Audit Report

Office of the State Treasurer

June 2019



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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 25, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, House Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the State Treasurer (STO) for the period beginning August 25, 2015 and ending March 27, 2018. STO is responsible for the receipt, disbursement, safekeeping, and investment of funds of the State Treasury. STO is also responsible for procuring banking and financial services for State agencies and maintaining an insurance program for State property and personnel. In addition, STO coordinates the State's general obligation debt functions for the Board of Public Works.

Our audit disclosed that STO had not taken any action to determine the propriety of amounts paid to the Injured Workers' Insurance Fund (IWIF) for State employee workers' compensation claims and related administrative costs, a condition that has been reported upon since 2007. Specifically, STO did not obtain any detailed accountings from IWIF, and did not review IWIF's records, as permitted by the contract, as a means to confirm that the claims reported by IWIF were legitimate State employee claims. In addition, STO did not obtain any support for the annual billings, including documentation that the administrative costs billed properly represented the State's share of total administrative costs incurred by IWIF. During the three-year period ending June 2018, payments to IWIF totaled $242.7 million, of which $201.1 million consisted of claims costs.

Our audit also disclosed that STO's Insurance Division did not always refer delinquent accounts to the State's Central Collection Unit as required by State regulations. STO's Insurance Division is responsible for recovering the cost to repair damages to State-owned property caused by third parties. In addition, 22 contract awards totaling $51.3 million were not published on *eMaryland Marketplace* as required. Furthermore, STO did not establish adequate controls to

ensure the continued propriety of access capabilities assigned to users of three significant information systems. Finally, sensitive personally identifiable information was not being properly protected. We identified two files residing on a server that contained 157,090 and 117,916 unique social security numbers in clear text, with related full names.

Our audit also included a review to determine the status of the four findings contained in our preceding audit report. We determined that STO satisfactorily addressed two of these findings. The remaining two findings are repeated in this report.

STO's response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. In accordance with our policy, we have redacted any vendor names or products mentioned by STO in this document.

We wish to acknowledge the cooperation extended to us during the audit by STO and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Gregory A. Hook

Gregory A. Hook, CPA
Legislative Auditor

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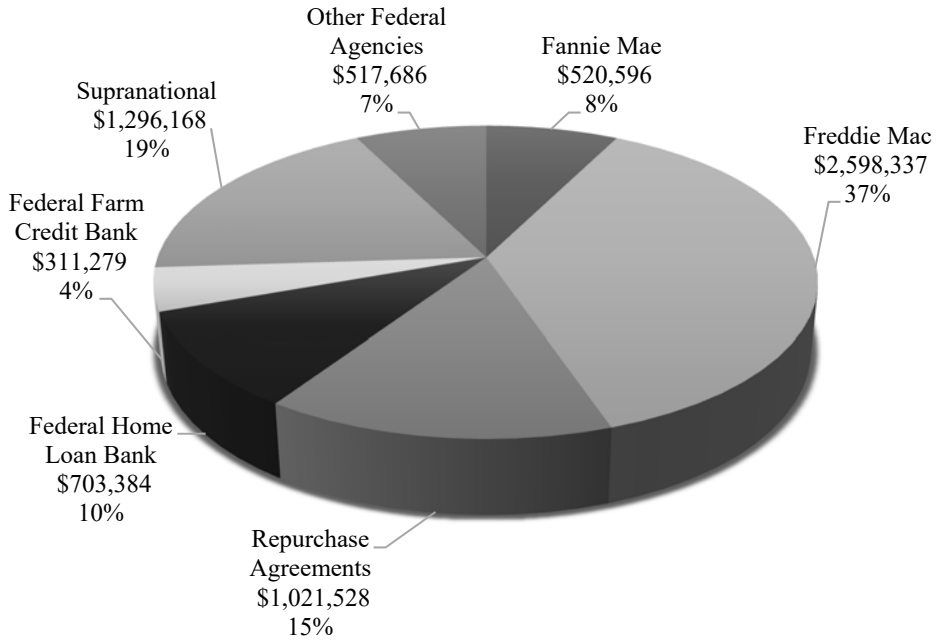
Background Information

Agency Responsibilities

The Office of the State Treasurer (STO) is responsible for the receipt, disbursement, safekeeping, and investment of the funds of the State Treasury. It is also responsible for reconciling the related bank accounts, procuring banking and financial services for State agencies, and maintaining an insurance program for State property and personnel. STO also coordinates the State's general obligation debt functions for the Board of Public Works. According to the State's records, STO's expenditures for fiscal year 2018 totaled approximately $42 million.

According to State law, State Treasury investments are limited to secured bank accounts, full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements collateralized by those securities, certain money market mutual funds, and limited amounts of commercial paper. As of June 30, 2018, the State Treasury investment portfolio, based on market value, totaled approximately $7 billion.

State Treasury Investment Portfolio as of June 30, 2018 (in thousands)



Source- Agency records; Inventory by Market Value as of 6/30/2018.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated September 9, 2016. We determined that STO satisfactorily addressed two of these findings. The remaining two findings are repeated in this report.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	STO has still not resolved longstanding contract issues involving oversight of claims processing services for workers' compensation claims provided by the Injured Workers' Compensation Fund.	**Repeated** (Current Finding 1)
Finding 2	STO did not transfer excess funds totaling $3.9 million from the State's Unpresented Check Fund to the General Fund at the end of fiscal year 2015, as required by State law.	Not repeated
Finding 3	Sensitive personally identifiable information was not properly protected by STO.	**Repeated** (Current Finding 5)
Finding 4	STO did not have a comprehensive information technology disaster recovery plan for recovering its computer operations from disaster scenarios.	Not repeated

Findings and Recommendations

Injured Workers' Insurance Fund

Background

Under the terms of a 1990 contract between the Injured Workers' Insurance Fund (IWIF) and the Board of Public Works (BPW), IWIF provides claims processing services for workers' compensation claims filed by State employees, for which the State is self-insured. The contract provides that the Office of the State Treasurer (STO) is responsible for administering the contract on behalf of BPW. In accordance with State law, effective October 1, 2013, Chesapeake Employers' Insurance Company (CEIC), a private, non-stock, nonprofit insurer, was established and became the State's insurer of last resort for workers' compensation. However, the law allowed IWIF to continue to exist as an instrumentality of the State, its business limited to serving as the third-party administrator for the State's self-insured workers' compensation program.

In our four preceding audit reports dating back to 2007, we have recommended that STO competitively bid these claims processing services as a means to ensure the State is obtaining the best value for the services. In February 2019, we were advised by attorneys in the Office of the Attorney General, however, that should IWIF not be awarded the contract for these services, a statutory change would be required. Specifically, at the time that CEIC was established, the law allowed IWIF employees to remain State employees under IWIF or become employees of CEIC, while prohibiting IWIF from hiring new employees. The law further provided that IWIF shall remain in existence until it no longer has any employees and is terminated by repeal of law. Accordingly, State law creating IWIF would need to be repealed if another provider were to administer the State's workers' compensation claims. As of September 2018, IWIF continued to exist with 206 employees.

Finding 1
STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, a condition that has been outstanding since at least 2007.

Analysis

STO had not taken any action to determine the propriety of amounts paid to IWIF for workers' compensation claims and related administrative costs. Oversight of claims processing services for workers' compensation claims provided by IWIF has been a longstanding issue. In our four preceding audit reports dating back to 2007, we commented that STO did not ensure the propriety of the amounts paid to

IWIF, even though existing contract language requires IWIF to make its related records available to STO for inspection and audit. Payments to IWIF totaled $242.7 million for the period from July 2015 through June 2018, consisting of claims costs ($201.1 million), administrative costs ($41.3 million), and other costs, including settlements ($300,000).

STO makes annual payments to IWIF for the upcoming fiscal year based on IWIF's anticipated claims costs, after certain adjustments by the Department of Budget and Management, such as for an inflation factor. Typically, IWIF's anticipated claims were based on actual claims costs from two years earlier. The contract requires that IWIF make its records available to the State, including the STO or designee, at all reasonable times.

Nevertheless, STO did not perform any verification procedures to confirm that the claims reported by IWIF were for actual payments made on behalf of State employees who suffered work-related injuries. Although permitted by the contract, STO did not request or obtain any reports from IWIF during our audit period to help monitor the contract costs. For example, STO had not requested the detailed support for the anticipated claims that formed the basis for the annual billings and did not request any reports or annual accountings from IWIF during our audit period, such as actual claims paid versus estimated claims paid.

While STO hired a program manager in October 2016 to monitor claims activity, the program manager focused on individual agency risk management and did not audit claims activity. Specifically, the program manager obtained access to the IWIF claims system, which allowed the manager to run claims payment reports; however, these reports were only available to the program manager on an individual State agency-specific basis. Since claims reported by IWIF serve as the basis for the majority of payments to IWIF, it is essential that STO verify the propriety of the reported claims.

Additionally, STO did not verify that amounts charged by IWIF for administrative fees and other claims-related charges were accurate and supported. Specifically, STO did not obtain documentation that the administrative costs billed by IWIF properly represented the State's share of total administrative costs incurred by IWIF. In this regard, documentation we obtained from IWIF during the audit showed that 190 IWIF employees worked partially or exclusively on CEIC claims activity as of September 2018. There is no assurance, therefore, that STO is being billed for only the costs associated with processing State claims.

Recommendation 1
We recommend that STO establish a documented process to determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related administrative costs (repeat). Specifically, STO should obtain detailed support for the claims activity that supports the annual billings as well as for the administrative and other costs, and should audit claims activity, at least on a test basis.

State Insurance Program – Delinquent Accounts

Finding 2
STO did not refer all delinquent accounts receivable to the State's Central Collection Unit (CCU) in accordance with State regulations.

Analysis
Delinquent accounts receivable were not always referred to CCU for further collection efforts in accordance with State regulations. STO's Insurance Division is responsible for recovering the cost to repair damages to State-owned property caused by a third party, such as an individual who damages a State vehicle in a traffic accident. Recovery may be directly from the third party or from the party's insurance carrier. As of June 2018, outstanding receivable accounts for such claims totaled approximately $294,000. Of this total, 37 accounts totaling $231,000 had been outstanding for 3 to 66 months, and should have been submitted to CCU for collection, but were not. During fiscal year 2018, STO collected approximately $1.2 million related to insurance recoveries.

State regulations require that three written demands for payment be made on accounts at 30-day intervals and, if no payments are received, that accounts be considered delinquent and immediately referred to CCU. Although STO had established procedures to meet these requirements, we found that these procedures were not always followed with respect to submitting delinquent accounts to CCU. Furthermore, while STO received an exemption from CCU in 2005 allowing STO to pursue arbitration with debtors owing less than $5,000 rather than submit the accounts to CCU, we were advised by STO management and legal counsel that STO has not participated in arbitration since 2013.

Recommendation 2
We recommend that STO ensure that delinquent accounts receivable are transferred to CCU as required.

Contract Awards

Finding 3
STO did not publish contract awards totaling $51.3 million on *eMaryland Marketplace* as required.

Analysis
STO did not publish contract awards on *eMaryland Marketplace* (*eMM*) as required. Between August 2015 and March 2018, STO procured 22 contracts in excess of $25,000, collectively totaling $51.3 million, primarily for financial services and lease financings on behalf of STO and other State agencies that should have been published on *eMM*. However, as of June 30, 2018, none of the contract awards had been published on *eMM*, which is an Internet-based interactive procurement system managed by the State's Department of General Services. State procurement law and regulations require awards for contracts greater than $50,000 (greater than $25,000 prior to October 1, 2017) to be published on *eMM* not more than 30 days after the execution and approval of the contract.

Recommendation 3
We recommend that STO ensure that all applicable contract awards are published on *eMM* as required.

System Access

Finding 4
STO did not periodically review the propriety of access capabilities assigned to users of three significant information systems.

Analysis
STO did not perform periodic reviews of user access capabilities for its significant information systems. While access to each system is originally requested and approved by an employee's direct supervisor or other designated employee, no subsequent reviews are performed to ensure access assigned continues to be appropriate. Consequently, STO lacked assurance that past user capabilities granted to employees were still necessary to perform their assigned duties. In 2018, STO provided OLA with system generated user access reports for each of three STO critical systems identified by OLA.

- STO granted 6 of its 11 Banking Services System employees with administrator level access. STO uses this online system for several critical banking functions, such as the initiation of wire transfers and adding or canceling stop payment requests. Administrator access allows the individual the capability to grant, modify, or delete system user access.

- STO granted 19 employees access to critical functions in the automated financial management system. This system interfaces with the State's Financial Management Information System and is integral to all aspects of STO's operations, such as processing receipts and disbursements and reconciling the State's bank accounts.

- STO granted 8 employees critical access to the Statewide Personnel System (SPS). SPS is used to record personnel transactions, such as appointments, promotions, and salary adjustments, and for employee timekeeping for payroll purposes.

The State of Maryland *Information Security Policy*, requires agencies to monitor the security controls over their information systems at least annually and states that each agency must establish an authorization process which specifically grants access to information ensuring that access is strictly controlled, audited, and that it supports the concepts of least possible privileges and need to know.

Recommendation 4
We recommend STO

a. perform a periodic documented review of user access capabilities for the significant information systems and ensure users are assigned only those capabilities needed to perform their job duties, and

b. limit access to the administrator role on the online banking system to employees requiring such access.

Information Systems Security and Control

Background

STO maintained an internal computer network which included servers that supported file sharing, email, web based applications, internet connectivity, and were also used for multiple services including processing deposit transactions and invoices. The internal network included a firewall, with an integrated intrusion detection prevention system module.

Finding 5
Sensitive personally identifiable information (PII) maintained by STO was stored without adequate safeguards.

Analysis
Sensitive PII maintained by STO was stored without adequate safeguards. Specifically, as of July 2018, we identified two files residing on a critical server which contained 157,090 and 117,916 unique social security numbers in clear text, with related full names. In addition, we determined that this sensitive PII was not protected by other substantial mitigating controls. STO had initiated a project for conversion of the aforementioned critical server, which included encrypting the PII upon being transferred to a new server, but as of August 2018 the project had not been completed.

This sensitive PII, which is commonly associated with identity theft, should be protected by appropriate information system security controls. The State of Maryland *Information Security Policy* states that agencies should protect confidential data using encryption technologies and/or other substantial mitigating controls. A similar condition was commented upon in our preceding audit report.

Recommendation 5
We recommend that STO properly protect the aforementioned sensitive PII by the use of encryption or other substantial mitigating controls (repeat).

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the State Treasurer (STO) for the period beginning August 25, 2015 and ending March 27, 2018. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine STO's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included contract awards, monitoring State agency bank accounts, reconciling the State's bank accounts, monitoring payments to the Injured Workers' Insurance Fund, and the State Insurance Program. The audit also included information systems security and control. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of STO's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from STO's automated financial record keeping system for the purpose of testing banking and insurance transactions, and from the Statewide Personnel

System (SPS) for the purpose of testing related payroll and leave transactions, including the conversion of employee data to SPS. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

STO'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 findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect STO'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 STO that did not warrant inclusion in this report.

STO'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 STO regarding the results of our review of its response.

APPENDIX

MARYLAND STATE TREASURER

Nancy K. Kopp

June 12, 2019

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Hook,

Enclosed is the State Treasurer's Office (STO) response to the draft audit report for the period beginning August 25, 2015 and ending March 27, 2018, which I am pleased to forward for your review.

I would like to take this opportunity to thank the members of the Office of Legislative Audits, who spent a great deal of time and effort preparing the audit. They were an impressive, professional team and we appreciated their attention and concern. I would also like to mention the outstanding STO employees, who continue to accomplish so much, despite our limited staff and resources.

Sincerely,

Nancy K. Kopp

Nancy K. Kopp
State Treasurer

Enclosures

Office of the State Treasurer

Agency Response Form

Injured Workers' Insurance Fund

Finding 1
STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, a condition that has been outstanding since at least 2007.

We recommend that STO establish a documented process to determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related administrative costs (repeat). Specifically, STO should obtain detailed support for the claims activity that supports the annual billings as well as for the administrative and other costs, and should audit claims activity, at least on a test basis.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	**Recommendation**: Establish a documented process to determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related administrative costs. **Response**: The Office concurs. The Program Manager has developed a documented process to review the propriety of all amounts paid to IWIF for both workers' compensation claims payments and related administrative costs to include maintaining all documents and reports which support this review. A detailed explanation of the exact reviews and activities of the Program Manager are outlined below. **Recommendation:** STO should obtain detailed support for the claims activity that supports the annual billing as well as for the administrative and other costs, and should audit claims activity, at least on a test basis. **Response**: The Office concurs. The Program Manager receives 10 monthly reports from IWIF containing claims activity and has developed a documented process for the review of all of these reports. Additionally the Program Manager visits IWIF on a regular basis and sits with an		

	adjustor or supervisor and reviews claims detail onsite. The Program Manager also conducts tests of claims on agencies with large numbers of claims filed or complex claims and has recently implemented a Small Loss Agency Outreach program to review claims for small agencies to assure proper handling by IWIF. A detailed explanation of the exact reviews and activities of the Program Manager are outlined below. As stated in the analysis, payments to IWIF totaled $242.7 million for the period of July 2015 through June of 2018. This consisted of $41.3 million in administration costs, $26.0 million in settlement costs, and $175.4 million in claims costs and other additional Loss Adjusting Expenses (LAE) costs. The STO hired a Workers' Compensation Program Manager (Program Manager) in October 2016. Annual Injured Workers Insurance Fund (IWIF) premiums are paid annually by August 1st, so both the FY2016 and FY2017 premiums included in the above figures were already assessed and paid to IWIF prior to hiring the new Program Manager. The STO takes its role in contract administration over the State's self-insured workers' compensation plan very seriously. The Program Manager hired by STO to oversee the contract was a prior employee with IWIF, having worked there for 20 years. In addition, she holds the following designations: Commercial Property Charter Underwriter, Certified Fraud Examiner, Associate in Claims, Associate in Premium Audit, Associate in Service, and a Fraud Claim Law Specialist. With her combined experience and credentials, she understands the unique challenges with State workers' compensation claims management and she has a thorough working knowledge of IWIF specific practices and systems to understand the resources available to us as a client to effectively manage their contract. She also has developed strong relationships with State agencies to devise ways to better educate statewide administrators and to develop open lines of communication between IWIF and the agencies to better manage the State's claims. The STO concurs with the current recommendation as well as previous recommendations and has already implemented several corrective actions to address the concerns outlined. One of the first initiatives conducted by the Program Manager was to meet with the IWIF Accounting Manager and the IWIF Vice President of Claims to identify the services provided by IWIF and the make-up of the administrative fees and other claims related charges. During her review, the following issues were identified:

1. Anomalies in the reinsurance claims activity were noted, and STO requested additional detailed information from IWIF for further review. Based on this information, it was discovered that $5.4 million was received for claims and incorrectly applied to Chesapeake Employers' Insurance Fund (CEIC) account when it should have been applied to the State's account.
2. In addition, the Program Manager questioned the percentage of temporary adjuster salaries allocated between CEIC and IWIF. After further analysis, it was determined that the percentage used in the allocation of these expenditures was incorrect. As a result, IWIF made the corrections on their financial statements and applied them to the IWIF fund so that they were appropriately factored into the IWIF premium assessment for the following fiscal year.

Our contacts at IWIF have been very receptive to the recommendations made by the Program Manager, and they have worked with us to develop better processes to monitor our contract and to provide greater transparency in understanding the administration fee calculations. They provide us with monthly financial statements detailing both IWIF and CEIC revenues and expenditures, and have given us access to their claims management system to monitor claims activity. The Program Manager has implemented a monthly detailed financial review of all items included in the administrative fee to allow her to discuss necessary adjustments with IWIF on a continual basis. Specific to this audit the Program Manager has developed a documented process for this financial review to include maintaining all documents and reports which support this review.

In regards to OLA concerns about STO reviewing actual claims activity, CEIC and IWIF claims data are maintained together within a legacy computer system that does not protect or separate medical information between the two entities. CEIC is in the process of implementing a new computer system which will provide for access to IWIF's electronic claim information separately. While STO has been provided global access via the claims management system, it does not provide drill down functionality within specific claims. In order to work around this, the Program Manager goes to IWIF on a regular basis and sits with the claims adjuster or supervisor to review claims detail onsite. During these reviews the Program Manager reviews agencies with large numbers of claims filed and agencies with complex claims.

In February of 2019 the Office entered into a Memorandum of Understanding with the Workers' Compensation Commission which allows access to WCC's database. This allows the Program Manager to have an independent verification of the claims information and status.

In May of 2019 the Program Manager implemented a new Small Loss Agency Outreach program to review claims for smaller agencies to make sure that IWIF is handling those claims in the proper manner. The first review under the new program has been completed and the following agencies were included in that review: Department of Aging, State Archives, Office of Administrative Hearings, MD African American Museum and the Department of Agriculture.

Going forward, during this review, screen shots will be printed for those claims reviewed that are deemed questionable or complex. Aside from individual claims analysis, other factors are taken into account during the claims review process. For example, the Program Manager found inconsistencies in the assignment of claims with subrogation potential, and requested additional reports from IWIF to show the claims flagged for 3rd party and assigned to a subrogation adjuster. As a result of this, she identified areas for additional opportunities for recovery and discussed these findings with IWIF.

In response to OLA's recommendation to obtain detailed claim information to support annual billings, the office receives the current reports on an agency basis each month:

Claim detail by accident date	Injury analysis report
Claim detail by claimant	Injury detail report
Claim detail by location	Upcoming WCC hearings report
Claim payment report	Three or more claims per claimant report
Claim summary report	Monthly loss analysis report

The above reports are also available to individual agencies and the Program Manager has worked with agencies to teach them how to generate these reports and on how to review them. In addition, we receive an annual "claims paid versus administration fee" report listed by agency for all claims as part of the annual assessment analysis. There

	are an average of 7,000 first reports of injury claims per year. Given this large volume, a detailed report would be very large and not practical. While we have implemented many reporting and claims review processes to determine propriety of amounts paid to IWIF for claims and related administrative costs, we concur with OLA that we should document these processes going forward. The Program Manager has developed a documented process for these reviews to include retaining all documents and reports which support the reviews. The Maryland Insurance Administration (MIA) reviews the IWIF Program as administered by the Fund every 5 years to determine whether the State is receiving effective administrative services at a reasonable cost. Their report is to be submitted to the STO on the findings of the review. The MIA has completed its most recent review that specifically addresses claim payments, recoveries, utilization of resources, reinsurance, retirement offsets, best practices and adherence to claim operating guidelines. In addition, its scope included a review of procedures of allocation of administrative expenses, determination of what services are provided to the State, determination as to whether those services are effective and reasonable, and determination of the benefits of using IWIF as the State's TPA. The STO has been an integral part of this review process, meeting regularly with IWIF and MIA, and ensuring the State has valuable input on what should be reviewed. The results from this review have been delivered to the STO and we are in the process of reviewing all of the information. Once our review is completed, we will work with IWIF to address any issues identified by MIA. It is important to point out that while we are working hard to ensure appropriate administrative fees are being assessed to the State, claims related costs and settlements make up almost 80% of our annual premiums. The opportunity for greater savings will be realized through reduced overall claims and loss related expenses. These savings can be achieved through better management of the overall Program and ensuring that State Agencies are doing their part to effectively protect their employees and reduce workplace injuries. As part of our effort to educate State Agencies on better management of their workers' compensation programs, the Program Manager has given presentations at the last two annual State Employee Risk Management Administration (SERMA) conferences, is developing a statewide workers' compensation manual to be shared with all State Agencies, and has conducted several onsite visits across the state with agencies, including Department of Public Safety and Correctional Services, Maryland

	Department of Transportation (MDOT), Department of Environment, Department of Budget and Management (DBM), and the Universities to name a few. The Program Manager has also partnered with DBM to implement several statewide initiatives to better manage workers' compensation activity on the State level, as listed below: • Develop formal processes for enforcing the State's Managed Return to Work Program and educating State Agencies on this program. The goal of this initiative is to help agencies set up a program if one does not exist and to help make existing programs more robust. The focus of this program is to allow workers that are unable to performs their usual job duties due to an injury or illness to return to work in a temporary, limited or transitional duty position as soon as they are able (per physician's release) in order to encourage continued employment. Statistics show that when employees are out for more than six months, they are not likely to return to work. • Review the State's Accident Leave reporting processes to ensure agencies are reporting only leave that was approved by IWIF. The Program Manager compared the list provided by IWIF of approved employees to be paid for Accident Leave on 2/3/2017, which included a total of 85 individuals. When comparing IWIF's list to Central Payroll's corresponding list for the same period, it showed that 535 individuals actually received Accident Leave pay for the pay period sampled. Based on this review, it was determined that, with the implementation of SPS, agencies were not appropriately reporting their employee approved Accident Leave, and there was a lack of communication between DBM and Central Payroll on the responsibility to monitor leave reported through SPS against IWIF reports. As a result, DBM now has a dedicated team that audits these reports for every pay period for SPS agencies, while the Program Manager audits non SPS agencies (MDOT and the Universities). The Program Manager and DBM sponsored several training sessions Statewide to educate agencies on appropriate recording of Accident Leave in SPS.

Office of the State Treasurer

Agency Response Form

State Insurance Program – Delinquent Accounts

Finding 2
STO did not refer all delinquent accounts receivable to the State's Central Collection Unit (CCU) in accordance with State regulations.

We recommend that STO ensure that delinquent accounts receivable are transferred to CCU as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	Due to personnel turnover, the procedures to forward claims to CCU lapsed at several points during the audit period. STO has reinstated the process to ensure all delinquent accounts are forwarded to CCU in accordance with State regulations. This process involves the Insurance Division performing a detailed review of the weekly Accounts Receivable (A/R) Detail Aging report. First, the file is reviewed to determine if it should be forwarded to CCU, or what additional steps need to be completed by the adjuster to reach a final resolution. If the file can be sent to CCU, the Deputy Director will approve the forwarding of the file. If not, a plan of action is developed to be completed by the adjuster; steps may include the obtaining of additional supports, follow up with insurance carrier on disputes, or advising if the file is in litigation. The Deputy Director will then forward the status of the file and reason as to why it is not in CCU, on an Excel worksheet, along with the A/R Detail Aging report to the Budget and Financial Administration Division. *This process continues weekly until* the file is forwarded to CCU or the file is closed. The Budget and Financial Administration Division will monitor the weekly report and follow-up with the Insurance Division on items that need additional information.		

	It should be noted that the Office has submitted a formal deviation request to CCU requesting approval to allow an extension past the 90 days, for certain circumstances such as when the adjuster is in the process of settlement negotiations, disputes, supplemental damages are received, actual salvage values need to be determined or the file is in litigation. CCU requested that STO make a minor adjustment to our request and we are awaiting CCU approval, which is expected to be received no later than June 30, 2019. As of March 11, 2019 all 37 files noted by the Auditor have either been sent to CCU or closed and are no longer on the A/R Detail Aging Report.

Office of the State Treasurer

Agency Response Form

Contract Awards

Finding 3
STO did not publish contract awards totaling $51.3 million on *eMaryland Marketplace* as required.

We recommend that STO ensure that all applicable contract awards are published on *eMM* as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	During the audit period, STO utilized eMaryland Marketplace ("eMM") to post solicitations as required. eMM is designed primarily for the procurement of commodities, and is not conducive for accurately reflecting the types of awards made by our agency since the majority of our procurements are for services and lease financings. In light of this, while STO utilized eMM to solicit procurements, it did not post all awards to eMM. All awards were posted on the STO's website however. Several awards were not posted on eMM as outlined in the finding because the fields used for unit of measure did not accurately reflect the award amounts, and these fields cannot be modified once the solicitation is created. These limitations and challenges are further outlined below. The analysis states that during the audit period, the STO procured 22 contracts in excess of $25,000, collectively totaling $51.3 million, primarily for debt management services. This figure includes $36.1 million for equipment and energy improvement costs purchased by State agencies for which the STO's Debt Management Division procured lease financing. These leases are for equipment or improvements that were already procured by state agencies. During the audit period, eleven of the procurements noted in the finding were for equipment and energy leases. Equipment lease purchase financing procurements are unique in the sense STO procures a rate that is awarded based on the lowest weighted average for the actual dollar		

	amounts to be financed and the rates for the respective lease terms of 3 and 5 years. For energy leases a fixed rate is procured for a period of up to 15 years. We have been working with DGS since 2013 to determine an accurate solution to allow us to post these awards on eMM. In August 2018, we again reached out to DGS and received guidance on an option to record these awards. We have recently issued a lease purchase procurement and in working with DGS were able to post both the solicitation and portions of the award. It should be noted that the total award posted does not accurately reflect all of the relevant information utilized in the calculation on which the award was based. The majority of the remainder of the procurements awarded during the audit period included financial advisor services, insurance broker services, investment advisory services, and lockbox services on behalf of STO and other State agencies. All of these procurements are fee based per hour or line item costs, and are dependent upon volume of individual services as incurred. Again, in these procurements, STO obtains pricing for services in order to provide agencies with a contract vehicle to purchase these services as needed, however there is no fixed cost for the total contract and it is difficult to assign a total contract value. We have received recent guidance from DGS on a way to post these awards. As of March 5, 2019, we were able to post four of the awards included in the analysis onto eMM. We were unable to post any of the lease/purchase awards due to limitations as noted in our response, and we made a conscientious decision not to post awards executed prior to September 2017 as notifications would have been sent to the bidders and we did not want to create any unnecessary confusion. While STO did not post these awards on eMM during the audit period due to the limitations cited above, we have put a process in place to ensure that all awards are posted into eMM utilizing recent DGS recommendations, and would like to reiterate that all awards were posted on the STO website during the audit period. We understand that DGS is procuring a new online procurement solution, and we look forward to advances in this system that will take into account the unique nature of the procurements executed by the STO that will provide an optimal solution for accurately posting our awards.

Office of the State Treasurer

Agency Response Form

System Access

Finding 4
STO did not periodically review the propriety of access capabilities assigned to users of three significant information systems.

We recommend STO

a. perform a periodic documented review of user access capabilities for the significant information systems and ensure users are assigned only those capabilities needed to perform their job duties, and

b. limit access to the administrator role on the online banking system to employees requiring such access.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	STO has implemented a documented semi-annual user access review of all STO accounting applications, treasury (banking) applications, HR systems and interface functions with external entities. This process verifies that all staff members and outside contractors have the appropriate level or least possible system privileges. Written procedures have been established and these documented reviews will be held in June and December. STO IT Division completed and submitted to management an interim review of all systems as of 3/31/2019 and the next regular scheduled review will occur in December, 2019.		
Recommendation 4b	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	STO has concluded a review of all employees with the administrator role in the on-line banking system and has made the required changes to allow only those employees who require such access to be designated as administrators.		

Office of the State Treasurer

Agency Response Form

Information Systems Security and Control

Finding 5 **Sensitive personally identifiable information (PII) maintained by STO was stored without adequate safeguards.**

We recommend that STO properly protect the aforementioned sensitive PII by the use of encryption or other substantial mitigating controls (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5	Agree	**Estimated Completion Date:**	Completed
Please provide details of corrective action or explain disagreement.	The Office concurs and as of December, 2018 there is no PII data being saved and at rest on the legacy system. Additionally, all PII was encrypted and protected during the transmission between the STO and our outside partners. We would like to restate the processes that were in place, during the audit period, to protect PII in transit and processes in place to assist in protecting PII at rest on the Office's systems. 1. The Office employs encryption on all files being transmitted between the Office's computer system and State Agencies over the SWGI network. When connecting to external partners (Banks), the Office implements the use of secure VPN tunnels that are established only when the transmission needs to happen and the file is encrypted during the transmission over this secure VPN connection. After the transmission is complete the VPN tunnel is terminated. Thus, information in transmission is encrypted and protected. 2. The Office maintains strict control over user accesses and reviews system changes and user access logs daily to ensure that the system has not been breached or users have gained unauthorized access. The Office also has specific procedures in place to grant access to users and remove accesses due to change in job roles and/or termination. 3. Connections to the current system can only be established from trusted sources.		

	4. Access to files is limited to viewing individual records for business purposes only. System level access to the database files is extremely limited and for admin and file transmission only. 5. The Office reviews Firewall logs, Intrusion Prevention System (IPS), and Intrusion Detection System (IDS) for attempts to make connections to the current system from an external source. We believe these controls continue to operate effectively to prevent and detect any attempted access to the noted PII data. As referenced in the Auditor's note the Office is in the process of replacing the legacy system with an ERP system. This new ERP system is a more robust and comprehensive solution which contains advanced security features used to safeguard the transmission and storage of sensitive information. Data is encrypted at rest and technologies used meet FIPS 140-2 encryption standards and FedRAMP standards. This project was approved by DoIT, implementation began in September 2018, and it is scheduled to be fully operational in FY 2020. Until the new ERP system has been fully implemented the Office has developed a strategy to address the Auditor's concern regarding PII information from the retirement and payroll files at rest on the legacy system. The office has developed a program that will remove all PII information from these files once they have been received and processed. This program was implemented in December, 2018 and currently there is no PII data being saved and at rest on the legacy system.

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