Summary of Reports Issued and Recommended Committee Action

December 1, 2008 to June 30, 2009

Presentation to Joint Audit Committee

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July 14, 2009

REPORTS ISSUED DECEMBER 1, 2008 TO JUNE 30, 2009

SUMMARY

Total Reports Issued	52
Reports for Which Committee Action is Recommended	7

Agency	Recommended Committee Action
1. Maryland Insurance Administration	Letter of Concern
2. Department of Budget and Management – Office of Personnel Services and Benefits	Hearing
3. Department of Housing and Community Development – Divisions of Development Finance, Credit Assurance, and Neighborhood Revitalization	Letter of Concern
4. Managing for Results – Performance Measures – Public Safety and Safer Neighborhoods (Performance)	Hearing
5. Subsequent Injury Fund	Hearing
6. Uninsured Employers' Fund	Hearing
7. Maryland Agricultural Land Preservation Fund – Fiscal Year Ended June 30, 2008	Letter of Concern

Summary of Recommended Committee Action

Hearings (Present to Joint Audit Committee)	4
Letters of Concern	3
Total	7

REPORTS ISSUED
DECEMBER 1, 2008 TO JUNE 30, 2009

Agency	Report Date	Number of Pages
Washington County – Office of the Clerk of Circuit Court	12/1/08	5
Department of Transportation – Financial Management Information System Centralized Operations	12/2/08	6
Department of Public Safety and Correctional Services – Eastern Shore Region	12/4/08	10
Washington County – Office of the Register of Wills	12/4/08	4
Wicomico County Public Schools (Financial Management Practices Performance Audit)	12/8/08	52
State Lottery Agency	12/8/08	12
Maryland Insurance Administration	12/8/08	26
Regional Institute for Children and Adolescents – Southern Maryland	12/16/08	8
Department of Health and Mental Hygiene – Thomas B. Finan Hospital Center and Joseph D. Brandenburg Center	12/17/08	6
University System of Maryland Office	1/7/09	20
Department of Labor, Licensing and Regulation – Division of Workforce Development	1/9/09	4
Montgomery County Public Schools (Financial Management Practices Performance Audit)	1/15/09	68
Statewide Review of Budget Closeout Transactions for Fiscal Year 2008 (Special)	1/16/09	15
Department of Transportation – Motor Vehicle Administration – Follow-up Review (Special)	1/16/09	12
Department of Health and Mental Hygiene – Health Professional Boards and Commission, State Board of Physicians, State Board of Nursing	1/21/09	20
Office of Administrative Hearings	2/5/09	9
Department of Housing and Community Development – Office of the Secretary, Division of Finance and Administration, Division of Information Technology	2/19/09	11
Department of Budget and Management – Office of Personnel Services and Benefits	2/19/09	30
Department of Transportation – Maryland Port Administration	2/23/09	20
Department of Labor, Licensing and Regulation – Division of Unemployment Insurance	2/27/09	18
Maryland Health Care Provider Rate Stabilization Fund – January 1, 2008 to December 31, 2008	3/6/09	9
Department of Housing and Community Development – Divisions of Development Finance, Credit Assurance, and Neighborhood Revitalization	3/11/09	22
Dorchester County – Office of the Register of Wills	3/12/09	4
Department of Labor, Licensing and Regulation – Division of Labor and Industry	3/16/09	10
Managing for Results – Performance Measures – Public Safety and Safer Neighborhoods (Performance)	3/19/09	15
Dorchester County – Office of the Clerk of Circuit Court	3/20/09	5
University System of Maryland – University of Maryland, College Park	3/25/09	18

REPORTS ISSUED
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(continued)

Agency	Report Date	Number of Pages
Workers' Compensation Commission	3/26/09	12
Maryland School for the Deaf	4/3/09	6
Kent County – Office of the Register of Wills	4/8/09	4
Maryland Correctional Enterprises	4/8/09	5
Subsequent Injury Fund	4/9/09	20
St. Mary's County Public Schools (Financial Management Practices Performance Audit)	4/9/09	62
Department of Public Safety and Correctional Services – Patuxent Institution and Women's Facilities	4/9/09	10
State Retirement Agency	4/13/09	11
Department of Health and Mental Hygiene – Springfield Hospital Center	4/13/09	10
Department of Budget and Management – Central Collection Unit	4/13/09	22
Department of Budget and Management – Office of the Secretary and Other Units	4/21/09	11
University System of Maryland – University of Maryland Center for Environmental Science	4/23/09	6
Department of Transportation – Office of Transportation Technology Services	4/24/09	11
St. Mary's County – Office of the Register of Wills	4/29/09	4
Comptroller of the Treasury – Central Payroll Bureau	5/4/09	6
Uninsured Employers' Fund	5/6/09	13
St. Mary's County – Office of the Clerk of Circuit Court	5/13/09	5
College Savings Plans of Maryland	5/26/09	7
Potomac River Fisheries Commission – Report for the Year Ended June 30, 2008 (Examination)	6/4/09	5
Department of Public Safety and Correctional Services – Maryland Correctional Pre-Release System	6/8/09	11
University System of Maryland – University of Maryland University College	6/12/09	18
Maryland Agricultural Land Preservation Fund – Fiscal Year Ended June 30, 2008	6/15/09	16
Kent County – Office of the Clerk of Circuit Court	6/16/09	5
University System of Maryland – Salisbury University	6/22/09	16
Maryland Commission on Human Relations	6/26/09	4

Total Number of Reports Issued: 52

1) Maryland Insurance Administration (MIA) (12/8/08 – 26 pages – 15 findings)

- The Maryland Health Insurance Plan (MHIP), which operated within MIA prior to October 1, 2008, did not achieve cost savings, estimated to total approximately $300,000 during fiscal year 2007, because MHIP's third party administrator did not implement a pharmacy benefits exclusion when imposed by MHIP. Under this exclusion, new MHIP participants would, for a specified period of time, be denied pharmacy benefits relating to pre-existing conditions. (Effective October 1, 2008, MHIP became an independent unit of State government.)
- MHIP did not verify that the administrator met certain contract performance standards, such as time limits for making eligibility determinations for MHIP applicants and for paying claims.
- MHIP made a claim for approximately $1.4 million against its former third party administrator for overpayment of benefit claims. The former administrator is disputing this claim, which was based on the results of a claim audit conducted by a consulting firm hired by MHIP.
- Controls over insurance producer licensing were not sufficient. For example, certain employees had system access which allowed them to process and approve licensing applications without independent review and approval.
- MIA did not adequately monitor certain critical provisions of its contract for the testing of insurance agent and broker candidates. As a result, MIA was underpaid approximately $71,000 in test fees during fiscal year 2008.
- Controls over the processing of non-cash credit adjustments to MIA's accounts receivable records were not sufficient. For example, output reports of processed credits were not generated and verified to supporting documentation. Our testing of selected credits disclosed two credits totaling approximately $154,000 which had been issued in error.
- Numerous security and control deficiencies were noted with respect to MIA's information systems. For example, MIA's critical network devices and administrative systems were not protected from external and internal threats.
- MIA did not satisfactorily resolve 6 of the 16 findings in the preceding audit report.

Recommended Committee Action – Letter of Concern

2) Department of Budget and Management – Office of Personnel Services and Benefits (OPSB) (2/19/09 – 30 pages – 14 findings)

- OPSB did not ensure, on a timely basis, that the required contract discounts were obtained from the former pharmacy benefit manager (PBM) for the State's prescription drug benefit program. Significant potential overpayments for plan years 2005 and 2006 were identified.
- Required drug manufacturer rebates totaling approximately $700,000 were not received from the former PBM for plan year 2006.
- OPSB had not taken any actions to determine whether its former PBM engaged in "drug switching" activities within the State's prescription drug plan and, if so, whether the State incurred significantly higher and unnecessary costs.
- OPSB did not adequately pursue recovery from a third-party plan administrator of health care benefit claim payments totaling approximately $534,000 related to possible fraudulent medical claims submitted by certain State employees.
- Health care claim payments subsequently identified by OPSB as potentially ineligible were not adequately followed up and resolved. For example, OPSB did not investigate and conclude on certain claims totaling approximately $3.7 million, nor perform any follow-up review to ensure the eligibility of $100 million in claims identified as potentially ineligible.
- OPSB did not receive timely and complete audit reports related to the State's health benefit plan administrators, as required.
- Controls over key OPSB information systems were not sufficient to protect sensitive employee and systems' information.
- Cash receipts, which totaled $50.8 million in FY 08, were not adequately controlled.
- OPSB had not satisfactorily addressed 5 of the 14 findings in the preceding audit report.

Recommended Committee Action – Hearing

3) Department of Housing and Community Development – Divisions of Development Finance, Credit Assurance, and Neighborhood Revitalization (DHCD) (3/11/09 – 22 pages – 8 findings)

- Complete records of multifamily project cash flow loans were not maintained. This issue has been commented upon in OLA reports since 1998. Consequently, there was no single source within DHCD that provided a comprehensive record of cash flow loan balances and related loan activity. These loans, which totaled approximately $227.6 million as of June 30, 2008, are generally funded with State funds and are only repayable to DHCD if the project operations result in surplus cash as defined by the loans' regulatory agreements.
- Certain required financial reports for multifamily project loans were not always submitted and, when submitted, were not reviewed timely to ensure that the projects were financially stable and were operating in accordance with requirements. DHCD did not impose permissible sanctions when required financial reports were not submitted.
- Appropriate collection actions were not taken on a delinquent Neighborhood Business Works Program loan totaling $688,000. Additional funds were loaned to the delinquent borrower for operating expenses without a documented analysis of project viability.
- Certain Community Legacy Program (CLP) projects were not started timely as required by State regulations, which indicated that the projects may not have been ready to proceed when assistance was received. According to DHCD records, 51 CLP projects that were awarded assistance during the period from April 2005 to August 2007 totaling $4.7 million had not requested any funds as of July 2008.
- DHCD did not obtain sufficient documentation of additional funding commitments from other sources for projects it funded under certain financial assistance programs.
- DHCD had not satisfactorily addressed 5 of the 10 findings in the preceding audit report.

Recommended Committee Action – Letter of Concern

4) Managing for Results – Performance Measures – Public Safety and Safer Neighborhoods (Performance) (3/19/09 – 15 pages)

We conducted a performance audit to determine the accuracy of 13 measures contained within the Public Safety and Safer Neighborhoods portion of the Managing for Results (MFR) - State Comprehensive Plan as reported in the Maryland fiscal year 2009 operating budget request. We also determined whether adequate control systems were in place for collecting, summarizing, and reporting the performance measure data. The audit concluded the following:

- For the 13 measures tested, 2 were Certified, 4 were considered Certified with Qualification, 2 were deemed Inaccurate, and 5 were designated as Factors Prevented Certification.
- For those measures that could not be certified, the reported results were not always consistent with the performance measure descriptions, and documentation was not always available to support the reported results.
- Although the various agencies had certain quality control processes in place, adequate procedures and controls did not exist for certain measures to provide reasonable assurance that applicable agency internal data and third party data used for the measure results were reliable.

As requested by the chairmen of the legislative budget committees, OLA is in the process of systematically auditing the results of the 62 MFR measures contained in the State Comprehensive Plan, which was produced by the Department of Budget and Management (DBM). This audit is the first to be conducted.

The agencies responsible for reporting these results for the 13 measures are the Department of State Police (DSP), the Department of Public Safety and Correctional Services (DPSCS), the Governor's Office for Children (GOC), the Department of Human Resources (DHR), and the Department of Juvenile Services (DJS).

Recommended Committee Action – Hearing

5) Subsequent Injury Fund (SIF) (4/9/09 – 20 pages – 9 findings)

- SIF had established virtually no controls over its accounts receivable records, which were maintained for both SIF and for the Uninsured Employers Fund (UEF), resulting in increased susceptibility to fraudulent activity. For example, the same employee was responsible for many incompatible duties related to accounts receivable and cash receipts. As of January 2009, the accounts receivable balance totaled $27.3 million for both Funds.
- Accounts receivable records maintained by SIF for UEF were not adequately maintained. Some recorded amounts did not agree with the nature of the transaction or lacked support.
- SIF did not comply with Central Collection Unit (CCU) regulations regarding collection activities and timely transfers to CCU for collection.
- Adequate internal control had not been established over cash receipts. The employee who prepared the deposits also performed the deposit verifications and could modify the initial receipt record. During fiscal year 2008, SIF deposited collections totaling approximately $29.7 million, primarily representing payments on accounts receivable.
- Deficiencies in the automated system compromised adequate controls over financial transactions. For example, users had incompatible capabilities on the automated system which, when coupled with the employees' access to cash receipts, created the potential for misappropriation.
- SIF should improve controls over payroll preparation and ensure contractor services are obtained and documented in accordance with State Procurement Regulations.
- SIF had not satisfactorily addressed 5 of the 9 findings in the preceding audit report.

Recommended Committee Action – Hearing

6) Uninsured Employers' Fund (UEF) (5/6/09 – 13 pages – 5 findings)

- UEF had not established sufficient controls over its accounts receivable records, which are maintained on its behalf by the Subsequent Injury Fund (SIF). For example, UEF did not have a process to ensure that all of its transactions, such as assessments, collections and non-cash adjustments, were properly recorded in the accounts receivable records.
- UEF did not reconcile the amounts that it had referred to the Central Collection Unit (CCU) for collection assistance, as reflected on the accounts receivable records maintained by SIF, with the corresponding amounts on CCU's records. Consequently, significant differences were noted.
- Adequate records were not maintained to facilitate debt collection efforts. The accounts receivable system did not provide appropriate aging for UEF receivables and an accurate and up-to-date list of delinquent accounts on payment plans was not maintained.
- UEF did not always adequately pursue the collection of its delinquent accounts in accordance with regulations established by CCU.
- UEF had not established adequate procedures and controls over its cash receipts, which were received by UEF and also by SIF on UEF's behalf. UEF mailed its cash receipts ($296,000 during FY 2008) to SIF rather than depositing them directly. Also, UEF did not ensure that all of its cash receipts ($6.3 million during FY 2008) were properly deposited and recorded in the State's accounting records.
- UEF did not perform verifications of claim payments processed for it by SIF to ensure the payments were processed in accordance with the terms of the Workers' Compensation Commission awards.
- UEF had not satisfactorily addressed the one finding in the preceding audit report.

Recommended Committee Action – Hearing

7) Maryland Agricultural Land Preservation Fund – Fiscal Year Ended June 30, 2008 (MALPF) (6/15/09 – 16 pages – 5 findings)

- The Maryland Agricultural Land Preservation Foundation (MALPF) did not maintain a comprehensive listing or operational database of all easements purchased, to ensure all easements were properly accounted for and reported. According to MALPF's records, as of June 30, 2008, it had purchased 2,018 easements on 275,000 acres of land for a total cost of approximately $556 million.
- Significant discrepancies existed between the cost of easement acquisitions reported by the MALPF to the General Assembly and the related amount reported on the State's accounting records.
- MALPF lacked adequate procedures for ensuring easement acquisition prices were properly calculated.
- County agricultural land preservation programs were not properly certified, resulting in certain counties retaining a higher share of transfer taxes.
- MALPF did not ensure that counties properly used agricultural land transfer taxes that had been retained by the counties in accordance with State laws and regulations, and did not ensure that counties remitted the required amount of unused transfer taxes to the State.
- Easement inspections were not performed in accordance with MALPF's policy to ensure that landowners were in compliance with the provisions stipulated in the easement agreements.
- MALPF had not satisfactorily addressed the five findings in the preceding audit report dated September 4, 2008.

Recommended Committee Action – Letter of Concern