Legislative Audit Bulletin

Publication for Members of the Maryland General Assembly

Maryland Insurance Administration (MIA)

MIA conducted an improper procurement process to hire a contractor who originally was tasked to assist MIA's information technology staff with development of the new insurance premium tax system to process tax payments totaling over $400 million annually.

When that development project was abandoned, MIA significantly changed the scope of the contractor's services without initiating a new competitive procurement process. MIA required the contractor to implement a proprietary tax system that the contractor had previously developed for another state's insurance agency.

MIA's new insurance premium tax system did not provide certain capabilities, which adversely impacted operations.

This system's development and implementation proceeded without a plan and related specifications. While the new system provided certain new capabilities, other capabilities that were available in the former system were lost which, in OLA's opinion, adversely impacted MIA operations. An MIA management employee exercised control over virtually all aspects of the procurement and implementation of the new premium tax system.

MIA lacked assurance that the new system (consisting of the program application, server, and database) was properly secured and configured to protect it from external threats and unauthorized changes. MIA also allowed the system development contractor complete control over the implemented system and unnecessary access to the remainder of the MIA network.

MIA had not established proper controls over premium tax audits by ensuring the audit results were independently reviewed. OLA's test of 43 tax audits found inaccuracies or deficiencies with 11 audits with tax payments totaling $50.9 million. For example, a duplicate account credit of $403,000 was issued and penalties and interest of $158,000 were not assessed. Further, certain of these audits were not subject to independent review and approval.

MIA's procedures were not sufficient to ensure certain tax payments were received timely. OLA's test of 27 mail payments identified 9 payments totaling $4.5 million that appeared to have been received late and for which penalties and interest estimated to total $156,000 were not assessed.

MIA had not established proper internal controls over premium tax refunds. For example, certain refunds were approved and authorized for payment by the same supervisory employee, and OLA identified 28 potential duplicate refunds totaling $361,000. In addition, MIA did not

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reconcile its records of premium tax revenues with the corresponding State accounting records.

Based on the results of our audit, OLA concluded that MIA's accountability and compliance level was unsatisfactory, in accordance with the rating system established in conformity with State law.

University System of Maryland (USM) – University of Maryland Eastern Shore (UMES)

UMES did not exercise effective oversight of grants awarded to its affiliated foundation totaling $640,000. Two UMES management employees, who at different times during the audit period also served as foundation Executive Director, were allowed to exercise virtually complete control over the grant transactions for both entities.

Certain foundation expenditures of UMES grant funds appeared questionable.

The scope of the agreements between UMES and the foundation was vague and immeasurable, and the benefits to UMES were not evident. Also, UMES provided grant funding to the foundation in advance of the expenditures being incurred, but did not obtain documentation to ensure the funds were spent for their intended purposes.

OLA concluded that certain expenditures appeared questionable since they were primarily related to the foundation's general operations and were not directly attributable to the general purposes of the grants. For example, during the period from January 2011 through January 2014, $191,000 in expenditures were incurred for accounting services provided to the foundation. OLA also was unable to account for a $25,000 UMES grant payment to the foundation, a condition which was referred to the Office of the Attorney General – Criminal Division.

A management employee, who since January 2013 has served as the UMES liaison with the foundation and the foundation's Executive Director, was involved in business activities with the foundation that were not disclosed to UMES as required by its procedures. This relationship also raised questions regarding a potential conflict of interest. This employee conducted business with the foundation through a limited liability corporation that this employee owned and these business activities were financed, in part, by State grants provided by UMES.

UMES disbursed federal funds totaling $385,000 to its foundation for purposes inconsistent with applicable federal regulations, which could result in certain federal fiscal sanctions. UMES and the foundation did not comply with certain USM policies. For example, resources provided to the foundation by UMES were not accurately disclosed and required reports were not always submitted by the foundation.

Department of Health and Mental Hygiene – Medical Care Programs Administration (MCPA)

Two federal audits recommended recoveries from the State. For example, an audit issued in December 2013 disclosed that MCPA drew down $115.5 million in federal funds for fiscal years 2009 through 2011 that were not supported by actual expenditures. MCPA generally agreed with the findings and advised that it had refunded $115.5 million and would refund certain amounts pertaining to the other audit.

MCPA did not adequately monitor certain vendors contracted to assist in verifying amounts billed by hospitals, long-term care (LTC) providers, and Managed Care Organizations and to recover related overpayments.

MCPA did not ensure that hospital bill audits were performed.

Audits of medical records to ensure hospital services billed ($1.1 billion in fiscal year 2012) were actually provided had not been conducted for hospital claims since 2007. MCPA also did not adequately monitor another vendor responsible for ensuring hospital charges were for medically necessary procedures and services.

MCPA did not conduct patient credit balance audits at LTC facilities prior to October 2011 to identify funds due the State from provider billing errors, duplicate payments, and/or third-party collections.

Further, cost settlements with the facilities were not conducted on a timely basis. LTC facilities are paid an interim rate based on estimated costs and are required to submit an annual cost settlement at year-end to reconcile the estimated costs to the actual costs. Payments to LTC facilities totaled $1.1 billion in fiscal year 2012.

MCPA did not take appropriate action to maximize the recovery of funds from other sources, such as third-party insurers and Medicare, to reduce Medicaid costs. For example, a process was not in place to ensure that Medicaid recipients age 65 or older had applied for Medicare as required by State regulations (to reduce State costs).

State Corporate Purchasing Card (CPC) Program

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

Four purchasing cardholders were convicted after making inappropriate purchases totaling $255,000.

The Comptroller of Maryland – General Accounting Division (GAD), which oversees the Program, has established certain policies and practices to help ensure that CPCs are used for appropriate purposes, including strict recordkeeping requirements for each transaction and monthly post-purchase reviews of transactions by supervisory personnel.

However, GAD had not required State agencies to use Level 3 (L-3) data available directly from the purchasing card bank. This data provide users with descriptive information captured by certain merchants for each purchase such as item description and quantity. This level of purchasing detail would assist those responsible for monitoring cardholder's purchasing activities, especially in situations where cardholders create fictitious invoices and other documents to conceal inappropriate purchases.

OLA's examination of L-3 data identified four cardholders who made inappropriate CPC purchases which, based on our investigation and the investigations of the agencies involved, totaled $255,000. OLA found that L-3 data item descriptions alone can raise suspicion, such as the purchase of obviously inappropriate items like guitars and toy soldier figures.

Also, attempts to conceal improper purchases are obvious when the items purchased described in the L-3 data do not agree to the cardholders' descriptions of the items purchased as recorded in their purchase activity logs. In all four cases, the cardholders were ultimately convicted for their actions.

Selected Findings from Other Audit Reports

State Board of Elections (SBE)
SBE's bundling of tasks in a consolidated procurement of its voting system support services contract in 2010 may have resulted in limiting competition. Only one proposal for $20.9 million was received. SBE could not provide sufficient documentation that the evaluations of the technical and price proposals from the sole responding vendor were performed to ensure that costs were reasonable and that all requirements were met prior to awarding the contract.

Additionally, SBE did not modify the voting system support services contract when the scope was reduced to exclude services valued at $6.5 million, and SBE did not submit contract modifications to the Board of Public Works as required by State regulations.

Potential security concerns over the Online Voter Registration System, which allows citizens to register to vote and update voter registration records online, were noted in September 2012 by an independent security research team, but were not sufficiently addressed by SBE until fiscal year 2014. In addition, adequate procedures were not in place to ensure convicted felons serving court-ordered sentences were removed from the voter registration database.

Maryland Department of Aging (MDOA)
MDOA lacked evidence to substantiate that certain activities of local Area Agencies on Aging (AAA) were properly monitored. For example, MDOA did not have a comprehensive policy to ensure that financial reviews of the AAA were subject to supervisory review and contained adequate documentation to evidence the appropriate use of State grant funds, which totaled $17.9 million during fiscal year 2013.

AAA administrative expenditures relating to Senior Care grant funds were not monitored to ensure they did not exceed the limit allowed by MDOA policy. According to expenditure reports submitted by seven AAA, several AAA exceeded that limit by a total of $552,000 for fiscal years 2012 and 2013.

Uninsured Employers' Fund (UEF)
UEF is responsible for paying workers' compensation awards to claimants who failed to receive payments from their employers who did not have workers compensation insurance, as required. The principal source of funding for claim payments and UEF operating expenses are assessments from certain employers and insurers on awards and settlement agreements approved by the Workers' Compensation Commission (WCC).

UEF maintains accounts receivable (AR) records for its billings to employers and insurers; however, certain deficiencies existed with UEF's processes to bill, monitor, and collect assessments on WCC awards and medical payments made on behalf of claimants.

Specifically, UEF did not conduct independent reviews to ensure awards, on which the billings were based, and authorized adjustments were accurately entered into the AR records. Also, the automated AR system did not generate certain notices to facilitate collection of delinquent accounts and did not generate accurate AR aging reports.

UEF did not refer delinquent accounts to the State's Central Collection Unit (CCU). According to UEF's records, as of November 5, 2013, $12.9 million of UEF's $51.6 million AR balance should have been referred to CCU, based on the age of the accounts, but had not been referred.

Update on Local School System Audits

OLA is now in its second 6-year cycle of auditing the financial management practices of the 24 local school systems (LSS). For the current cycle, OLA has issued eleven LSS audit reports and the audits of several other LSS have been recently completed.

Generally, the reports have noted some improvement since the first audit cycle, with most LSS correcting at least half of the prior audit findings reviewed, while a few have made substantial progress implementing prior audit recommendations.

Nevertheless, certain common financial management issues have been found among the LSS. For example, a number of LSS lacked comprehensive policies or procedures, including procurement policies that addressed all types of acquisitions such as services and sole source purchases. Also, LSS are generally self-insured for employee and retiree health care costs, yet many did not have processes in place to verify the propriety of claims paid on their behalf by third party administrators.

The current cycle of audits shows local school systems have made some improvements.

A number of LSS continue to have issues related to information technology (IT) operations. These issues include the failure to secure IT networks from inappropriate access, develop comprehensive disaster recovery plans, restrict certain user system capabilities, and institute sufficient password controls.

Issues remain for student transportation operations. OLA has repeated findings in many current LSS audit reports on the lack of formal targets and goals for revising bus routes and the failure to use automated routing software to improve route efficiency. Furthermore, LSS that use bus contractors typically have not sufficiently analyzed their bus transportation needs and market conditions to justify the contract payment rates, which OLA has in a number of instances determined to be excessive.

Legislative Audit Bulletin

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The Legislative Audit Bulletin is periodically issued by the Office of Legislative Audits (OLA) to inform the General Assembly of audits or reviews completed and to provide a summary of significant findings from selected reports. Unless specifically noted, the agencies generally agreed with the audit findings and recommendations, although some follow-up of the report response may have been necessary. Copies of reports can be obtained from the web site or by contacting either OLA or the Department of Legislative Services, 90 State Circle, Annapolis, Maryland 21401, 410-946-5400 - 301-970-5400. For further details about any report or finding, please contact OLA at the listed numbers. We welcome your comments and suggestions.

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