

**Summary of Reports Issued and
Recommended Committee Action**

November 1, 2013 to November 30, 2014

Presentation to Joint Audit Committee

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December 9, 2014

Reports Issued November 1, 2013 to November 30, 2014

Summary

Total Reports Issued	85
Reports Recommended for Action	10

<u>Agency</u>	<u>Recommended Action</u>
1. Department of General Services – Office of Procurement and Logistics	JAC Hearing ¹
2. State Department of Assessments and Taxation	JAC Letter of Concern
3. State Board of Elections	JAC Letter of Concern
4. State Corporate Purchasing Card Program (Performance)	JAC Letter of Concern
5. Department of Health and Mental Hygiene – Medical Care Programs Administration	JAC Letter of Concern
6. Department of Juvenile Services	JAC Letter of Concern
7. Maryland Department of Aging	JAC Letter of Concern
8. University System of Maryland – University of Maryland Eastern Shore	JAC Hearing
9. Uninsured Employers' Fund	JAC Letter of Concern
10. Maryland Insurance Administration	JAC Hearing

Summary of Recommended Action

Joint Audit Committee (JAC) Hearing	3
JAC Letter of Concern	<u>7</u>
Total	<u><u>10</u></u>

¹ Presented to Joint Audit Committee in November 2013

REPORTS ISSUED
NOVEMBER 1, 2013 TO NOVEMBER 30, 2014

<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
Department of General Services – Office of Procurement and Logistics	11/08/13	30
University System of Maryland – Coppin State University	11/18/13	26
Maryland Energy Administration	11/18/13	5
Canal Place Preservation and Development Authority	11/19/13	9
St. Mary's College of Maryland	11/19/13	18
Video Lottery Operations Revenue – Small, Minority, and Women-Owned Businesses Account (Performance)	12/04/13	5
Department of Veterans Affairs	12/06/13	16
State Department of Assessments and Taxation	12/16/13	30
Baltimore City – Office of the Trust Clerk to the Circuit Court	1/06/14	4
Department of Health and Mental Hygiene – Potomac Center	1/07/14	10
Statewide Review of Budget Closeout Transactions for Fiscal Year 2013 (Special)	1/13/14	16
Comptroller of Maryland – Compliance Division	1/14/14	22
Somerset County – Office of the Register of Wills	1/23/14	4
John L. Gildner Regional Institute for Children and Adolescents	1/28/14	4
Prince George's County – Office of the Register of Wills	1/30/14	5
Somerset County – Office of the Clerk of Circuit Court	2/04/14	5
Review of the Actions Taken by the University of Maryland Eastern Shore to Resolve Repeat Audit Findings in Response to the April 2013 Joint Chairmen's Report (Special)	2/04/14	4
Prince George's County Public Schools (Financial Management Practices Audit)	2/19/14	44
Prince George's County – Office of the Clerk of Circuit Court	2/27/14	6
Department of Labor, Licensing and Regulation – Division of Occupational and Professional Licensing	2/27/14	14
Review of the Actions Taken by the Department of Public Safety and Correctional Services – Central Region Finance Office to Resolve Repeat Audit Findings in Response to the April 2013 Joint Chairmen's Report (Special)	3/05/14	4
Wicomico County Public Schools (Financial Management Practices Audit)	3/05/14	30
Comptroller of Maryland – Field Enforcement Division	3/07/14	5
Department of Transportation – Office of Transportation Technology Services	3/24/14	12
State Board of Elections	3/24/14	22
State Corporate Purchasing Card Program (Performance)	3/26/14	24
Review of the Actions Taken by the Department of Labor, Licensing and Regulation to Resolve Repeat Audit Findings in Response to the April 2013 Joint Chairmen's Report (Special)	3/27/14	5
Maryland Transportation Authority	3/27/14	8
Review of the Documents Provided by the Maryland Health Benefit Exchange (Special)	4/03/14	31
Review of the Actions Taken by the Department of Human Resources – Child Support Enforcement Administration to Resolve Repeat Audit Findings in Response to the April 2013 Joint Chairmen's Report (Special)	4/03/14	3

REPORTS ISSUED
NOVEMBER 1, 2013 TO NOVEMBER 30, 2014
(Continued)

<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
Review of the Actions Taken by the Maryland Department of the Environment to Resolve Repeat Audit Findings in Response to the April 2013 Joint Chairmen's Report (Special)	4/07/14	4
Maryland Food Center Authority	4/08/14	6
Department of Health and Mental Hygiene – Deer's Head Hospital Center	4/10/14	5
Department of Health and Mental Hygiene – Medical Care Programs Administration	4/25/14	26
Maryland Department of Planning	4/25/14	4
University System of Maryland – Bowie State University	5/05/14	16
Video Lottery Operation Licensees – Minority Business Participation (Performance)	5/14/14	16
Baltimore County – Office of the Clerk of Circuit Court	5/14/14	5
Baltimore County – Office of the Register of Wills	5/14/14	5
Department of Juvenile Services	5/15/14	26
Department of Transportation – Motor Vehicle Administration	5/19/14	22
Department of Health and Mental Hygiene – Vital Statistics Administration	5/27/14	10
Baltimore City – Office of the Clerk of Circuit Court	5/27/14	12
Comptroller of Maryland – Information Technology Division (Fiscal Operations)	6/16/14	4
Potomac River Fisheries Commission – Report for the Year Ended June 30, 2013 (Examination)	6/16/14	9
Office of People's Counsel	6/19/14	6
Maryland Agricultural Land Preservation Fund – Fiscal Year Ended June 30, 2013	6/19/14	6
Department of Health and Mental Hygiene – Regulatory Services	6/19/14	12
Department of Human Resources – Office of the Secretary and Related Units	6/24/14	22
Carroll County – Office of the Clerk of Circuit Court	6/25/14	5
Washington County – Office of the Clerk of Circuit Court	6/25/14	5
Anne Arundel County Public Schools (Financial Management Practices Audit)	6/25/14	34
Regional Institute for Children and Adolescents – Baltimore	6/30/14	6
Maryland Department of Aging	7/01/14	22
Washington County – Office of the Register of Wills	7/02/14	6
Carroll County – Office of the Register of Wills	7/15/14	5
Office of the State Treasurer	7/15/14	14
Board of Public Works	7/18/14	5
Talbot County – Office of the Register of Wills	7/21/14	5
Department of Health and Mental Hygiene – Eastern Shore Hospital Center	7/25/14	5
Department of Human Resources – Social Services Administration	8/07/14	12
Subsequent Injury Fund	8/08/14	12
Department of Health and Mental Hygiene – Office of the Chief Medical Examiner	8/11/14	5
Department of Labor, Licensing and Regulation – Office of the Secretary – Division of Administration – Division of Workforce Development and Adult Learning	8/12/14	20
Department of Natural Resources	8/18/14	20

REPORTS ISSUED
NOVEMBER 1, 2013 TO NOVEMBER 30, 2014
(Continued)

<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
Talbot County – Office of the Clerk of Circuit Court	8/21/14	6
Office of the Public Defender	8/21/14	17
Department of Health and Mental Hygiene – Developmental Disabilities Administration – Follow-up Review (Special)	8/25/14	7
Department of Labor, Licensing and Regulation – Division of Racing	8/26/14	5
Review of Local Government Audit Reports – Fiscal Year Ending June 30, 2013 (Special)	9/11/14	13
Somerset County Public Schools (Financial Management Practices Audit)	9/15/14	30
Maryland Thoroughbred and Harness Horse Racing Tracks (Special)	9/15/14	6
Department of Health and Mental Hygiene – Mental Hygiene Administration	9/18/14	13
Maryland Legal Services Corporation	9/18/14	5
University System of Maryland – University of Baltimore	10/01/14	10
Department of Transportation – Maryland Port Administration	10/01/14	7
Review of Community College Audit Reports – Fiscal Year Ending June 30, 2013 (Special)	10/02/14	7
Department of Health and Mental Hygiene – Alcohol and Drug Abuse Administration	10/07/14	5
Department of General Services – Office of the Secretary and Other Units	10/08/14	6
Morgan State University	10/09/14	15
Review of Department of State Police Aviation Command Mission Data in Response to the April 2014 Joint Chairmen's Report (Special)	10/21/14	8
Department of Public Safety and Correctional Services – Criminal Injuries Compensation Board	10/27/14	5
University System of Maryland – University of Maryland Eastern Shore	11/07/14	32
Uninsured Employers' Fund	11/07/14	22
Maryland Insurance Administration	11/20/14	34

Total Number of Reports Issued: 85

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

1) Department of General Services – Office of Procurement and Logistics (OPL) (11/8/13 – 30 pages – 13 Findings)

- The structure of the five-year \$305 million State fuel contract procurement may have limited competition, resulting in only one bidder being eligible for the contract award. OPL did not consider rebidding the contract to provide greater assurance that the State received the best value. OPL also did not timely obtain certain contract deliverables, such as proof of insurance, and did not ensure State agencies were billed the proper fuel rates.
- A deliverable specified under the \$3.7 million eMaryland Marketplace (eMM) contract was not implemented as intended and OPL did not seek to modify the related contract price. In addition, certain features of eMM that would enhance the documentation, security, and efficiency of procurements, such as the electronic bid function, were not being used by State agencies.
- OPL did not document that it was in the best interest of the State to participate in certain Intergovernmental Cooperative Purchasing Agreements (ICPAs) valued at \$41.5 million. ICPAs are contracts that are intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. OPL also did not ensure one ICPA vendor was pricing its goods in accordance with the related contract, resulting in certain pricing discrepancies going undetected.
- OPL assessed fees on certain contracts without statutory authority, without disclosing the fees to appropriate control agencies, and without ensuring that vendors subsequently remitted the fees.
- OPL did not ensure that prices of goods and services offered by providers that receive preferences for State agency purchases of goods and services were set at fair market value. For example, OPL did not determine and publish the fair market prices of all goods and services offered by Maryland Correctional Enterprises. OPL also did not adequately monitor the State's Employment Works Program designed to facilitate the distribution of the State's procurements of goods and services among community service providers and businesses owned by individuals with disabilities.
- OPL did not exercise appropriate oversight over DGS-controlled Statewide purchasing transactions, State property, and DGS equipment.

**Recommended Committee Action – Hearing (Presented at the Committee's
November 2013 Meeting)**

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

2) State Department of Assessments and Taxation (SDAT) (12/16/13 – 30 pages – 11 Findings)

- Certain aspects of SDAT's quality assurance process for real property assessments needed improvement to help ensure local assessment offices were complying with its policies. For example, SDAT had not established written policies specifying the documentation to be prepared by local assessment supervisors evidencing their review and approval of assessment values. Furthermore, SDAT policies lacked specificity regarding the documentation to be maintained to support certain assessment values and to evidence the review and approval of those values by local office supervisors.
- Physical exterior inspections were not performed for all properties every three years as required by State law and a record of inspections performed was not maintained. At the time of the audit, the State's total assessable real property tax base was valued at approximately \$690 billion.
- SDAT's centralized real property database system (Assessment Administration and Valuation System - AAVS) had access vulnerabilities that placed critical assessment data at risk of unauthorized modification. For example, all AAVS users, including those with read-only access could modify critical data without a record identifying the changes being prepared. Furthermore, SDAT did not establish procedures to ensure that certain data (such as property sales and permit information) received from local jurisdictions were properly recorded in AAVS.
- Personal property returns submitted by businesses for calendar years 2008 through 2011 had not been reviewed to ensure the values reported to SDAT were proper, and appropriate actions were not taken to identify businesses that failed to file or submitted returns late. SDAT also had not completed audits of applications received from individuals who qualified for homeowners' and renters' tax credits during calendar years 2009 through 2011.
- Security and control weaknesses were noted with respect to SDAT's information systems and network, and proper internal controls were not established for certain payments to contractors and for the processing of cash receipts.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

3) State Board of Elections (SBE) (3/24/14 – 22 pages – 9 Findings)

- SBE's bundling of tasks in a consolidated procurement of its voting system support services contract in 2010 may have resulted in limiting competition. Only one proposal for \$20.9 million was received and SBE could not provide sufficient documentation that evaluations of the technical and price proposals were performed to ensure that costs were reasonable and that all requirements were met prior to awarding the contract. Additionally, SBE did not modify the voter system support services contract when the contract's scope was significantly reduced and did not submit contract modifications to the Board of Public Works, as required by State regulations.
- SBE had not established internal controls over purchasing transactions to ensure they were properly reviewed and approved. According to the State's accounting records, during fiscal year 2012, SBE's expenditures through the Financial Management Information System totaled approximately \$11 million of which \$9.2 million were processed without sufficient approval. Furthermore, appropriate justification was not always provided for sole source procurements.
- Procedures over cash receipts, which totaled approximately \$7 million in fiscal year 2012, lacked control and accountability. For example, deposit verifications were not properly performed and deposits were not made timely.
- SBE did not adequately investigate and resolve delinquent accounts receivable totaling \$2 million that were noted in our preceding audit report, and did not adequately review non-cash credit adjustments, which totaled approximately \$1.4 million during our audit period.
- SBE had not recovered indirect costs for federal grants because it did not prepare an indirect cost recovery plan as required by State policy. Consequently, a portion of the federal funds received for the grants, which could have been used to cover certain indirect costs of administering the grants, was instead used for direct program costs. According to the State's records, during fiscal years 2010 through 2012, federal fund expenditures for the aforementioned grants totaled approximately \$19.8 million.
- Potential security concerns over the Online Voter Registration System, which allows citizens to register to vote and update voter registration records online, were noted in September 2012 by an independent security research team, but not properly addressed by SBE until fiscal year 2014. In addition, adequate procedures were not in place to ensure convicted felons serving court-ordered sentences were removed from the voter registration database.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

4) State Corporate Purchasing Card (CPC) Program (Performance) (3/26/14 – 24 pages – 2 Findings)

We conducted a performance audit of the State's CPC program to identify processes and data analysis techniques that could be used to enhance the integrity of the Program. For fiscal year 2013, State CPC purchases totaled \$260 million and since inception of the Program through June 30, 2013, State agency purchases have totaled \$3 billion.

The Comptroller of Maryland – General Accounting Division (GAD) has established certain policies and practices to help ensure that CPCs are used for appropriate purposes. Both automated and manual process controls have been established. However, additional actions should be taken by GAD to improve controls and further promote the integrity of the CPC program.

- GAD had not required State agencies to use L-3 data to assist in monitoring cardholders' purchasing activities. L-3 data, which are available from the purchasing card bank, includes significant descriptive information captured by certain merchants for each purchase, such as item description and quantity, combined with detailed merchant information and cardholder information. Our examination of L-3 data identified four cardholders who made inappropriate CPC purchases which, based on our investigation and the investigations of the agencies involved, totaled \$255,000. We found that L-3 data item descriptions alone can raise suspicion, such as the purchase of obviously inappropriate items like guitars and toy soldier figures. Also, attempts to conceal improper purchases are obvious when the items purchased described in the L-3 data do not agree to the cardholders' descriptions of the items purchased as recorded in their purchase activity logs.
- GAD had not established or sponsored orientation and training programs for agencies on other available techniques for analyzing and assessing the propriety of CPC transactions. These techniques include reviewing or identifying declined transactions, multiple vendors at one address, similar employee and vendor addresses, high dollar volume of purchases by one cardholder from an obscure vendor, and purchases structured to avoid transaction limits.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

5) Department of Health and Mental Hygiene – Medical Care Programs Administration (MCPA) (4/25/14 – 26 pages – 9 Findings)

- Two federal audits recommended recoveries from the State. For example, an audit issued in December 2013 disclosed that MCPA drew down \$115.3 million in federal funds for fiscal years 2009 through 2011 that were not supported by actual expenditures. MCPA generally agreed with the audit findings and refunded or would refund the questioned reimbursements.
- MCPA did not adequately monitor certain vendors contracted to assist in verifying amounts billed by hospitals, long-term care (LTC) providers, and Managed Care Organizations (MCOs) and to recover related overpayments. For example,
 - Audits of medical records to ensure hospital services billed were actually provided were not conducted for hospital claims after 2007. Furthermore, MCPA did not adequately monitor the vendor responsible for ensuring hospital charges were for medically-necessary procedures and services. Payments for hospital services totaled \$1.1 billion in fiscal year 2012.
 - MCPA did not conduct patient credit balance audits at LTC facilities prior to October 2011 to identify funds due the State from provider billing errors, duplicate payments, and/or third-party collections. Further, cost settlements with the facilities were not conducted on a timely basis. Payments to LTC facilities totaled \$1.1 billion in fiscal year 2012.
 - MCPA did not ensure a vendor responsible for enrolling new applicants in MCOs met certain contract performance requirements. In response to our concerns, MCPA recovered \$900,000 from the vendor.
- MCPA did not take appropriate action to maximize the recovery of funds from other sources, such as third-party insurers and Medicare, to reduce Medicaid costs.
 - MCPA did not ensure that referrals of potential third-party insurance for Medicaid recipients were properly and timely investigated. Supervisory reviews were not conducted to ensure investigations were completed, appropriate conclusions reached. MCPA received 89,000 referrals during fiscal year 2013.
 - Procedures were inadequate to maximize Medicare funding. For example, a process was not in place to ensure that Medicaid recipients age 65 or older had applied for Medicare as required by State regulations (to reduce State costs).
- MCPA needs to continue efforts to address longstanding deficiencies with recipient enrollment procedures as well as to improve information system security.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

6) Department of Juvenile Services (DJS) (5/15/14 – 26 pages – 12 Findings)

- DJS had not established proper internal controls in a number of areas to ensure that financial transactions were properly authorized and supported.
 - User access capabilities were not properly restricted to prevent unauthorized disbursement transactions in the State's Financial Management Information System and evidence was lacking to ensure that the alternate approval process established by DJS was effectively performed. Numerous employees could initiate and approve certain disbursement transactions without independent approval.
 - Adequate procedures were not in place to verify the accuracy of billings totaling approximately \$2.3 million that were paid for electronic monitoring services.
 - Several vendors were routinely used for individual small purchases of goods and services without obtaining competitive bids as required, and certain maintenance contracts were split to circumvent procurement oversight and documentation requirements.
 - Corporate purchasing card transactions were not thoroughly reviewed and approved, allowing one employee to make \$91,000 in unauthorized purchases.
- DJS did not ensure that youth care contractors submitted financial statements as required nor did DJS conduct timely audits of youth care contract expenditures to identify overpayments as required by its policy. Approximately 53% of financial statements reviewed were submitted after the required due date and 34% of the required audits were not completed within one year after receiving the statements.
- DJS did not ensure that certain payroll adjustments and caseworker determinations of youths deemed ineligible for federal funding were subject to supervisory approval. For example, out of an OLA test of 42 adjustments for other payroll earnings totaling \$612,000, DJS could not provide documentation of supervisory approval for 13 payments of \$220,000.
- DJS did not adequately control access to the restitution accounts receivable system and critical transactions were not reviewed timely. These deficiencies allowed overpayments totaling \$134,000 to occur without timely detection.
- DJS' access and monitoring controls over its automated case management system were not sufficient to properly protect critical sensitive data.
- Physical inventories of equipment were not conducted at required intervals and related record keeping was deficient.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

7) Maryland Department of Aging (MDOA) (7/1/14 – 22 pages – 7 Findings)

MDOA is responsible for identifying the needs of the State's elderly and ensuring that those needs are met through a comprehensive network of accessible services at the local level. MDOA has divided the State into 19 geographical regions and each region is served by a local Area Agency on Aging (AAA), which is either a local government agency or a nonprofit organization.

- MDOA lacked evidence to substantiate that certain activities of AAAs were properly monitored.
 - A comprehensive policy was lacking to ensure that financial reviews of the AAAs were subject to supervisory review and contained adequate documentation to evidence the appropriate use of State grant funds, which totaled \$17.9 million during fiscal year 2013. OLA's examination of selected MDOA reviews found that the results were poorly documented and lacked approval by supervisory personnel.
 - Documentation of procedures performed and evidence examined by MDOA staff during AAA site visits to verify eligibility of participants in two State elderly care programs was not sufficient.
 - AAA administrative expenditures relating to Senior Care grant funds were not monitored to ensure they did not exceed the limit allowed by MDOA policy. According to expenditure reports submitted by seven AAAs, several AAAs exceeded that limit by a total of \$552,000 for fiscal years 2012 and 2013.
 - The timeliness of initial eligibility determinations and annual redeterminations for participants of the Medicaid Waiver for Older Adults Program performed by AAAs was not monitored, and there were frequent processing delays.
- Requests for reimbursement of federal fund expenditures were delayed resulting in \$39,000 in lost interest income to the State, and MDOA could not substantiate federal fund accrued revenues totaling \$3.7 million as of June 30, 2013.
- Authentication, monitoring, and backup controls over the MDOA Medicaid billing system were not sufficient.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

8) University System of Maryland (USM) – University of Maryland Eastern Shore (UMES) (11/7/14 – 32 pages – 13 Findings)

- UMES did not exercise effective oversight of grants awarded to its affiliated Foundation totaling \$640,000.
 - Two UMES management employees, who at different times during the audit period also served as Foundation Executive Director, were allowed to exercise virtually complete control over the grant transactions for both entities. In addition, the related scope of the agreements between UMES and the Foundation was vague and immeasurable. Also, UMES provided grant funding to the Foundation in advance of the expenditures being incurred; but did not obtain documentation to ensure the funds were spent for their intended purposes. Finally, OLA was unable to account for a \$25,000 UMES grant payment to the Foundation, a condition which was referred to the Office of the Attorney General.
 - The management employee who currently served as the Foundation Executive Director was involved in business activities with the Foundation that were not disclosed to UMES as required and raised questions regarding a potential conflict of interest. This employee conducted business with the Foundation through a limited liability corporation that this employee owned and these business activities were financed, in part, by State grants provided by UMES. In addition, this employee did not always file financial disclosure statements with the State Ethics Commission.
 - UMES disbursed federal funds totaling \$385,000 to its affiliated Foundation for purposes inconsistent with applicable federal regulations.
 - UMES and its affiliated Foundation did not comply with certain USM policies. For example, resources provided to the Foundation by UMES were not accurately disclosed and required reports were not always submitted by the Foundation.
- UMES had not established adequate controls over certain aspects of its student accounts receivable. For example, non-cash credit entries related to housing and board charges were not adequately reviewed to ensure propriety and independent reviews were not performed to ensure all eligible student accounts were timely referred to the State's Central Collection Unit.
- Numerous security and control issues were noted regarding UMES' information systems. For example, controls over UMES accounts and passwords were not sufficient to protect this information, and personally identifiable information was inappropriately stored in clear text.

Recommended Committee Action – Hearing

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

9) Uninsured Employers' Fund (UEF) (11/7/14 – 22 pages – 7 Findings)

UEF is responsible for paying workers' compensation awards to claimants who failed to receive payments from their employers because they did not have workers' compensation insurance, as required. UEF is also responsible for collecting assessments from certain employers and insurance companies to fund these awards.

- Certain deficiencies existed with UEF's processes to bill, monitor, and collect assessments on Workers' Compensation Commission (WCC) awards, as well as medical payments made on behalf of claimants, from insurance companies and employers.
 - UEF did not have a process to ensure the accuracy of WCC awards entered in its automated accounts receivable system. The awards are the basis for assessments and billings to employers and insurers. Furthermore one employee could process adjustments to receivable records without independent review and approval. As of November 5, 2013, UEF's account receivable balance totaled \$51.6 million.
 - UEF's automated accounts receivable system did not generate certain notices to facilitate collection of delinquent accounts and did not generate accurate accounts receivable aging reports. Furthermore, UEF did not refer delinquent accounts to the State's Central Collection Unit (CCU). According to UEF's records, \$12.9 million of the November 5, 2013 receivable balance should have been referred to CCU, based on the accounts age, but had not been.
- UEF indemnity payments made to claimants, totaling \$3.6 million in fiscal year 2013, were not subject to independent review and UEF did not obtain supporting documentation for \$1.4 million in fiscal year 2013 payments made to its third-party administrator for managing certain claimants' indemnification and medical expenses.
- UEF collections totaling \$8.8 million in fiscal year 2013 were not properly verified to deposit and responsibilities for performing certain functions were not properly separated.
- UEF's information systems controls over security event monitoring and user access were not sufficient. Furthermore, a disaster recovery plan was not in place and critical programs and data files were not backed up offsite.
- UEF did not comply with State procurement regulations when it procured certain services.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

November 1, 2013 to November 30, 2014

10) Maryland Insurance Administration (MIA) (11/20/14 – 34 pages – 14 Findings)

As a result of the significance of our audit findings, OLA determined that MIA's fiscal accountability and compliance level was unsatisfactory, in accordance with the rating system OLA established in conformity with State law.

- MIA's procurement of a new automated premium tax system did not comply with State procurement regulations and one MIA management employee exercised control over virtually all aspects of the procurement and implementation of the new system. In addition, the system development and implementation proceeded without a plan and related specifications, and while the new system provided certain new capabilities, other capabilities that were available in the former system were lost which, in absence of proper manual controls, adversely impacted MIA operations. MIA collected premium taxes totaling \$458 million during fiscal year 2014.
- MIA allowed the premium tax system contractor complete control over the system. Also, MIA lacked assurance that the system (the application, server, and database) was properly secured and configured to protect it from external threats and unauthorized changes.
- MIA had not established adequate controls over audits of premium tax filings, including a lack of independent supervisory review of audit results. For example, OLA tests of 43 tax audits found inaccuracies or deficiencies with 11 audits, with premium tax payments totaling \$50.9 million, including the issuance of a duplicate account credit of \$403,000 and the failure to assess penalties and interest of \$158,000.
- MIA's procedures were not sufficient to ensure certain tax payments were received timely. OLA tests of 27 payments totaling \$7.4 million found penalties and interest were not always assessed for late payments. OLA estimated \$156,000 in penalties and interest could have been assessed, but were not.
- MIA had not established proper internal controls over premium tax refunds. For example, certain refunds were approved and authorized for payment by the same supervisory employee and OLA identified 28 potential duplicate refunds totaling \$361,000. In addition, MIA did not reconcile its records of premium tax revenues with the corresponding State accounting records.
- MIA had not established sufficient controls over the issuance of producer licenses and MIA lacked assurance that the outsourced producer and pre-licensing services systems were protected against operational and security risks.
- Effective controls were not established over financial examination services, cash receipts, purchases and disbursements, and MIA's information technology network.

Recommended Committee Action – Hearing