



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

March 8, 2016

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Edward J. Kasemeyer, Chair  
Senate Budget and Taxation Committee  
Miller Senate Office Building, 3 West Wing  
11 Bladen Street  
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair  
House Appropriations Committee  
House Office Building, Room 121  
6 Bladen Street  
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the Maryland Insurance Administration (MIA) to resolve the four repeat findings in our November 20, 2014 audit report. This review was conducted in accordance with a requirement specified in the April 2015 *Joint Chairmen's Report* (JCR), page 27. The JCR required that, prior to the release of \$150,000 of its administrative appropriation for fiscal year 2016, MIA must take corrective action on all repeat audit findings. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year.

The November 20, 2014 audit report of MIA contained four repeat audit findings (findings 3, 8, 10, and 12) that were addressed by five recommendations. In accordance with the April 2015 JCR requirement, MIA provided a report to OLA, dated December 28, 2015, detailing the corrective actions that it had taken with respect to the repeat audit findings. An amended report was also provided on January 29, 2016. We reviewed these reports and related documentation, performed limited tests and analyses of the information, and held discussions with MIA personnel, as deemed necessary, to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Senator Edward J. Kasemeyer  
Delegate Maggie McIntosh

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March 8, 2016

Exhibit 1 is MIA's December 28, 2015 status report and its amended January 29, 2016 status report, which collectively indicated that corrective actions had been taken by MIA to address the recommendations for all four findings. Our review confirmed that MIA had taken the necessary corrective actions to implement all five recommendations related to the four findings.

A summary of OLA's assessment of the status of each of the repeat audit findings is included in the attached Exhibit 2. We wish to acknowledge the cooperation extended to us by MIA during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,

  
Thomas J. Barnickel III, CPA  
Legislative Auditor

cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Joint Audit Committee Members and Staff  
Senator Thomas V. Mike Miller, Jr., President of the Senate  
Delegate Michael E. Busch, Speaker of the House of Delegates  
Governor Lawrence J. Hogan, Jr.  
Comptroller Peter V.R. Franchot  
Treasurer Nancy K. Kopp  
Attorney General Brian E. Frosh  
David R. Brinkley, Secretary Department of Budget and Management  
Alfred W. Redmer, Jr., Commissioner, MIA  
Nancy S. Grodin, Esquire, Deputy Commissioner, MIA  
Joan Peacock, Manager, Audit Compliance Unit, DBM  
Warren G. Deschenaux, Executive Director, Department of Legislative Services  
Sierra S. Boney, Policy Analyst, Department of Legislative Services

## Exhibit 1 to March 8, 2016 Letter to Joint Chairmen

LARRY HOGAN  
Governor

BOYD K. RUTHERFORD  
Lt. Governor



### INSURANCE ADMINISTRATION

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202  
Direct Dial: 410-468-2090 Fax: 410-468-2020  
1-800-492-6116 410-468-2000  
TTY: 1-800-735-2258  
[www.insurance.maryland.gov](http://www.insurance.maryland.gov)

AL REDMER, JR.  
Commissioner

NANCY GRODIN  
Deputy Commissioner

December 28, 2015

*Delivered Electronically and via  
Regular Mail*

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Department of Legislative Services  
301 W. Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Barnickel,

On behalf of the Maryland Insurance Administration (MIA), I am filing this response to your letter of July 28, 2015, a copy of which is attached for your convenience. Exhibit A, attached hereto, describes the corrective action taken with respect to the four repeat audit findings in the November 20, 2014, audit report issued by the Office of Legislative Audits.

Should you have any questions, please contact Nancy Grodin, Deputy Commissioner, at 410-404-2009 or [nancy.grodin@maryland.gov](mailto:nancy.grodin@maryland.gov).

Sincerely,

Al Redmer, Jr.  
Insurance Commissioner

#### Attachment

Cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee  
Nancy Grodin, Deputy Commissioner, Maryland Insurance Administration  
Karl S. Aro, Executive Director, Department of Legislative Services

## EXHIBIT A

Maryland Insurance Administration  
Legislative Fiscal Compliance Audit Report  
Status Update: Repeat Findings  
Corrective Action  
December 28, 2015

### **I. FINDING 3:**

The premium tax system was not properly secured to restrict and control access. The premium tax system contractor had complete control over the system and unnecessary access to the remainder of the MIA network.

We recommend that MIA

- d. configure its firewalls to filter VPN traffic and limit contractor access to only those devices and ports involved with the contractor's support activities (repeat).*

Finding 3(d) has been corrected.

The MIA drafted and implemented an "Application Lifecycle Process" on January 15, 2015, which establishes appropriate review and testing procedures for program code developed by contractors, ensures that only code approved by MIA supervisory personnel is placed into production, and ensures that proper controls are maintained over database and server administration. The MIA does not have any contracts with contractors writing code. As of May 30, 2014, the MIA removed the premium tax system contractor's access for security modifications; removed the contractor's administrative access to the third party payment system; and disabled the contractor's access to MIA's VPN service. Effective September 14, 2014, the MIA transferred premium tax system access and user set-up responsibilities to the agency's Management Information Systems Unit, to segregate these functions from employees who have premium tax payment posting, premium tax audit, or premium tax audit supervisory functions.

### **II. FINDING 8:**

MIA did not reconcile its records of premium tax revenues with the corresponding State accounting records.

We recommend that MIA

- a. reconcile its premium tax records with the corresponding State records (repeat).*

Finding 8(a) has been corrected.

The MIA has implemented a policy and procedure requiring that all financial transactions must be posted in the premium tax application within 48 hours of deposit and reconciled with State

accounting records on a monthly basis and cumulative-to-date basis,<sup>1</sup> both of which are performed and documented at the end of each month.

### III. FINDING 10:

MIA lacked accountability and control over certain cash receipts.

We recommend that MIA ensure that

- c. an employee independent of the cash receipts function performs and documents the deposit verifications (repeat).*

Finding 10(c) has been corrected.

The MIA implemented a manual check logging process on December 23, 2014. At the time the mail room clerk opens an envelope containing a check, the check is immediately endorsed and hand-recorded in the checks received log. The mail room clerk then hand-carries the checks to the Mailroom Supervisor who creates a CashPro deposit, which is reviewed and approved by an MIA fiscal associate. The review and approval is documented by the release of the CashPro deposit which is transmitted to Bank of America within one business day. An employee who is independent of the cash receipt process receives the “checks received log” on a daily basis and verifies the MIA deposits.

### IV. FINDING 12:

MIA lacked assurance that the insurance producer licensing and pre-licensing services systems were sufficiently protected against operational and security risks.

We recommend that MIA

- a. seek to amend the existing agreements and ensure that future agreements with service providers processing MIA data include provisions requiring the service providers to regularly obtain SOC 2 Type 2 reviews pertaining to their system operations (repeat).*

Finding 12(a) has been corrected.

The MIA sought to amend all pre-licensing and licensing service providers (SBS/NAIC, PSI, Prometric) to require an independent annual SOC 2 Type 2 audit of system operations and data security and to provide an annual report to the MIA. The MIA requested each pre-licensing and licensing service provider to provide a copy of its most recent SOC 2 Type 2 audit and/or any similar system operation and data security audit report. It was not possible to amend all of the contracts retroactively to require the SOC 2 since some vendors only had a SOC 1 report and the time and cost of conducting a SOC 2 made the proposed retroactive modification, practically speaking, infeasible and may have materially altered the scope of the contract in terms of cost. In planning all procurements since that time, however, the MIA considers the factors delineated in

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<sup>1</sup> The cumulative-to-date reconciliation was recommended by the OLA during its follow-up audit and has been implemented.

DBM's "Outsourcing Procurement Reference Guide, Version 1.0" to determine whether a SOC 2 audit is appropriate and which factors to require. The MIA also consults with its liaison at DBM or the Department of Information Technology, depending upon which agency has jurisdiction over the procurement. For those procurements where a SOC 2 is appropriate, the MIA utilizes the standard SOC 2 language adopted by the governing agency.

LARRY HOGAN  
Governor  
  
BOYD K. RUTHERFORD  
Lt. Governor



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Commissioner  
  
NANCY GRODIN  
Deputy Commissioner

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[www.insurance.maryland.gov](http://www.insurance.maryland.gov)

January 29, 2016

*Delivered Electronically and via  
Regular Mail*

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Department of Legislative Services  
301 W. Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Barnickel, 

On behalf of the Maryland Insurance Administration (MIA), I am filing this amendment to the corrective action taken with respect to one repeat finding in the November 20, 2014, audit report issued by the Office of Legislative Audits.

Should you have any questions, please contact Nancy Grodin, Deputy Commissioner, at 410-404-2009 or [nancy.grodin@maryland.gov](mailto:nancy.grodin@maryland.gov).

Sincerely,



Al Redmer, Jr.  
Insurance Commissioner

Attachment

Cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee  
Nancy Grodin, Deputy Commissioner, Maryland Insurance Administration  
Karl S. Aro, Executive Director, Department of Legislative Services

## EXHIBIT A

Maryland Insurance Administration  
Legislative Fiscal Compliance Audit Report  
Status Update: Repeat Finding 10(c)  
Corrective Action: Amendment  
January 29, 2016

### III. FINDING 10:

MIA lacked accountability and control over certain cash receipts.

We recommend that MIA ensure that

- c. an employee independent of the cash receipts function performs and documents the deposit verifications (repeat).*

Finding 10(c) has been corrected.

The MIA implemented a manual check logging process on December 23, 2014. At the time the mail room clerk opens an envelope containing a check, the check is immediately endorsed and hand-recorded in the "checks received log." The mail room clerk then hand-carries the checks to the Mailroom Supervisor who creates a CashPro deposit, which is reviewed and approved by an MIA fiscal associate. The review and approval is documented by the release of the CashPro deposit which is transmitted to Bank of America within one business day. Unfortunately, a temporary employee who was not independent of the cash receipt process received the "checks received log" on a daily basis and verified the MIA deposits from September 11, 2015 until January 15, 2016, when it was discovered and corrected. We have no reason to believe that this affected the release of the CashPro deposit or the accuracy of the "checks received log." We have implemented a regularly scheduled audit to ensure that the MIA's policy and procedure is properly observed.



## Exhibit 2 to March 8, 2016 Letter to Joint Chairmen

### Status of Repeat Findings in OLA's November 20, 2014 Audit Report on the Maryland Insurance Administration

Prior Recommendations Pertaining to Unresolved Repeat Findings		Status Based on OLA Review
<b>Premium Tax System</b>		
3. We recommend that MIA		
d. configure its firewalls to filter VPN traffic and limit contractor access to only those devices and ports involved with the contractor's support activities.		Corrected
<b>Administration of Premium Tax Filings</b>		
8. We recommend that MIA		Corrected
a. reconcile its premium tax records with the corresponding State records.		
<b>Cash Receipts</b>		
10. We recommend that MIA ensure that		Corrected
a. cash receipts are immediately recorded when received, <sup>1</sup> and		
c. an employee independent of the cash receipts function performs and documents the deposit verifications.		Corrected
<b>Producer Licensing</b>		
12. We recommend that MIA		
a. seek to amend the existing agreements and ensure that future agreements with service providers processing MIA data include provisions requiring the service providers to regularly obtain SOC 2 Type 2 reviews pertaining to their system operations.		Corrected

<sup>1</sup> Neither MIA status report specifically referenced prior recommendation 10a; however, in MIA's response for recommendation 10c, MIA indicated that cash receipts are "immediately endorsed and hand-recorded in the checks received log." This process addresses the recommended immediate recordation of cash receipts and our review confirmed MIA had taken the necessary corrective actions to implement prior recommendation 10a.