

# Audit Report

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## Office of the State Treasurer

September 2016

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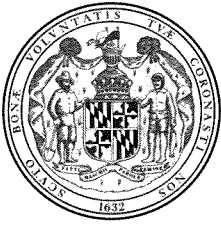
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

September 9, 2016

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the State Treasurer (STO) for the period beginning August 30, 2012 and ending August 24, 2015. STO is responsible for the receipt, disbursement, safekeeping, and investment of the funds of the State Treasury. STO is also responsible for procuring banking and financial services for State agencies and maintaining an insurance program for State property and personnel. In addition, STO coordinates the State's general obligation debt functions for the Board of Public Works.

Our audit disclosed that STO has not addressed certain longstanding issues involving oversight of the State's contract with the Injured Workers' Insurance Fund (IWIF) for claims processing services of workers' compensation claims filed by State employees. In our audit reports since 2007, we have commented that STO had not verified the propriety of amounts paid to IWIF and had never competitively bid the contract for the services provided by IWIF for more than 25 years. During the period from June 2013 through July 2015, payments to IWIF totaled \$261.8 million, including workers' compensation claim costs, administrative costs, adjustments, and settlements.

While the STO engaged the Maryland Insurance Administration (MIA) to perform a limited scope examination of IWIF in an effort to address our prior audit findings, as of March 2016, STO had not implemented certain recommendations made by MIA in its January 2011 report that were intended to safeguard the State's financial interests. In addition, STO had not analyzed further its contract terms with IWIF and the benefits to the State, in accordance with guidance provided in July 2014 by the Presiding Officers of the Maryland General Assembly.

Our audit also disclosed that STO did not transfer excess funds totaling \$3.9 million from the State's Unpresented Check Fund to the General Fund at the end of fiscal year 2015, as required by State law. In addition, STO did not appropriately safeguard sensitive personally identifiable information residing on a critical server and did not have a comprehensive information technology disaster recovery plan.

STO's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by STO.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'TJ Barnickel III', written in a cursive style.

Thomas J. Barnickel III, CPA  
Legislative Auditor

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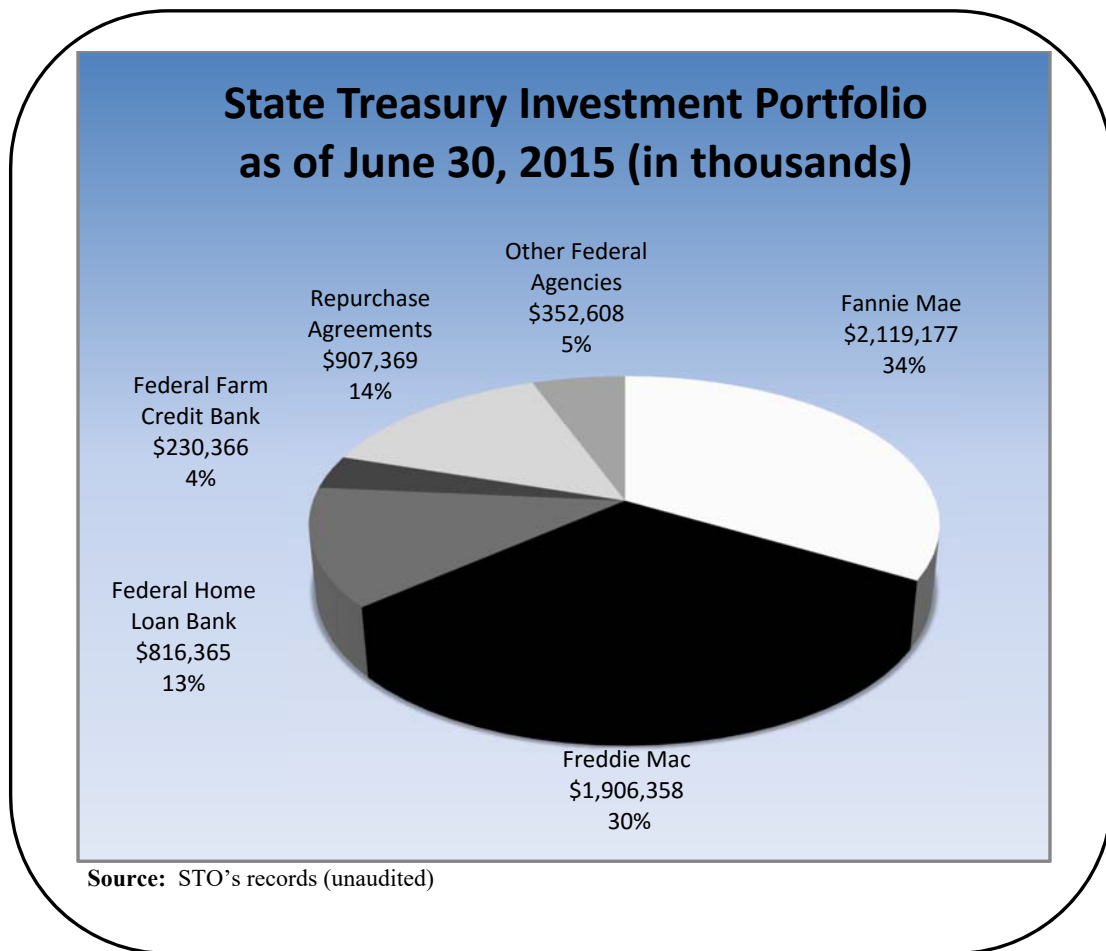
\* Denotes item repeated in full or part from preceding audit report

## **Background Information**

### **Agency Responsibilities**

The Office of the State Treasurer (STO) is responsible for the receipt, disbursement, safekeeping, and investment of the funds of the State Treasury. It is also responsible for reconciling the related bank accounts, procuring banking and financial services for State agencies, and maintaining an insurance program for State property and personnel. STO also coordinates the State's general obligation debt functions for the Board of Public Works. According to the State's records, STO's operating expenditures for fiscal year 2015 totaled approximately \$38.9 million.

According to State law, State Treasury investments are limited to secured bank accounts, full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements collateralized by those securities, certain money market mutual funds, and limited amounts of commercial paper. As of June 30, 2015, the State Treasury investment portfolio, based on market value, totaled approximately \$6.3 billion.



### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated July 15, 2014. We determined that STO satisfactorily addressed two of these findings. The remaining two findings are repeated in this report and appear as one finding.

## **Findings and Recommendations**

### **Injured Workers' Insurance Fund**

#### **Background**

Under the terms of a 1990 contract between the Injured Workers' Insurance Fund (IWIF) and the Board of Public Works (BPW), IWIF provides claims processing services for workers' compensation claims filed by State employees. Specifically, IWIF is responsible for investigating, defending, and paying claims to State employees for damages sustained in the course of employment, including injury or death. The State is self-insured for such claims. The contract provides that the Office of the State Treasurer (STO) is responsible for administering the contract, on behalf of BPW. In addition, the contract includes provisions that the State shall receive interest earned on amounts paid to IWIF and that the State may fund future costs of incurred losses to mitigate the State's unfunded liability.

As required by the contract, at the start of each fiscal year, STO sends a payment to IWIF for State workers' compensation claims costs for the upcoming year. The payment includes funds for anticipated workers' compensation claims and for IWIF's administrative costs for providing claims processing services to the State. STO calculates the anticipated claims using the actual claims paid in a prior fiscal year, adjusted for anticipated costs (such as settlements and inflation in certain medical costs), as reported by IWIF. The administrative costs were calculated using IWIF's administrative costs for serving the State, which were also reported by IWIF. Both the anticipated claims and administrative costs are reviewed and approved by the Department of Budget and Management (DBM) prior to STO paying IWIF.

Chapter 570, Laws of Maryland, 2012, allowed IWIF to convert from an independent State entity to a fully competitive, private, non-stock, nonprofit insurer. In accordance with the provisions of the law, on October 1, 2013, IWIF became Chesapeake Employers' Insurance Company (CEIC). However, the law allowed IWIF to continue to exist as an instrumentality of the State, its business limited to serving as the third-party administrator for the State's self-insured workers' compensation program. The law allowed IWIF employees, at the time of conversion, to remain State employees under IWIF or become employees of CEIC. IWIF is prohibited from hiring new employees and the law provides that IWIF shall remain in existence until it no longer has any employees. As of April 21, 2016, IWIF continued to exist.

According to STO's records, during the period from June 2013 through July 2015, payments to IWIF totaled \$261.8 million, including \$189.1 million for State



workers' compensation claim costs, \$40.6 million for administrative costs, and \$32.1 million for adjustments and settlements. These costs are recovered through State agency assessments prepared by STO.

#### **Finding 1**

**STO has still not resolved longstanding contract issues involving oversight of claims processing services for workers' compensation claims provided by IWIF. For example, STO had not implemented certain recommendations made by the Maryland Insurance Administration that were intended to safeguard the State's financial interests.**

#### **Analysis**

STO has still not resolved longstanding contract issues involving oversight of claims processing services for workers' compensation claims provided by IWIF. In our three preceding audit reports, we commented that STO did not ensure the propriety of amounts paid to IWIF and had never competitively bid the contract for the services provided by IWIF for more than 25 years. While STO engaged the Maryland Insurance Administration (MIA) to perform a limited scope examination of IWIF in an effort to address our prior audit findings, as of March 2016, STO had not implemented certain recommendations made by MIA in January 2011 that were intended to safeguard the State's interest related to IWIF activity. In addition, STO had not further analyzed its existing contract with IWIF and the benefits to the State in accordance with guidance provided in July 2014 by the Presiding Officers of the Maryland General Assembly.

The limited scope examination performed by MIA focused on the completeness and accuracy of IWIF's fiscal year 2010 expenses, including claims and administrative costs charged to the State, and the verification that the allocated costs were fair and reasonable and in compliance with the State's contract with IWIF. In its report dated, January 19, 2011, MIA made the following recommendations regarding STO's relationship with IWIF, which STO has not taken substantial action to address.

- STO should modify its contract with IWIF to safeguard the State's financial interest. This would include identifying the actual services to be provided by IWIF and the associated terms governing those services, and modifying the contract periodically for future changes to services and terms. Any modification should also include the identification of specific information that STO feels is necessary to monitor IWIF's administrative activity and to analyze the cause, frequency, and severity of losses. STO should also consider establishing procedures to ensure that State agencies actually access and use this information to minimize workers' compensation loss experience.

Finally, the contract should specify the amount for catastrophic loss protection so STO can determine if the amount is reasonable.

- STO should consider using IWIF's independent auditor to perform agreed-upon procedures reviews to ensure the amounts charged STO for administrative fees, claims, and claims-related charges are accurate and supported.
- STO should establish a not-to-exceed amount provision for the IWIF administrative fees to ensure the fees charged the State remain fair and reasonable.

Although both STO and IWIF agreed with MIA's recommendations, STO has not amended the contract or taken substantial action to implement these recommendations. Furthermore, no procedures have been implemented to assess the propriety of amounts paid to IWIF since MIA's examination of fiscal year 2010 expenses and claims. With regard to the IWIF administrative fees, STO and DBM negotiated a maximum rate of 23 percent of total claims for fiscal years 2014 through 2016, but no rate was negotiated for any subsequent years. According to IWIF records provided to STO, this maximum provision reduced IWIF administrative fees by approximately \$1.5 million each of these three years.

Based on STO's request for guidance on these matters, the Presiding Officers of the Maryland General Assembly stated in a letter issued in July 2014 their belief that it was in the State's best interest for IWIF to continue providing workers' compensation claim services to the State and for STO to renegotiate the existing contract while allowing sufficient time to analyze further its coverage terms and benefits to the State.

Specifically, the Presiding Officers urged STO to fill two new employee positions to analyze the existing contract, renegotiate the terms in a new IWIF contract, and oversee and manage the new contract. Accordingly, STO requested and received approval from the Board of Public Works on November 12, 2014 for two additional positions to provide fiscal oversight and ongoing workers' compensation contract management, including executing a new contract with IWIF as recommended by MIA. The two positions were to be funded with a fiscal year 2015 deficiency appropriation and additional funding in STO's fiscal year 2016 budget. During the 2015 legislative session, however, STO's fiscal year 2016 budget appropriation was reduced by \$100,000. We were advised by STO management that, as a result of this reduction, the positions were never filled and are not planned to be filled until at least fiscal year 2017, subject to the availability of funds.

The Presiding Officers also urged STO to analyze the possibility that the State could obtain better coverage terms through a different process. However, no analysis has been conducted. The contract to administer workers' compensation claims filed against the State has never been subject to a competitive bid process and IWIF has been providing these services for more than 25 years. Competitive bids are generally not required for contracts between units of State government; however, considering that the payments to IWIF are significant and the same services are available from other insurance companies, a competitive bid process should be used to determine if the State is receiving the best value for services rendered by IWIF. We were advised by STO management that once a new contract has been renegotiated, STO would analyze the possibility that the State could obtain better coverage terms through a different process.

#### **Recommendation 1**

**We recommend that STO**

- a. implement MIA's recommendations to safeguard the State's interest with respect to the workers' compensation claims processing services provided by IWIF, including reviewing payments to IWIF for propriety, at least on a test basis (repeat);**
- b. take the necessary actions to ensure that workers' compensation claims processing services are obtained in a manner most beneficial to the State (repeat); and**
- c. take any other necessary actions in accordance with the guidance provided by the Presiding Officers of the Maryland General Assembly.**

#### **Unpresented Check Fund**

##### **Finding 2**

**STO did not transfer excess funds totaling \$3.9 million from the State's Unpresented Check Fund to the General Fund at the end of fiscal year 2015, as required by State law.**

##### **Analysis**

STO did not transfer excess funds totaling \$3.9 million from the State's Unpresented Check Fund (UCF) to the General Fund at the end of fiscal year 2015, as required by State law. The UCF was established by State law to account for State-issued checks that have not been presented for payment within two years from the issuance date. At the end of each fiscal year, State law requires STO to estimate the amount needed in the UCF to honor the unpresented checks and to transfer the remaining UCF balance to the State's General Fund.

At the end of fiscal year 2015, STO transferred \$6 million to the General Fund, leaving a UCF balance of \$4.9 million—an amount which was excessive, according to its policy. Specifically, STO’s policy was to retain the greater of \$1 million or three times the amount by which total disbursements exceeded deposits into the UCF during the year. During fiscal year 2015, disbursements from the UCF totaled \$580,000 and deposits into the UCF totaled \$6.8 million. Accordingly, STO should have retained a balance of \$1 million in the UCF.

STO management acknowledged that the entire \$3.9 million could have been transferred, but funds were being held for possible payouts. For example, STO retained \$2.9 million in anticipation of a single check being presented for payment. This check, dated January 2008, was transferred to the UCF during the June 30, 2011 budgetary closeout, and we were advised by management at the State agency that issued the check that the payee was unlikely to present the check for payment because of tax and legal issues.

We were subsequently advised that STO transferred the excess balance in the UCF to the General Fund during the fiscal year 2016 budgetary closeout.

## **Recommendation 2**

**We recommend that, in the future, STO comply with State law and its policy regarding the transfer of excess funds.**

## **Information Systems Security and Controls**

### **Background**

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

### **Finding 3**

**Sensitive personally identifiable information (PII) was not properly protected by STO.**

### **Analysis**

Sensitive PII was not properly protected by STO. Specifically, we identified two files residing on a critical server which contained 148,113 and 114,533 unique social security numbers in clear text, with related full names. In addition, we

determined that this sensitive PII was not protected by other substantial mitigating controls.

This sensitive PII, which is commonly associated with identity theft, should be protected by appropriate information system security controls. The State of Maryland's *Information Security Policy* states that agencies should protect confidential data using encryption technologies and/or other substantial mitigating controls.

### **Recommendation 3**

**We recommend that STO properly protect the aforementioned personally identifiable information by the use of encryption or other substantial mitigating controls.**

### **Finding 4**

**STO did not have a comprehensive information technology disaster recovery plan for recovering its computer operations from disaster scenarios.**

### **Analysis**

STO did not have a comprehensive information technology disaster recovery plan (DRP) for recovering its computer operations from disaster scenarios (for example, a fire or flood). We noted that the DRP used by STO only addressed an alternate recovery site. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide information on the minimum required elements needed for a complete information systems' DRP. STO's DRP did not address most of these minimum requirements. For example, the DRP did not address restoration of network connectivity or contain listings of hardware and software components and had not been tested.

Without a comprehensive and tested DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring STO's information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.

### **Recommendation 4**

**We recommend that STO create a comprehensive DRP that covers all of its information technology operations and is in compliance with the requirements of the State's *IT Disaster Recovery Guidelines*.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Office of the State Treasurer (STO) for the period beginning August 30, 2012 and ending August 24, 2015. 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 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 monitoring State agency bank accounts, reconciling the State's bank accounts, monitoring payments to the Injured Workers' Insurance Fund, and monitoring the State's securities and investments. The audit also included information systems security and controls, the State Insurance Program, and the Cash Management Improvement Act. We also determined the status of the findings contained in our preceding audit report.

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

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). 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 this source 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.

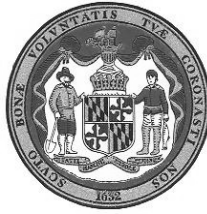
STO's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

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 a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to STO that did not warrant inclusion in this report.

STO's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise STO regarding the results of our review of its response.



MARYLAND STATE TREASURER

Nancy K. Kopp

September 8, 2016

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Barnickel:

Attached is the State Treasurer's Office (STO) response to the draft audit report for the period beginning August 30, 2012 and ending August 24, 2015, which I am pleased to forward for your review.

I would like to take this opportunity to thank the members of the Office of Legislative Audits who spent a great deal of time and effort preparing the audit. They were an impressive, professional team and we appreciate their attention and concern. Needless to say, I would also like to thank the outstanding team at the STO who have accomplished so much with great dedication and determination, despite limited resources.

Sincerely,

A handwritten signature in black ink that reads "Nancy K. Kopp".

Nancy K. Kopp  
State Treasurer



## **State Treasurer's Office Response to Findings and Recommendations**

### **Injured Workers' Insurance Fund**

#### **Finding 1**

**STO has still not resolved longstanding contract issues involving oversight of claims processing services for workers' compensation claims provided by IWIF. For example, STO had not implemented certain recommendations made by the Maryland Insurance Administration that were intended to safeguard the State's financial interests.**

#### **Recommendation 1**

**We recommend that STO**

- a. implement MIA's recommendations to safeguard the State's interest with respect to the workers' compensation claims processing services provided by IWIF, including reviewing payments to IWIF for propriety, at least on a test basis (repeat);**
- b. take the necessary actions to ensure that workers' compensation claims processing services are obtained in a manner most beneficial to the State (repeat); and**
- c. take any other necessary actions in accordance with the guidance provided by the Presiding Officers of the Maryland General Assembly.**

#### **Agency Response: Office Concur**

The current agreement between the Board of Public Works and IWIF was renegotiated in 1990. Under that Agreement, IWIF serves as third-party administrator for claims brought against the State under Maryland's Workers' Compensation Law.

The Agreement describes three primary responsibilities which involve the Office. The first requires that the Treasurer decide all matters relating to contract administration and performance. The second requires IWIF to submit an annual invoice to the Treasurer reflecting the amount of actual losses incurred by the State, as well as an invoice reflecting the balance of the State's account. The third requires IWIF to compile whatever reports the Treasurer determines to be necessary to:

- (a) monitor the performance of the claims administration activity;
- (b) assess the financial liability of the program to the State;
- (c) project loss experience for the purposes of establishing budgets and agency premiums;  
and
- (d) analyze the causes of losses.

A review of the Board of Public Works files, including the January 31, 1991 agenda item and transcript, does not reveal any other information defining the requirements of this provision, with the sole exception of a general comment made by Treasurer Maurer to the effect that the Office's Insurance Division was working closely with IWIF. Additionally, there is no record to reflect

whether these performance reports have ever been deemed “necessary” or have been requested or produced.

Since the inception of the Agreement in 1990 through the State’s Fiscal Year 2016 budget, the Office has served as a conduit to remit payments to IWIF. Since 1990, the Office has received an annual report, via the Department of Budget and Management, that identifies the amount the Governor, through DBM, has proposed and the General Assembly has appropriated, for Workers’ Compensation coverage, including any appropriation for the unfunded liability. The Office prepares a disbursement transmittal, wires this amount to IWIF, and subsequently collects from each agency its share of the appropriated amounts. Historically, any changes to the amount to be remitted to IWIF has been determined by DBM and forwarded to the Treasurer’s Office for adjustment.

While the Office has not routinely requested performance reports from IWIF, a report on the State Assessment for Workers’ Compensation had been prepared by the Department of Budget and Management, and submitted to the Office. The report reviewed, analyzed, and commented on the amounts the State paid and the administrative costs charged by IWIF. In addition, as a State agency, IWIF was subject to periodic Legislative Audits until 2002, and the Office had access to those reports. IWIF is now subject to audit by the Maryland Insurance Administration. The Office monitors these MIA audits and notes that, to date, there have been no findings questioning the propriety of IWIF premiums or administrative charges.

The question of whether IWIF should continue to provide Worker’s Compensation Coverage for the State is a significant public policy decision, and must be made in a way that provides a clear understanding and safeguards the State’s interest. Chapter 570 of 2012 allowed IWIF to convert to Chesapeake Employers’ Insurance Company, a private, nonprofit and non-stock insurance company. However, the law further provided that IWIF may (not shall) continue to serve as the State’s third party administrator. Clarification seemed appropriate.

The Office received guidance from the General Assembly in July 2014. The General Assembly advised they thought it in the State’s best interest to remain with the current vendor and emphasized renegotiating the contract in order to review coverage and benefits to the State. It was recognized, also, that the Office would need to identify and hire individuals in order to examine and renegotiate the contract with IWIF as well as to analyze the possibility that the State could obtain better coverage through a different process.

As noted by the Auditor, the Office did receive approval during the 2015 Session for two positions to handle the IWIF functions as well as funding for part of Fiscal Year 2015 and Fiscal Year 2016. However, as the Auditor further notes during the 2015 legislative session, the Office’s budget appropriation was reduced by \$100,000 for Fiscal Year 2016. This reduction limited funds for the new positions beyond Fiscal Year 2015; therefore, the Office could not fill the positions before Fiscal Year 2017.

The two new positions include a Program Manager who will have an expertise in Workers’ Compensation and contractual negotiation, and an Accountant with a background in Workers’ Compensation billing and claims payment reviews. The new contract will incorporate; 1) a new

payment structure, including not-to exceed administrative fees; 2) recommendations made by MIA, including but not limited to independent audits of IWIF, review of claims and claims-related charges; and 3) other contractual requirements the Treasurer deems necessary to safeguard the State's interest in its relationship with IWIF.

Finally, once an updated contract has been executed with IWIF, the Office will begin researching and analyzing alternative methods of obtaining the State's Workers' Compensation Coverage in a manner the Treasurer deems is most beneficial to the State.

## **Unpresented Check Fund**

### **Finding 2**

**STO did not transfer excess funds totaling \$3.9 million from the State's Unpresented Check Fund to the General Fund at the end of fiscal year 2015, as required by State law.**

### **Recommendation 2**

**We recommend that, in the future, STO comply with State law and its policy regarding the transfer of excess funds.**

### **Agency Response: Office concurs**

The Office concurs with the Auditor's recommendation, but would like to present a more detailed account of our decision to maintain additional funds in the Unpresented Check Fund. Annually in June, the Office prepares for year-end closing and begins the process of determining a minimum balance to retain in the Unpresented Check Fund. During this process, the Office consults with the Comptroller's Office about outstanding checks, especially large-dollar outstanding checks issued from the Income Tax Refund Account. The Office spoke with the Manager of Taxpayer Accounting Services in June 2015 and was advised that they had been in contact with the payee of a quite large check and expected the outstanding check to be reissued after a specific date that related to a Statute of Limitations issue. As a result of these conversations the Office decided to maintain an additional \$2.9 million in the fund to cover this expected reissue.

Subsequently, the Revenue Administration Division informed the Auditor that the check was, in fact, unlikely to be requested to be reissued by the payee. The Office considered this new information, then confirmed by the Revenue Administration Division, when determining the amount of excess funds to be transferred back to the General Fund in accordance with office policy and State law. The Office reverted to the State's General Fund from the Unpresented Check Fund approximately \$12 million on July 21, 2016, including the \$2.9 million check identified by the Auditors, while retaining a balance of \$1 million.

## Information Systems Security and Controls

### **Finding 3**

**Sensitive personally identifiable information (PII) was not properly protected by STO.**

### **Recommendation 3**

**We recommend that STO properly protect the aforementioned personally identifiable information by the use of encryption or other substantial mitigating controls.**

### **Agency Response: Office concurs**

The Office concurs with the Auditor's recommendation, but would like to offer details on processes in place to protect PII in transit and processes in place to assist in protecting PII at rest on the Office's systems.

1. The Office employs encryption on all files being transmitted between the Office's computer system and State Agencies over the SWGI network. When connecting to external partners (Banks), the Office implements the use of secure VPN tunnels that are established only when the transmission needs to happen and the file is encrypted during the transmission over this secure VPN connection. After the transmission is complete the VPN tunnel is terminated. Thus, information in transmission is encrypted and protected.
2. The Office has begun the process of replacing the systems identified with multiple server based systems that will employ encryption for data at rest. For example, Check Printing is already being moved off of the current system to a new system that has already been put into place and will incorporate encryption for data at rest.
3. The Office maintains strict control over user accesses and reviews system changes and user access logs daily to ensure that the system has not been breached or users have gained unauthorized access. The Office also has specific procedures in place to grant access to users and remove accesses due to change in job roles and/or termination.
4. Connections to the current system can only be established from trusted sources.
5. Access to files is limited to viewing individual records for business purposes only. System level access to the database files is extremely limited and for admin and file transmission only.
6. The Office reviews Firewall logs, Intrusion Prevention System (IPS), and Intrusion Detection System (IDS) for attempts to make connections to the current system from an external source.
7. The Office will be implementing a Data Loss Prevention (DLP) in accordance with the Office's IT Master Plan.

**Finding 4**

**STO did not have a comprehensive information technology disaster recovery plan for recovering its computer operations from disaster scenarios.**

**Recommendation 4**

**We recommend that STO create a comprehensive DRP that covers all of its information technology operations and is in compliance with the requirements of the State's *IT Disaster Recovery Guidelines*.**

**Agency Response: Office concurs**

At the time of the OLA Audit, the Office had already procured the necessary hardware and executed a Memorandum of Agreement with Maryland State Police (MSP) for Disaster Recovery (DR). The Office is in the process of deploying the already procured Disaster Recovery software that will allow for near real-time fail-over to the MSP site.

The Office's IT Director has been actively working with Division representatives to draft the Continuity of Operations (COOP) DR Plan and associated contingencies for a variety of situations. Once the DR Plan is approved by Executive Management, the plan will be accessible in multiple secure locations in electronic and paper formats to the Office's Executive Staff and Directors. We anticipate final implementation of the Office's DR Plan, which will comply with the requirements of the State's *IT Disaster Recovery Guidelines*, prior to the end of Fiscal Year 2017.

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