

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$31,334	\$30,989	\$33,061	\$2,072	6.7%
Deficiencies and Reductions	0	0	-78	-78	
Adjusted Special Fund	\$31,334	\$30,989	\$32,983	\$1,994	6.4%
Federal Fund	627	1,242	779	-463	-37.3%
Deficiencies and Reductions	0	0	-1	-1	
Adjusted Federal Fund	\$627	\$1,242	\$778	-\$465	-37.4%
Adjusted Grand Total	\$31,961	\$32,232	\$33,761	\$1,529	4.7%

- After adjusting for a back of the bill reduction in health insurance, there is an increase in the fiscal 2017 allowance of \$1.5 million, or 4.7%. Special funds increase by \$2.0 million, or 6.4%. There is a \$465,000 decrease in federal funds or 37.4%.

Personnel Data

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>
Regular Positions	265.00	265.00	265.00	0.00
Contractual FTEs	<u>12.25</u>	<u>14.70</u>	<u>14.30</u>	<u>-0.40</u>
Total Personnel	277.25	279.70	279.30	-0.40

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	14.68	5.54%
Positions and Percentage Vacant as of 12/31/15	28.00	10.57%

Note: Numbers may not sum to total due to rounding.

For further information contact: Sierra S. Boney

Phone: (410) 946-5530

- The number of authorized positions remains unchanged from fiscal 2016 to 2017. There is a decrease of 0.40 contractual employees for the Affordable Care Act contract review.
- The fiscal 2017 turnover rate of 5.54% requires the Maryland Insurance Administration (MIA) to keep 14.68 regular positions vacant. As of December 31, 2015, there were 28.0 positions vacant.

Analysis in Brief

Major Trends

Insurance Complaints Received and Resolved: The number of insurance complaints received in fiscal 2015 have increased. There has also been a decline in the number of complaints resolved.

Restitution and Penalties: There has been a decline in the amount of restitution and penalties paid to consumers and to the State since fiscal 2013 with a significant decline from fiscal 2014 to 2015.

Issues

Office of Legislative Audits Update: MIA is wholly funded through special funds and is tasked with assessing and collecting premium taxes from insurers. The revenues from the taxes largely go back to the General Fund. The Office of Legislative Audits found a significant number of issues with the MIA system for collecting, managing, and securing premium tax funds including a number of repeat findings.

Recommended Actions

1. Concur with Governor's allowance.

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Maryland Insurance Administration

Operating Budget Analysis

Program Description

The Maryland Insurance Administration (MIA) implements laws and develops policies, procedures, and regulations that affect Maryland's insurance industry. MIA performs rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations. It also resolves consumer complaints and issues licenses to companies and procedures.

The main goals of MIA are to:

- ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- protect the public from unfair trade practices and other violations of the Insurance Code;
- enforce solvency standards to ensure that insurers have the financial ability to pay claims when due; and
- protect Maryland citizens through enforcement of the Annotated Code of Maryland's provisions relating to insurance fraud.

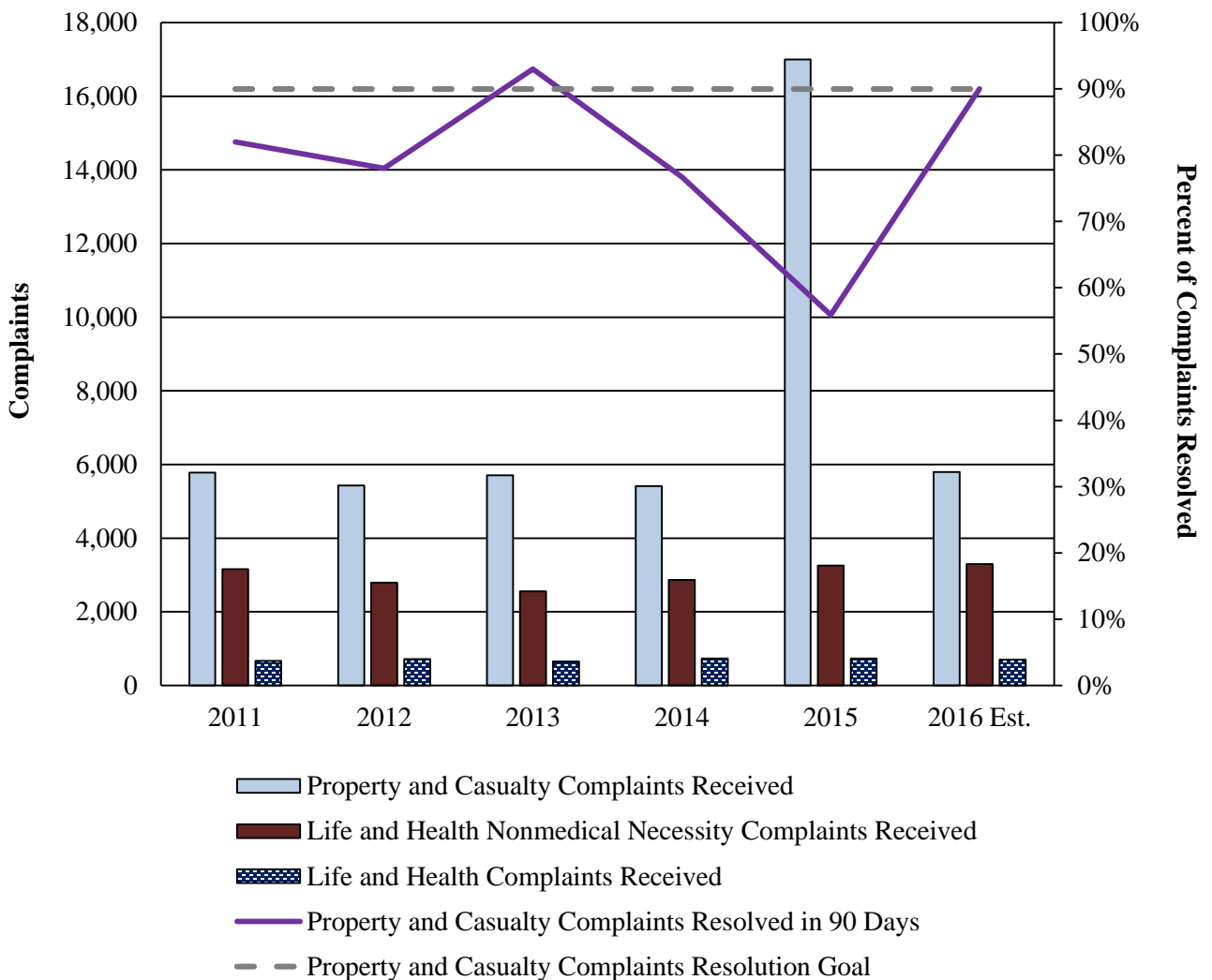
Performance Analysis: Managing for Results

1. Insurance Complaints Received and Resolved

MIA is responsible for receiving and resolving insurance complaints made by consumers. **Exhibit 1** shows that the number of insurance complaints received has remained relatively steady for Life and Health, Life and Health nonmedical necessity, and Property and Casualty from fiscal 2011 to 2014. There was a significant increase in the number of Property and Casualty complaints in fiscal 2015, from 5,412 to 17,001. This is because MIA received 10,615 complaints from policyholders disputing a notice of premium increase issued by State Farm Fire and Casualty. The number of complaints in fiscal 2016 are expected to be closer to historical levels. It is also important to note that the percentage of Property and Casualty complaints resolved in 90 days has decreased from 93.0% in

fiscal 2013 to 76.0% in fiscal 2014 and 55.9% in fiscal 2015. This is a significant decrease particularly because the goal for the agency is to resolve 90.0% of Property complaints in 90 days. **The Department of Legislative Services (DLS) recommends that MIA comment on the decrease in Property and Casualty complaints resolved in 90 days.**

**Exhibit 1
Insurance Complaints and Property and Casualty Complaints
with Timely Resolution
Fiscal 2011-2016 Est.**



Source: Department of Budget and Management

2. Restitution and Penalties

One of the goals of MIA is to protect the public from unfair trade practices and other violations of the State’s insurance laws. MIA can perform market conduct examinations and, based on the findings, the agency can direct a company or producer to pay a fine to the agency or pay restitution to the consumer. For example, the agency could issue a fine to an insurer who had not paid a claim within the statutorily required 30 days and could seek restitution if an insurer or producer overcharged the consumer for a premium and never provided the refund. **Exhibit 2** shows the amount of money returned to Maryland citizens and the amount of fines collected since fiscal 2011. Restitution and penalty amounts fluctuate annually, but there has been a consistent decline in recent years. This is due, in part, to the lack of any multi-state collaborative actions involving large insurance companies. This is particularly true of Life and Health insurers. In addition, for many of the smaller investigations, insurers have in recent years been more willing to comply with MIA orders and have provided restitution directly to consumers without having to be directly compelled to do so by the agency.

Exhibit 2
Penalties Paid to MIA and Restitution Paid to Consumers
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Penalties	\$2,414,214	\$1,983,597	\$4,320,008	\$3,422,462	\$2,443,128
Total Restitution	6,598,683	17,544,782	5,619,094	4,970,782	436,100
Total	\$9,012,897	\$19,528,379	\$9,939,102	\$8,393,244	\$2,879,228

MIA: Maryland Insurance Administration

Source: Department of Budget and Management

Proposed Budget

After adjusting for a back of the bill reduction in health insurance, the fiscal 2017 allowance for MIA increases by approximately \$1.5 million driven mainly by personnel costs. The most significant areas of growth are spending on employee and retiree health insurance (\$744,000) and employees’ retirement (\$441,000). As shown in **Exhibit 3**, there is a decrease of \$291,000 in salaries because of new employees being hired at base rates. There is also an increase of \$100,000 in turnover, lowering the budgeted turnover rate by 0.5%. Contractual employee expenses increased by \$50,000 largely because of the inclusion of health insurance costs.

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There is a \$170,000 increase in fiscal 2017 for the storage area network replacement. There are also increases of \$40,000 for a tape library and \$30,000 for server replacements. There was a \$39,000 decrease in a one-time expense for software and software licensing. Other changes include a \$285,000 increase in costs for administrative hearings as a result of the increase in Property Casualty State Farm complaints and an increase of \$44,000 for communications.

Exhibit 3
Proposed Budget
Maryland Insurance Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2015 Actual	\$31,334	\$627	\$31,961
Fiscal 2016 Working Appropriation	30,989	1,242	32,232
Fiscal 2017 Allowance	<u>32,983</u>	<u>778</u>	<u>33,761</u>
Fiscal 2016-2017 Amount Change	\$1,994	-\$465	\$1,529
Fiscal 2016-2017 Percent Change	6.4%	-37.4%	4.7%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$744
Employees' retirement	441
Accrued leave payout.....	150
Turnover adjustments.....	100
Other fringe benefits and adjustments	-37
Regular salaries	-291

Information Technology

Storage area network replacement	170
Tape library replacement	40
Replacement server	30
Statewide system allocations	15
Virtual servers.....	-35
Software and licensing.....	-39
Enterprise Complaint Tracking System (See Appendix 2 for additional details)	-50
Secure file protocol site	-52

Where It Goes:

Other Changes

Administrative Hearings assigned costs	285
Contractual employees.....	50
Communications	44
Office of the Attorney General Administration fee	17
Office supplies and materials.....	-9
Disaster relief, document destruction, and other contractual services	-18
Other	-26
Total	\$1,529

Note: Numbers may not sum to total due to rounding.

Enterprise Complaint Tracking System

Over the past several years, MIA has undertaken a variety of information technology (IT) upgrades. IT upgrades typically require significant time and funding. Effective project management is necessary to meet project timelines and maintain projected costs. MIA has identified the need to replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow. MIA began the initial phases of the project in October 2011. The project is currently underway but initial cost were overestimated, which resulted in \$126,707 in canceled special funds for the project in fiscal 2015. The 2016 legislative appropriation was \$404,500 in special funds and the 2017 allowance is \$355,000. **DLS recommends that the agency brief the committees on the status of the ECTS project and steps that the agency has taken to ensure effective project management.**

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency’s share of these reductions is \$78,214 in special funds and \$1,346 in federal funds. There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Issues

1. Office of Legislative Audits Update

The Office of Legislative Audits (OLA) conducted an audit for MIA in November 2014, which outlined 14 findings, including 4 repeat audit findings, as shown in **Exhibit 4**. The audit also included 11 recommendations for resolving these findings. As a result, the 2015 *Joint Chairmen’s Report* (JCR), required that prior to the release of \$150,000 in administrative funds, MIA must take corrective action on all unresolved repeat audit findings. The JCR language further required that OLA submit a report to the budget committees listing each unresolved repeat audit finding along with the 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 to release the funds prior to the end of the fiscal year. In February 2016, OLA conducted a follow up review stating that Finding 3 has been resolved, Finding 8 is still currently in process, and Findings 10 and 12 no longer apply to the processes used by MIA.

MIA asserts that Finding 8 – that MIA did not reconcile its records of premium tax revenues with the corresponding State accounting records – has also been corrected. OLA notes that while MIA has developed procedures to conduct monthly reconciliations of payments, there are still no reconciliation of cumulative year-to-date tax balances. As a result, uncorrected errors or unauthorized changes would not be detected. This was illustrated in a duplicate payment entry of \$2,000 on their master balance sheet that was previously undetected. MIA asserts that they have in fact incorporated cumulative-to-date reconciliation, but employees who performed the monthly premium tax reconciliation from October 2014 to May 2015 also had the ability to post payments to the master spreadsheet. This was allowed because of a shortage of employees and was corrected in May 2015. **DLS recommends that MIA comment on the recent OLA follow up report. DLS also recommends that the currently restricted funds be released.**

Exhibit 4 Audit Findings

Audit Period for Last Audit:	September 29, 2010 – August 4, 2013
Issue Date:	November 2014
Number of Findings:	14
Number of Repeat Findings:	4
% of Repeat Findings:	29%
Rating: (if applicable)	n/a

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- Finding 1:** The new automated premium tax system procurement did not comply with the State procurement regulations governing competitive procurement and contract modifications. System development and implementation proceeded without a plan or specifications.
- Finding 2:** An MIA management employee exercised control over all aspects of the procurement and implementation of the new premium tax system.
- Finding 3:** **The premium tax system was not properly secured to restrict control and access. As a result, the premium tax system contractor had complete control over the system and unnecessary access to the MIA network.**
- Finding 4:** The premium tax system lacked proper security and configuration to protect it from the external threats and unauthorized changes.
- Finding 5:** MIA lacked adequate control over the premium tax findings, including supervisory review of audit results.
- Finding 6:** Procedures were not sufficient to ensure that MIA received certain tax payments in a timely manner, therefore, MIA did not always assess penalties and interest for late payments.
- Finding 7:** MIA had not established proper internal controls over premium tax refunds.
- Finding 8:** **MIA did not reconcile its records of premium tax revenues with corresponding State accounting records.**
- Finding 9:** MIA lacked effective control over financial examination services.
- Finding 10:** **MIA lacked effective control over cash receipts.**
- Finding 11:** MIA did not establish sufficient control for issuing producer licenses.
- Finding 12:** **MIA lacked assurance that outsourced producer, and pre-licensing service systems were protected against operational and security risks.**
- Finding 13:** MIA lacked effective control over purchases and disbursements.
- Finding 14:** MIA lacked effective control over information technology network access.

*Bold denotes item repeated in full or part from preceding audit report.

Source: Office of Legislative Audits

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Insurance Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$0	\$29,147	\$1,279	\$0	\$30,426
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	2,564	4	0	2,568
Reversions and Cancellations	0	-377	-657	0	-1,033
Actual Expenditures	\$0	\$31,334	\$627	\$0	\$31,961
Fiscal 2016					
Legislative Appropriation	\$0	\$30,600	\$1,234	\$0	\$31,835
Budget Amendments	0	389	8	0	397
Working Appropriation	\$0	\$30,989	\$1,242	\$0	\$32,232

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 legislative appropriation for MIA was increased by \$1,534,552. Budget amendments increased special funds by \$2,564,020:

- \$1,435,000 for the ECTS project;
- \$297,290 for building rent and retiree health insurance;
- \$194,532 for a cost-of-living adjustment (COLA); and
- \$637,198 for other software and equipment.

Special fund cancellations totaled \$376,959 including a contingency amount of \$250,752 and \$126,707 in lower than anticipated expenditures for the ECTS, as the project plan started later than expected.

The original federal fund appropriation of \$1,279,150 was increased by \$4,012 by budget amendment for a COLA. There was a cancellation of \$656,521 for consulting services that were not used.

Fiscal 2016

To date, the fiscal 2016 special fund appropriation has increased by \$389,000 for the restoration of the 2% pay cut. Similarly, federal funds have also increased by \$8,000.

Major Information Technology Projects

Maryland Insurance Administration Enterprise Complaint Tracking System

Project Status	Implementation.	New/Ongoing Project:	Ongoing.					
Project Description:	The Maryland Insurance Administration (MIA) has identified the need to replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow by routing electronic documents and notifications across the organization and enables online data entry, form creation, standard reports, <i>ad hoc</i> queries, and data exchange with internal and external systems.							
Project Business Goals:	Replacing the current ECTS with upgraded technology will provide MIA with the ability to improve complaint resolution efficiency percentages beyond current targets.							
Estimated Total Project Cost:	\$2,699,500	Estimated Planning Project Cost¹:	n/a.					
Project Start Date:	August 2012	Projected Completion Date:	October 2017					
Schedule Status:	Due to the delay in approving the ECTS Infrastructure Design, the infrastructure components have not yet been purchased or installed. This will impact the project schedule and delay implementation plans.							
Cost Status:	<ol style="list-style-type: none"> 1. A contract modification for \$37,000 to incorporate Microsoft SharePoint document management software into the new ECTS application was requested by MIA and approved by the Department of Information Technology. 2. A contract modification to acquire additional infrastructure components for the project is anticipated. Cost estimates for this change are currently being collected. 							
Scope Status:	n/a.							
Project Management Oversight Status:	In place.							
Identifiable Risks:	The infrastructure for the new ECTS system is a critical component to ensure the success of the project. At this time, MIA and the contractor are working together to finalize the infrastructure design and quantify cost estimates for all components. This effort has taken longer than initially planned and will cause an impact to the project schedule.							
Additional Comments:	n/a.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	2,344.5	355.0	0.0	0.0	0.0	0.0	0.0	2,699.5
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	00.0
Total Funding	\$2,344.5	\$355.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2,699.5

**Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	265.00	265.00	265.00	0.00	0%
02 Contractual	12.25	14.70	14.30	-0.40	-2.7%
Total Positions	277.25	279.70	279.30	-0.40	-0.1%
Objects					
01 Salaries and Wages	\$ 23,905,461	\$ 24,120,891	\$ 25,307,457	\$ 1,186,566	4.9%
02 Technical and Spec. Fees	750,956	743,869	794,007	50,138	6.7%
03 Communication	367,177	264,479	308,217	43,738	16.5%
04 Travel	251,598	379,894	378,710	-1,184	-0.3%
07 Motor Vehicles	195,490	217,963	216,247	-1,716	-0.8%
08 Contractual Services	3,608,434	3,527,327	3,696,755	169,428	4.8%
09 Supplies and Materials	290,269	276,570	267,252	-9,318	-3.4%
10 Equipment – Replacement	19,564	181,000	421,000	240,000	132.6%
11 Equipment – Additional	12,276	87,300	0	-87,300	-100.0%
12 Grants, Subsidies, and Contributions	609,886	610,000	622,200	12,200	2.0%
13 Fixed Charges	1,949,703	1,822,326	1,828,563	6,237	0.3%
Total Objects	\$ 31,960,814	\$ 32,231,619	\$ 33,840,408	\$ 1,608,789	5.0%
Funds					
03 Special Fund	\$ 31,334,173	\$ 30,989,273	\$ 33,061,419	\$ 2,072,146	6.7%
05 Federal Fund	626,641	1,242,346	778,989	-463,357	-37.3%
Total Funds	\$ 31,960,814	\$ 32,231,619	\$ 33,840,408	\$ 1,608,789	5.0%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Administration and Operations	\$ 30,297,021	\$ 31,827,119	\$ 33,485,408	\$ 1,658,289	5.2%
02 Major Information Technology Development Projects	1,663,793	404,500	355,000	-49,500	-12.2%
Total Expenditures	\$ 31,960,814	\$ 32,231,619	\$ 33,840,408	\$ 1,608,789	5.0%
Special Fund	\$ 31,334,173	\$ 30,989,273	\$ 33,061,419	\$ 2,072,146	6.7%
Federal Fund	626,641	1,242,346	778,989	-463,357	-37.3%
Total Appropriations	\$ 31,960,814	\$ 32,231,619	\$ 33,840,408	\$ 1,608,789	5.0%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.