

Audit Report

Office of the State Treasurer

August 2023

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Jared Solomon (House Chair)
Senator Joanne C. Benson	Delegate Steven J. Arentz
Senator Paul D. Corderman	Delegate Nicholas P. Charles II
Senator Katie Fry Hester	Delegate Andrea Fletcher Harrison
Senator Shelly L. Hettleman	Delegate Steven C. Johnson
Senator Cheryl C. Kagan	Delegate Mary A. Lehman
Senator Cory V. McCray	Delegate David Moon
Senator Justin D. Ready	Delegate Julie Palakovich Carr
Senator Bryan W. Simonaire	Delegate Stephanie M. Smith
Senator Craig J. Zucker	Delegate M. Courtney Watson

To Obtain Further Information

Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

August 24, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation 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 March 28, 2018 and ending July 31, 2021. 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.

STO has experienced significant delays and increased costs related to the implementation of its new financial and insurance claims system. STO contracted with two separate vendors to perform the implementation. The first vendor was responsible for developing a plan to replace the existing system and serving as a project administrator to oversee the project. The second vendor was to provide additional technical staff responsible for customizing the new system under the direction of the project administrator. The contract with the second vendor established an estimated completion date of September 2019, but between June 30, 2019 and June 30, 2022, the estimated completion cost for the project increased from \$9.3 million to \$21.3 million. As of June 30, 2022, two of four system modules had been implemented, and the project was scheduled for completion in fiscal year 2024.

Our audit disclosed that STO did not adequately monitor the project administrator and did not pursue damages despite the above-noted significant project delays and

cost increases. In addition, STO could not support the propriety of modifications to the technical staff contract totaling \$5.9 million. As a result, STO could not effectively monitor this contract and validate the related charges. As of June 2022, STO has paid \$1.1 million for project administration services and \$9.9 million for technical staff services.

Furthermore, 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 we have reported upon since 2007. During the four-year period ending with fiscal year 2022, payments to IWIF totaled \$350.5 million.

Our audit also disclosed certain deficiencies relating to information systems security and control. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of the five findings contained in our preceding audit report. For the non-cybersecurity-related findings we determined that STO satisfactorily addressed two of those three findings. The remaining finding is repeated in this report.

STO's response to this audit is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. In accordance with our policy, we have edited any vendor names or products mentioned by STO in this document. In addition, consistent with State law, we have redacted the elements of STO's response related to the cybersecurity audit findings.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	7
Agency Responsibilities	7
Status of Findings From Preceding Audit Report	9
Findings and Recommendations	11
Financial and Insurance Claims Management System	
Finding 1 – The State Treasurer’s Office (STO) did not adequately monitor the project administrator responsible for developing the new financial and insurance claims system and did not pursue damages when the project encountered severe implementation problems, delays, and cost increases.	12
Finding 2 – STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which precluded STO from effectively monitoring the contract and validating the related charges.	14
Injured Workers’ Insurance Fund (IWIF)	
* Finding 3 – STO did not determine the propriety of amounts paid to IWIF for the State’s workers’ compensation claims and related costs, and did not follow up on deficiencies noted in Maryland Insurance Administration audits.	17
Information Systems Security and Control	
Finding 4 – Redacted cybersecurity-related finding	18
Finding 5 – Redacted cybersecurity-related finding	18
Finding 6 – Redacted cybersecurity-related finding	18
Finding 7 – Redacted cybersecurity-related finding	19
 * Denotes item repeated in full or part from preceding audit report	

Audit Scope, Objectives, and Methodology

20

Agency Response

Appendix

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, during fiscal year 2022, STO's expenditures totaled approximately \$56.7 million (See Figure 1).

Figure 1
STO Positions, Expenditures, and Funding Sources

Full Time Equivalent Positions as of June 30, 2022		
	Positions	Percent
Filled	48	80.0%
Frozen	1	1.7%
Vacant	11	18.3%
Total	60	
Fiscal Year Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 6,073,508	10.7%
Technical and Special Fees	109,143	0.2%
Operating Expenses	50,480,417	89.1%
Total	\$ 56,663,068	
Fiscal Year 2022 Funding Sources		
	Funding	Percent
General Fund	\$ 6,057,620	10.7%
Special Fund	2,155,349	3.8%
Reimbursable Fund	48,450,099	85.5%
Total	\$ 56,663,068	

Source: State financial and personnel records

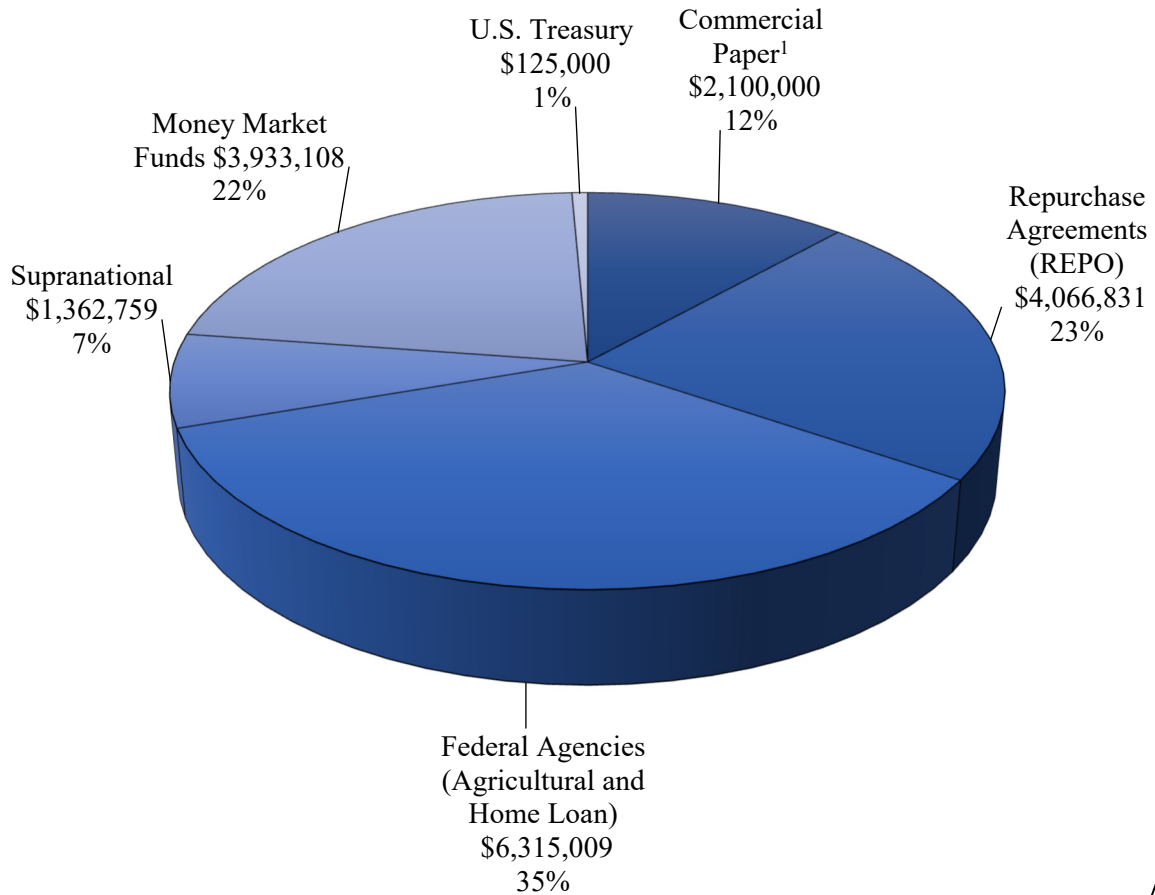
As noted in Figure 1, STO had significant vacancies during the audit period. In addition, there were significant changes in STO executive leadership including

long term employees. Furthermore, the current State Treasurer was elected six months after the end of the time period covered by this audit report.

State law provides that 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, obligations issued and unconditionally guaranteed by certain supranational issuers (for example the World bank), repurchase agreements collateralized by those securities, certain money market mutual funds, and limited amounts of commercial paper.

As of June 30, 2022, the State Treasury investment portfolio, based on market value, totaled approximately \$17.9 billion (See Figure 2 on the following page). During the audit period, the portfolio balance increased significantly due to improved market conditions as well as enhanced federal funding received for the COVID-19 pandemic.

Figure 2
State Treasury Investment Portfolio
as of June 30, 2022
(in thousands)



Source: Agency records; Inventory by Market Value as of June 30, 2022.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated June 25, 2019. As disclosed in Figure 3 on the following page, for the non-cybersecurity-related findings, we determined that

¹ During our audit period, State law limited commercial paper to 10 percent of the investment portfolio. According to STO records, during the 12-month period between January 2022 and December 2022, commercial paper, as a portion of the investment portfolio, exceeded this maximum limit 4 times. Legislation effective June 1, 2023, eliminated this limit.

STO satisfactorily addressed two of those three findings. The remaining finding is repeated in this report.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	STO did not determine the propriety of amounts paid to the Injured Workers' Insurance Fund for the State's workers' compensation claims and related costs, a condition that has been outstanding since at least 2007.	Repeated (Current Finding 3)
Finding 2	STO did not refer all delinquent accounts receivable to the State's Central Collection Unit in accordance with State regulations.	Not Repeated
Finding 3	STO did not publish contract awards totaling \$51.3 million on <i>eMaryland Marketplace</i> as required.	Not Repeated
Finding 4	STO did not periodically review the propriety of access capabilities assigned to users of three significant information systems.	Status Redacted ²
Finding 5	Sensitive personally identifiable information maintained by STO was stored without adequate safeguards.	Status Redacted ²

² Specific information of the current status of this cybersecurity-related finding has been redacted from the publicly available report in accordance with State Government Article, Section 2-1244(i) of the Annotated Code of Maryland.

Findings and Recommendations

Financial and Insurance Claims Management System

Background

In November 2016, the Office of the State Treasurer (STO) initiated a Major Information Technology Development Project (MITDP) to replace its financial and insurance claims management system (See Figure 4). The Department of Information Technology (DoIT), which is responsible for MITDP projects, designated STO to administer the project. STO ultimately contracted with two vendors to design and develop the system. The first vendor was selected by STO from a DoIT master contract and in March 2017 STO entered into a one-year contract that included four one-year renewal options totaling \$1.3 million with the vendor to serve as a project administrator with responsibility for developing a plan to replace the system.

The vendor subsequently recommended the purchase of a ‘commercial-off-the-shelf’ software product that would be customized under the direction of the project administrator using contracted technical staff. STO purchased the software product in August 2017 through a DoIT software contract. In September 2018, STO procured another vendor (a one-year contract with 4 one-year renewal options totaling \$5.9 million) to obtain technical staff to work under the direction of the project administrator.

The replacement system was to include four modules; accounting, insurance claims, citizen and agency portal, and banking, and although the related contracts included multi-year renewal options, the system was intended to be implemented within one year. However, there were issues with the project implementation which have resulted in significant increases in the cost of the project and delays in the implementation of the project. STO advised us that the initial project administrator was replaced at its request in February 2020. There were performance issues with the replacement project administrator, which ultimately led to termination of the contract in July 2021. STO did not contract for another project administrator, and instead took on this function internally. As of June 2022, \$11.5 million had been expended on the project (including \$1.1 million to the project administrator and \$9.9 million to the technical staff vendor), and the estimated cost to complete the project was \$21.3 million.

Figure 4
Project Event Timeline

Year	Event
2016	MITDP approved
2017	Project Administrator Vendor Hired
2017	Software Purchased
2018	Technical Staff Vendor Hired

Source: Agency records

We experienced significant delays in obtaining information related to the new financial and insurance claims system. Specifically, neither STO nor the vendor were able to provide meaningful information related to this contract that we deemed necessary to complete our audit, until our fieldwork had been completed. Our review of the information provided related to the aforementioned procurements and the associated contract activity disclosed the following conditions:

Finding 1

STO did not adequately monitor the project administrator responsible for developing the new financial and insurance claims system and did not pursue damages when the project encountered severe implementation problems, delays, and cost increases.

Analysis

STO did not adequately monitor the vendor providing project administration services for implementation of its new financial and insurance claims system, which has encountered severe implementation problems, delays, and cost increases.

- During the period from February 2020 through the contract's termination in July 2021 (with three noted exceptions) STO did not obtain contractually-required status reports that were to be submitted with each monthly invoice to ensure the project administrator was properly managing implementation of the new system. The status reports were to track ongoing activities, including tasks completed and the status of project deliverables and were intended to disclose issues with the project progress and the status of efforts to resolve them. STO also had not performed monthly evaluations of the project administrators' performance and the resultant deliverables submitted since August 2019 due to employee turnover. Although STO management advised that weekly meetings were held with the project administrator vendor, STO could not document the information provided during these meetings to support that the vendor was properly managing the project.
- We determined that the project currently is over budget and behind schedule. As noted in Figure 5 on the following page, the project was initially estimated to cost \$5.2 million and be completed by September 2019. In June 2019 the STO reported to DoIT that the cost to complete the project had increased and the completion was approximately 18 months beyond the initial estimate. According to DoIT's fiscal year 2022 *End-Of-Year Report on Major Information Technology Development Project Fund*, project costs to date totaled \$11.5 million (including the costs of the project administrator,

technical staff, the “commercial off-the-shelf” software, and any administrative costs), and the estimated total cost to complete had increased to \$21.3 million. Furthermore, as of June 30, 2022, we found that only two of the four system modules had been implemented, and the project is now scheduled for completion December 15, 2023.

Figure 5
Increasing Costs of System Implementation Project

Date	Payments to Date (\$)	Estimates as of Date	
		Completion Costs (\$)	Completion Date
September 2018	513,600	5.2 million	September 2019
June 2019	3.3 million	9.3 million	June 2021
June 2022	11.5 million	21.3 million	December 2023

Source: Agency records and DoIT reports

- The contract did not provide for liquidated damages, limiting STO’s ability to recover any damages resulting from ineffectual project administration.³ As noted above and in the next finding, the project encountered significant delays and cost overruns (primarily due to increased need for technical staff), certain of which in our opinion could raise questions about the adequacy of the project administration. For example, STO processed three contract modifications totaling \$2.4 million, primarily for additional staff and labor hours, within the first 18 months of the technical staffing contract which could be the result of inadequate project planning and determination of project requirements. STO did not determine the extent to which these issues resulted from the project administrator’s performance and attempt to recover fees paid for services that were not provided (such as the status reports noted above) and/or the costs of additional amounts paid to the technical staffing vendor discussed in the following finding.

In August 2021, DoIT completed a monthly assessment of the project status and identified several critical areas of concern, including significant project

³ Although it would not have been applicable to this contract, Senate Bill 773 passed during the 2023 legislative session, established enhanced requirements for liquidated damages. For example, the bill requires the Board of Public Works, in consultation with the Procurement Improvement Council, to publish a model policy concerning the inclusion and use of liquidated damages provisions in procurement contracts; requires units of State government to adopt a written policy that is substantially similar to the Board's policy; requires a unit that decides not to include a liquidated damages clause to obtain the approval of the head of unit, and document the decision not to pursue liquidated damages.

delays in design and development and inadequate project schedule management. In response, the project manager hired by the technical staffing vendor prepared a project status update in September 2021 attributing these deficiencies to the project administrator. Specifically, the review disclosed that the project was months behind schedule, under-funded, and under-staffed. STO ultimately submitted a re-baseline request (essentially a project improvement plan) to DoIT, which included a new project schedule, a schedule of remaining costs, and new spending and staffing plans.

Recommendation 1

We recommend that STO

- a. monitor contracted services by obtaining and reviewing required deliverables, such as project status reports, and formally conduct and document periodic performance evaluations, as required;**
- b. determine the feasibility of recovering amounts paid for project administration for any required deliverables that were not received; and**
- c. determine the extent to which the project administrator was responsible for the delays and increased costs and in consultation with legal counsel, pursue recovery of these costs to the extent practicable.**

Finding 2

STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which precluded STO from effectively monitoring the contract and validating the related charges.

Analysis

STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which in our opinion contributed to STO's inability to effectively monitor the contract and validate the related charges. As noted in Figure 6 on the following page, as of April 2022 STO processed six modifications totaling \$5.9 million which increased the cost of the contract from \$5,959,910 to \$11,842,006. According to STO, the modifications, which were reported to and subsequently approved by the

Board of Public Works, were necessary to obtain application development experts due to unforeseen challenges with system implementation.⁴

Figure 6
Technical Staffing Contract Award and Modifications through April 2022

Contract Award or Modification	Dollar Amount	Approval Date	Description
Original Contract Award	\$5,959,910	9/5/2018	Provide programmers to implement new system, including 4 one-year renewal options
Modification #1	1,308,947	6/5/2019	Add 3 months to the implementation phase; hire 2 additional positions and replace 2 positions
Modification #2	628,242	9/4/2019	Add labor hours to meet date deadline for implementation; hire additional position
Modification #3	484,880	1/8/2020	Add labor hours to ensure proper data conversion and smooth implementation
Modification #4	192,300	8/5/2020	Add labor hours for programming support and application development resources
Modification #5	1,496,172	8/12/2020	Add labor hours for programming support and application development resources
Modification #6	1,771,555	9/1/2021	Add additional labor hours and labor categories to match actual need
Subtotal - Modifications	\$5,882,096		
Total Contract Award	\$11,842,006		

Source: Agency records

Our review of the modifications disclosed that they omitted critical data, such as labor categories, the specific number of hours required or anticipated to complete necessary tasks, related rates, and what specific work would be performed by each labor category. The original contract included six different labor categories, each with a different billing rate, varying from \$111 per hour up to \$218 per hour. As a result, STO was unable to effectively monitor the work under the modifications and ensure that it was commensurate with the related costs.

⁴ STO did not initially seek approval from the Board of Public Works (BPW) for contract modification #4 which was approved by the Department of General Services. STO subsequently included this contract modification with other later contract modification requests that were submitted and approved by BPW.

Our test of three invoices totaling approximately \$543,000 for services performed in June 2020, December 2020, and March 2021 disclosed that information included on the invoices was insufficient for STO to ensure that the 3,379 hours billed were appropriate for the related tasks performed. In addition, while the invoices included descriptions of tasks completed by each of the technical staff along with the associated number of hours charged, it was not clear whether the work was performed by contractor staff in the appropriate labor category or billed to the appropriate labor category. We also identified charges totaling approximately \$455,000 for 8 technical staff who were not included in the contractor's original proposal. STO was unable to provide documentation that it had approved these substitutions.

As a result of the aforementioned conditions there was a lack of assurance that amounts paid to the technical staffing vendor were proper and the related work was performed by appropriate and qualified personnel.

Recommendation 2

We recommend that STO

- a. ensure that all contract modifications include sufficient details to permit it to adequately monitor and evaluate the related work performed and costs billed, and**
- b. document its review and approval of changes in contractor personnel.**

Injured Workers' Insurance Fund

Background

Under the terms of a 1990 contract (most recently modified in November 2001), between the Injured Workers' Insurance Fund (IWIF) and the Board of Public Works (BPW), IWIF is the third-party administrator⁵ and provides claims processing services for workers' compensation claims filed by State employees, for which the State is self-insured. The contract provides that STO is responsible for administering the contract on behalf of BPW.

State law also requires the Maryland Insurance Administration (MIA) to conduct audits of IWIF every five years to determine whether the State is receiving

⁵ 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. In accordance with State law, IWIF continues to serve as the third-party administrator until it no longer has any employees. As of October 2021, IWIF continued to exist with 146 employees.

effective administrative services at a reasonable cost. The audit scope used by MIA with input from STO includes a review of:

- The STO agreement with IWIF,
- Administrative expenses allocated to IWIF to be paid by the State,
- Internal controls over claims processing and the propriety of claim payments, and
- Subrogation processes.

MIA is required to report the results of the IWIF audit to STO. We were advised by MIA personnel that the audit primarily focuses on transactions that occurred within the latest year of the audit cycle.

Finding 3

STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, and did not follow up on deficiencies noted in MIA audits.

Analysis

STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, and did not follow up on deficiencies noted in MIA audits. Payments to IWIF totaled \$350.5 million for fiscal years 2019 through 2022, consisting of claims costs (\$290.4 million), administrative costs (\$59.0 million), and other adjustments (\$1.1 million).

STO did not determine the propriety of amounts paid to IWIF. Beginning in April 2019, IWIF provided various reports of claims activity and administrative costs to STO in accordance with the aforementioned contract. However, STO did not use the reports provided or perform any other verification procedures to confirm that the amounts reported by IWIF were for valid payments made on behalf of State employees who suffered work-related injuries, and that administrative fees and other claims-related charges were accurate and supported.

STO also had not taken any action to implement six recommendations made by MIA in its June 2018 audit report of IWIF, including five recommendations that were repeated from MIA's previous audit. For example, although MIA recommended that the IWIF contract be amended to reflect the current cost methodology used by IWIF for calculating administrative fees, and to include caps on the fees to ensure that they remain fair and reasonable, no action had been taken by STO to ensure implementation of this recommendation.

Similar conditions regarding the verification of amounts paid to IWIF were noted in our five preceding audit reports dating back to 2007. In response to our June 2019 report, STO agreed with our findings and indicated that it had implemented the related recommendations to ensure the propriety of amounts paid to IWIF. As noted above, although STO obtained certain information from IWIF during the audit period, it did not use this information to ensure amounts paid to IWIF were proper.

Recommendation 3

We recommend that STO

- a. establish a documented process, such as verifying charges reported by IWIF to supporting documentation, to determine the propriety of amounts paid to IWIF for the State’s workers’ compensation claims and related administrative costs (repeat); and**
- b. take appropriate action to address recommendations made by MIA in its audit reports of IWIF, including those noted above.**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 4 through 7 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with STO’s responses, have been redacted from this report copy.

Finding 4

Redacted cybersecurity-related finding.

Finding 5

Redacted cybersecurity-related finding.

Finding 6

Redacted cybersecurity-related finding.

Finding 7
Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the State Treasurer (STO) for the period beginning March 28, 2018 and ending July 31, 2021. 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 procurements, disbursements, investments, 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.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of March 28, 2018 to July 31, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives. Furthermore, the timing of our audit fieldwork was impacted by delays in receiving certain information and the extensive turnover in STO leadership. Specifically, during the course of our audit we experienced significant delays in obtaining information related to the new financial and insurance claims system discussed in findings 1 and 2 of this report, most of which was received after we completed our fieldwork. In our opinion, these delays were exacerbated by the turnover in STO leadership and management employees responsible for numerous areas addressed by our audit.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of STO's operations. Generally,

transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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. 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to STO, were considered by us during the course of this audit.

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.

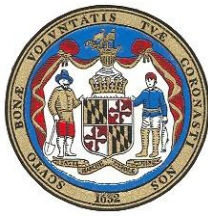
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to STO and those parties responsible for acting on our recommendations in an unredacted audit report.

STO's response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. 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 Dereck E. Davis

August 21, 2023

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook,

Along with this letter you will find responses from the State Treasurer's Office (STO) with regards to the fiscal compliance audit of the STO for the period of March 28, 2018, through July 21, 2021.

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 appreciate their attention and concern.

I recognize that there were some difficulties in collecting documents from our divisions as we were experiencing an unprecedented number of vacancies and we are grateful for your patience. I would like to acknowledge, however, the outstanding STO employees who have continued to accomplish so much, despite limited staff and resources.

Sincerely,

A handwritten signature in black ink that reads "Dereck E. Davis". The signature is written in a cursive style with a large, stylized "D" and "E".

Dereck E. Davis
Treasurer

Office of the State Treasurer

Agency Response Form

Financial and Insurance Claims Management System

Finding 1

STO did not adequately monitor the project administrator responsible for developing the new financial and insurance claims system and did not pursue damages when the project encountered severe implementation problems, delays, and cost increases.

We recommend that STO

- a. monitor contracted services by obtaining and reviewing required deliverables, such as project status reports, and formally conduct and document periodic performance evaluations, as required;
- b. determine the feasibility of recovering amounts paid for project administration for any required deliverables that were not received; and
- c. determine the extent to which the project administrator was responsible for the delays and increased costs and in consultation with legal counsel, pursue recovery of these costs to the extent practicable.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	STO agrees to the analysis and has no concerns with factual accuracy		
Recommendation 1a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	STO agrees to adequately monitor all contracted Project Management services by obtaining and reviewing project status reports, and formally conducting and documenting manager performance evaluations. Project status reports are currently being held on a weekly/bi-weekly basis, which reviews timeline, budget and progress. The contract in question has since expired.		
Recommendation 1b	Agree	Estimated Completion Date:	6/30/2023
Please provide details of corrective action or explain disagreement.	There was not a provision for collecting liquidated damages in the contract in question. STO has since met with Counsel to establish language for future contracts.		
Recommendation 1c	Agree	Estimated Completion Date:	6/30/2023
Please provide details of corrective action or explain disagreement.	There was not a provision for collecting liquidated damages in the contract in question. STO has since met with Counsel to establish language for future contracts. The contract that employed the		

Office of the State Treasurer

Agency Response Form

	former project manager responsible for the delays and lack of deliverables expired in March 2022.
--	--

Office of the State Treasurer

Agency Response Form

Finding 2

STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which precluded STO from effectively monitoring the contract and validating the related charges.

We recommend that STO

- a. ensure that all contract modifications include sufficient details to permit it to adequately monitor and evaluate the related work performed and costs billed, and
- b. document its review and approval of changes in contractor personnel.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	STO agrees to the analysis and has no concerns with factual accuracy		
Recommendation 2a	Agree	Estimated Completion Date:	6/30/2023
Please provide details of corrective action or explain disagreement.	All staff involved in this contract have left STO and the contract has been handed over to Operations where it has undergone an internal audit. The last modification (9/2022) was a reflection of the necessary cleanup to bring the contract into compliance. The Office has also put in review and approval processes to ensure that the timesheets are reviewed and matched against hourly rates each month.		
Recommendation 2b	Agree	Estimated Completion Date:	8/15/2023
Please provide details of corrective action or explain disagreement.	STO began a new communication with the vendor to approve all project personnel and in many cases are involved in the interview process. Additionally, an email is sent once a contractor has left the project. This contract is due to expire September 2023.		

Office of the State Treasurer

Agency Response Form

Injured Workers' Insurance Fund

Finding 3

STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, and did not follow up on deficiencies noted in MIA audits.

We recommend that STO

- a. establish a documented process, such as verifying charges reported by IWIF to supporting documentation, to determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related administrative costs (repeat); and
- b. take appropriate action to address recommendations made by MIA in its audit reports of IWIF, including those noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	STO agrees to the analysis and has no concerns with factual accuracy.		
Recommendation 3a	Agree	Estimated Completion Date:	6/30/2023
Please provide details of corrective action or explain disagreement.	<p>The Director of Finance at STO has been meeting with the Senior Accounting Manager at IWIF to discuss the State's workers' compensation program and review claims and expenses.</p> <p>It is worth noting that a public accounting firm that specializes in insurance, conducts an annual audit of IWIF, which includes various tests of controls as well as an audit of the Schedule of Claims Administration Activity for the State of Maryland, a supplemental schedule in IWIF's financial statements. The audit report with the Schedule is provided to STO and GAD annually.</p> <p>As part of the State's audit of their Annual Comprehensive Financial Report (ACFR), additional tests of controls are performed of State claim transactions to verify items such as: the claim is compensable, the documentation of approvals are maintained, and the transactions included in the financial records are valid and supported. The STO was included in conversations with IWIF regarding the testing and there have been no control issues noted. We will continue to work with IWIF and the State's auditor during the annual audit as well as IWIF management to test claims</p>		

Office of the State Treasurer

Agency Response Form

	expenses on a sample basis and we will document evidence of our review.		
Recommendation 3b	Agree	Estimated Completion Date:	6/30/2024
Please provide details of corrective action or explain disagreement.	The primary recommendation in the IWIF audit is for the State and IWIF to update the agreement. An updated agreement would specify additional services provided by IWIF, funding requirements, reporting dates, administrative fees, and our intent to either continue or discontinue catastrophic loss protection. We will work with IWIF to establish a new agreement. We expect this will be a time-consuming endeavor and we will pursue allocating internal resources to assist with a new contract. Other recommendations have been discussed with IWIF.		

Office of the State Treasurer

Agency Response Form

Information Systems Security and Control

OLA has determined that the Information Systems Security and Control section, including Findings 4 through 7 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although, the specifics of the following findings, including the analysis, related recommendations, along with STO’s responses, have been redacted from this report copy, STO’s responses indicated agreement with the findings and related recommendations.

Finding 4

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 6

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 7

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

AUDIT TEAM

Heather A. Warriner, CPA

Audit Manager

R. Brendan Coffey, CPA, CISA

Edwin L. Paul, CPA, CISA

Information Systems Audit Managers

Tu N. Vuong

Senior Auditor

Michael K. Bliss

Matthew D. Walbert, CISA

Information Systems Senior Auditors

Stephen R. Alexander, CFE

Tari J. Covington

Lindsay M. Dunn, CPA

Staff Auditors

Vickey K. Micah

Charles O. Price

Information Systems Staff Auditors