585 • Toll Free: 1 (800) 705-3493 • TTY Users: call via Maryland Relay
<http://www.dbm.maryland.gov>

Department of Budget and Management
Office of Personnel Services and Benefits
Response to Legislative Audits Findings and Recommendations
Audit Period: November 16, 2007 to November 2, 2010

Special Bank Accounts

Finding 1

Reimbursements requested by the Office of Personnel Services and Benefits (OPSB) exceeded amounts paid to healthcare plan administrators resulting in an accumulation of funds in OPSB's special bank accounts. As of February 2011, the account balances were \$18.9 million greater than the authorized advance.

Recommendation 1

We recommend that OPSB

- a. in the future, limit its reimbursement requests to the actual payments made to plan administrators; and
- b. periodically review the sufficiency of its advances, return to the State Treasurer any balances held in excess of the needed advances, and formally request necessary adjustments to the authorized balances as appropriate from the COM.

DBM-OPSB Response 1

OPSB agrees with this finding. As part of the annual year-end closing process, OPSB-EBD provides the General Accounting Division (GAD) with a report to document the working fund balances. In addition, the fiscal audit manager reconciles the special bank accounts for the working funds each month and provides GAD with required documentation that reconciliations are being performed. As part of the fiscal year 2010 annual closing, OPSB reported to GAD only \$12M of the \$18.9M balance. This was due to an oversight that has been adjusted as part of the fiscal year 2011 annual closing.

With regard to the specific recommendations:

- a. OPSB now limits its reimbursement requests to the actual payments made to plan administrators.
- b. OPSB is working with GAD to establish procedures for periodic review to ensure sufficiency and proper authorization of necessary account balances.

Personnel Transaction System

Finding 2 (Policy Issue)

Policies governing the rehiring of employees terminated from State service were not uniform among the State's various personnel systems, and certain termination information was not being shared.

Recommendation 2

We recommend that OPSB, in conjunction with other State agencies that are not in the State Personnel Management System

- a. assess whether uniform policies should be established governing the rehiring of employees terminated with prejudice from all State agencies,
- b. create a comprehensive list of employees terminated with prejudice from all State agencies, and
- c. provide access to the comprehensive list of employees terminated with prejudice to all State agencies for use in making future hiring decisions.

DBM-OPSB Response 2

OPSB agrees to assemble a task force representing all of the different personnel systems to discuss potential solutions for assessing whether uniform policies can be established and relevant termination information can be shared. It should be noted, however, that establishing uniform statewide policies governing the rehiring of employees terminated with prejudice involves a number of challenges including the following:

- OPSB does not have authority over MDOT's Personnel System or the University System to require reporting of unsatisfactory service for employees that are terminated for certain reasons. Requiring this would necessitate changes to the State Personnel and Pensions Article and possibly the related statutes. Further, in order to cover all "State" agencies both Legislative Services and the Judiciary would also need to be included.
- The processes at the various State entities with separate personnel systems, which have been developed over a number of years to suit the specific State entity purposes, are different. For example, MDOT does not have "termination with prejudice" in their system and their "disqualification from future employment" does not have an expiration date. A bar from all future employment from MDOT or any other independent personnel system does not automatically bar an individual from all future State Personnel Management System (SPMS) employment. Depending on the position and duties assigned, the issues involved in the bar, and the time that has elapsed since the former employment, the SPMS agency reference check may determine that the individual is eligible for employment.
- OPSB's current process is largely automated and will be even more so with the new Personnel System that will include only SPMS employees. OPSB does not currently have electronic access to MDOT, University System, Legislative Services or Judiciary employee records, so any transfer or maintenance of their records would have to be a manual process. One of the primary goals of DBM's new Personnel System is reducing the number of non-integrated and manual processes in an effort to improve efficiency and cost effectiveness. Due to the various differences among the independent personnel systems, integration of this information into one comprehensive system under DBM would likely be complex and expensive.

Information Systems Security and Control

Finding 3

Sensitive personally identifiable information was not properly secured.

Recommendation 3

We recommend that OPSB

- a. either encrypt the plain text files or remove these files from the web server, and
- b. encrypt communications between remote users and its web-enabled systems (repeat).

DBM-OPSB/DoIT Response 3

We agree with the recommendations as follows:

- a. The plain text files were deleted upon notification. The removal of these files has been validated and is documented.
- b. Currently there are alternate web-enabled addresses, which are accessible only via the Statewide Government Intranet, that utilize an unencrypted communication protocol. These addresses will be eliminated by December 31, 2011 and the only access will be via an encrypted protocol SSL certificate.

Finding 4

Monitoring of the Benefits Administration System (BAS) database was not adequate.

Recommendation 4

We recommend that OPSB

- a. configure the database software to log all critical security and audit events (repeat);
- b. ensure that log reports contain all critical security events for all database users (repeat); and
- c. review the aforementioned log reports for unusual items on a timely basis, document these reviews, and retain the documentation for future reference.

DBM-OPSB/DoIT Response 4

We agree with the recommendations. Processes and procedures were implemented based on the previous audit recommendations, however, not to the extent of the new recommendations. Customized scripting did extract partial information of one user account for periodic review. The customized scripting will be expanded to cover all relevant accounts and critical security events. Logs will be periodically reviewed, documented, and maintained. Monitoring of the additional accounts does require a programming effort, which is estimated to be completed by June 2012.

Finding 5

OPSB had not established sufficient controls over the health insurance and prescription drug program eligibility and insurance premium payment records maintained in BAS.

Recommendation 5

We recommend that OPSB comply with the aforementioned *Policy* and *Manual*. Specifically, we recommend OPSB

- a. periodically review critical access capabilities to BAS, and remove access from individuals that do not require such access to perform their normal job duties; and
- b. establish online independent supervisory review and approval of manual payment entries.

DBM-OPSB Response 5

OPSB agree with the recommendations as follows:

- a. Access to the BAS is reviewed periodically and updated accordingly. DoIT's Application Systems Management (ASM) unit requests an update annually to the list of individuals with BAS access and this is reviewed by the operations director within EBD. OPSB also agrees that group logon IDs should not be used. All individuals that require access to the BAS now have individual login IDs.
- b. OPSB plans to implement supervisory review and approval of manual fiscal transactions by January 2012. This issue will be further addressed in the new Personnel System where online review and approval of all fiscal transactions is a requirement. The new Personnel System has a projected "go live" date of September 2014.

Health Insurance Administrative Fee**Finding 6**

An independent review was not performed of OPSB's calculation of administrative fee payments that totaled \$50.5 million during fiscal year 2011.

Recommendation 6

We recommend that an employee independent of the administrative fee calculation process review the payments entered into FMIS for accuracy and release them for payment. We advised OPSB on accomplishing the necessary separation of duties using existing personnel.

DBM-OPSB Response 6

OPSB agrees with the recommendation and is working to implement the following change in procedures by December 31, 2011 in response. The audit manager and/or audit staff will access the applicable enrollment data from the BAS and calculate the monthly administrative fees. The figures will be posted into FMIS by the fiscal accounting technician, and review and approval will be made by the accounting supervisor.

Audits of Health Plan Administrators

Finding 7

OPSB did not adequately monitor certain aspects of the contracts for audits of health plan administrators.

Recommendation 7

We recommend that OPSB monitor contractor activity to ensure that

- a. contractual provisions pertaining to staffing requirements are complied with, and
- b. the external auditors' findings are pursued and resolved and documentation evidencing resolution is maintained.

DBM-OPSB Response 7

- a. OPSB agrees that on one audit the contractor billed for a position that did not perform the audit functions. However, the contract for the external auditor is a "firm, fixed-fee" contract. As such, the contractor bids a total cost per audit. OPSB-EBD will work with our Office of the Attorney General to determine if overbilling has indeed occurred and, if so, to determine what legal recourse is appropriate. OPSB has also implemented a process that provides assurance that approved staff are working on the various audits.

Audits for fiscal year 2011 and subsequent years are covered under a new fixed price contract where specific milestones are billed rather than hours worked by specific staff. This approach was taken as a result of an OLA recommendation in the previous legislative audit.

- b. OPSB agrees that inadequate documentation was available detailing the resolution of certain findings made by the external contract auditor and is taking steps to ensure this is properly managed. High turnover in the Audit Unit resulted in some documentation steps being missed. OPSB-EBD has redesigned the positions within that unit to address the turnover and has filled all vacancies. Further, the fiscal director is developing a formal procedure that requires the audit manager to submit final resolution documentation to the contract manager to be retained with the contract files. We anticipate this process will be in place by January 31, 2012.

Cash Receipts

Finding 8

OPSB had not established adequate controls over certain aspect of the cash receipts process.

Recommendation 8

We recommend that OPSB

- a. ensure that collections are recorded immediately upon receipt,
- b. sufficiently safeguard collections prior to deposit by restricting employee access to the locked cabinet, and
- c. perform deposit verifications timely.

DBM-OPSB Response 8

OPSB agrees with this finding as follows:

- a. OPSB utilizes several staff members to handle the mail intake. Significant volumes of mail in the form of correspondence, enrollment forms, agency requests, etc. are received each day. In response to the previous audit, it was mandated that all checks must go through our designated lockbox. However, some checks (particularly vendor checks) still come directly to EBD. To address this, we have reiterated to all the vendors that all checks go directly to the lockbox. Further, to ensure that collections are recorded immediately upon receipt we maintain a daily log of checks received directly in EBD.
- b. OPSB locks the secure bank bag in the safe overnight.
- c. Timely verification of all check deposits is performed by the accounting supervisor. We will ensure that documentation is maintained to illustrate timely verification of deposits.

AUDIT TEAM

Mark A. Ermer, CPA
Audit Manager

Stephen P. Jersey, CPA, CISA
Information Systems Audit Manager

Bekana Edossa, CPA, CFE
Roger E. Jaynes, III, CFE
Senior Auditors

Albert E. Schmidt, CPA
Information Systems Senior Auditor

Jason M. Goldstein
Carey L. Harper
Sandra C. Medeiros
Staff Auditors

Jeffrey T. Zankowitz
Information Systems Staff Auditor