

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	FY 05	FY 06	FY 07	FY 06-07	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
Special Fund	\$85,800	\$114,019	\$123,086	\$9,067	8.0%
Federal Fund	<u>219</u>	<u>1,710</u>	<u>0</u>	<u>-1,710</u>	<u>-100.0%</u>
Total Funds	\$86,019	\$115,729	\$123,086	\$7,357	6.4%

- An increase for the Rate Stabilization Fund (\$20.6 million) is partially offset by savings as the Senior Prescription Drug Program transitions to the Senior Prescription Drug Assistance Program. (\$15.0 million)

Personnel Data

	FY 05	FY 06	FY 07	FY 06-07
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	296.00	287.00	287.00	0.00
Contractual FTEs	<u>4.50</u>	<u>10.00</u>	<u>9.00</u>	<u>-1.00</u>
Total Personnel	300.50	297.00	296.00	-1.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	5.74	2.00%
Positions Vacant as of 12/31/05	14.0	4.88%

- Regular positions remain unchanged between the current year and the allowance.
- Contractual positions decrease by a net of one. Two positions in the Rate Stabilization Fund which are not being utilized are eliminated and one position is added to the Maryland Health Insurance Plan (MHIP) to verify enrollee income for the MHIP subsidy.

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

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Analysis in Brief

Major Trends

Filings Reviewed Promptly: The Maryland Insurance Administration (MIA) reviews all insurance filings in the State. It has consistently met the statutory timelines.

Complaints Handled Quickly: MIA increased its percentage goals for resolving complaints within certain time frames. In two of three categories it is meeting these goals. Additional effort is still needed on the Life and Health Non-medical Necessity complaint measure.

Issues

Senior Prescription Drug Assistance Program Begins Operation: Beginning January 1, 2006 the Senior Prescription Drug Program ceased operation as a benefit plan and became the Senior Prescription Drug Assistance Program which subsidizes a portion of the out-of-pocket costs of low-income participants.

Despite Increases in Enrollment, Maryland Health Insurance Plan Fund Balance Remains High: After declining throughout 2003 and 2004, enrollment in the Maryland Health Insurance Plan began increasing due to changes to reduce participant costs. Despite the increased enrollment, however, a large fund balance remains.

Maryland Health Insurance Plan Faulted in Market Conduct Examination Report and in Legislative Audit: A number of issues are raised in the Market Conduct Examination and Legislative Audit Reports regarding the administration and operations of MHIP. MHIP indicates corrective actions have been or are in the process of being taken to correct the problems identified by these reports.

Rate Stabilization Fund: Making Maryland Safe for Medical Specialties: The Rate Stabilization Fund went into operation in fiscal 2005 to help retain health care providers in the State by allowing insurers to charge lower medical malpractice premium rates.

Recommended Actions

	<u>Funds</u>
1. Increase turnover to better reflect historical levels	\$ 170,000
Total Reductions	\$ 170,000

D80Z01
Maryland Insurance Administration

Operating Budget Analysis

Program Description

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations as well as implements laws that affect Maryland's insurance industry. The agency performs actuarial valuations, rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations; resolves consumer complaints; and issues producer licenses (formerly agents and brokers) and company licenses. The Maryland insurance law, in conformity with national standards, no longer makes a distinction between agents and brokers, which are now known as producers.

MIA also administers the Rate Stabilization Fund which is used to pay health care provider medical malpractice rate subsidies. The source of funds is a premium tax imposed upon Health Maintenance Organizations and Managed Care Organizations.

Within MIA organizationally, although not managerially, is the Health Insurance Safety Net Program which includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program (SPDAP). MHIP is an independent unit of MIA, whose purpose is to provide access to affordable, comprehensive health benefits for the medically uninsurable. The program is governed by a board, which has contracted out administration of the program to Maryland Physicians for Care. SPDAP replaced the Senior Prescription Drug Program in January 2006 and offers a State subsidy toward out-of-pocket costs under Medicare Rx and Medicare Advantage Prescription Drug Coverage to Medicare beneficiaries with incomes at or below 300% of the federal poverty level. Funding for SPDAP is provided from a portion of the value of CareFirst's premium tax exemption.

MIA's key goals are:

- to ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- to adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- to protect the public from unfair trade practices and other violations of the Insurance Code;
- to enforce solvency standards to ensure that insurers have the financial ability to pay claims when due;
- to reduce the time for approving Producer License paper applications;

- to protect Maryland citizens through enforcement of the Annotated Code of Maryland provisions relating to insurance fraud; and
- to provide access to affordable health insurance coverage and prescription drug benefits for individuals with no alternative.

Performance Analysis: Managing for Results

Filings Reviewed Promptly

MIA reviews all insurance filings for compliance with insurance statutes and regulations. As **Exhibit 1** shows, MIA has been successful in reviewing filings within the statutorily required 60 days.

Exhibit 1
Insurance Filings Processed within 60 Days
Fiscal 2003 – 2007

	<u>FY 2003¹</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Estimated</u> <u>FY 2006</u>	<u>Estimated</u> <u>FY 2007</u>
Total Filings	17,095	13,472	13,365	13,300	13,300
# Processed within 60 days	16,932	13,254	13,358	13,300	13,300
% Processed within 60 days	99.0%	98.4%	99.9%	100.0%	100.0%

¹Until fiscal 2004, this measure included forms and non-forms (e.g. advertising claims, etc.) from fiscal 2004 on, only form processing is shown.

Source: Maryland State Budget

Complaints Handled Quickly

A key service the agency provides to the public is to investigate and resolve consumer complaints. Consumer complaints can range from concerns about unwarranted policy cancellations to failure to pay a claim, to premium increases. For fiscal 2007 MIA has raised its goals for resolving complaints received within 90 days from 75 to 85% for complaints received regarding life and health non-medical necessity issues and from 60 to 90% for complaints received regarding property and casualty issues. The goal for health medical necessity complaint resolution remains 100% within 60 days. **Exhibit 2** shows that MIA is close to meeting the health medical necessity and property and casualty complaint goals but is forecasting that it will not meet the goal for life and health non-medical necessity complaints. **MIA should brief the committees on the challenges it is facing in**

Exhibit 2
Complaints Resolved in a Timely Manner
Fiscal 2003 – 2007

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Estimated</u> <u>FY 2006</u>	<u>Estimated</u> <u>FY 2007</u>
Health medical necessity complaints received	1,104	1,050	963	1,000	1,000
% Resolved within 60 days	97%	98%	95%	100%	100%
Life and health non-medical necessity complaints received	4,059	6,000	3,429	3,500	3,500
% resolved within 90 days	95%	92%	90%	73%	73%
Property and Casualty complaints received	14,490	15,918	10,859	11,500	12,000
% adjudicated within 90 days	51%	75%	89%	90%	90%

Source: Maryland State Budget

resolving life and health non-medical necessity complaints in a timely fashion and the steps it is taking to improve performance on this measure.

Governor's Proposed Budget

As illustrated in **Exhibit 3**, the fiscal 2007 allowance for MIA increases \$7.4 million over the fiscal 2006 working appropriation which is an increase of 6.4%. The increase is due in large part to the increase in the Rate Stabilization Fund (\$20.6 million) offset partially by a decrease in the funding in the Senior Prescription Drug Assistance Program (-\$15.0 million).

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

How Much It Grows:	Special Fund	Federal Fund	Total
2006 Working Appropriation	\$114,019	\$1,710	\$115,729
2007 Governor's Allowance	<u>123,086</u>	<u>0</u>	<u>123,086</u>
Amount Change	\$9,067	-\$1,710	\$7,357
Percent Change	8.0%	-100.0%	6.4%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$390
Increments and other compensation	349
Remove saving from positions abolished in fiscal 2006	336
Turnover budgeted at 2%.....	306
Retirement and deferred compensation	188
Underfunding of health costs in fiscal 2006 base	56
Underfunding of increments	-243
Workers' compensation premium assessment	-49
Other fringe benefit adjustments	45

Administration and Operations

Support for Office of Administrative Hearings	94
Computer technical support.....	65
Software licenses (imaging and firewall)	37
Actuarial outsourcing	17

Examinations and Auditing

Increased hourly rate for certified financial examiner and certified public accountant contractual positions to improve recruitment and retention	38
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Compliance and Enforcement

Hourly rate increase (\$2/hour) for contractual investigators	19
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Rate Stabilization Fund

Subsidies paid to insurers	20,598
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Maryland Health Insurance Plan

Income verification contractual position	51
Paid claim history and trend analysis programming and technical support.....	-85
Computer purchases	-34

Other Changes

Senior Prescription Drug\Senior Prescription Drug Assistance Program.....	-15,014
Other	193

Total	\$7,357
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Note: Numbers may not sum to total due to rounding.

Issues

1. Senior Prescription Drug Assistance Program Begins Operation

Chapter 282 of 2005 altered the eligibility requirements of the Senior Prescription Drug Program and renamed it to be SPDAP. Beginning January 1, 2006, SPDAP will subsidize the Medicare drug benefit for beneficiaries with household income below 300% of the federal poverty level (\$28,710 for an individual; \$38,490 for a married couple). Under Chapter 282, SPDAP will provide a subsidy of the Medicare drug plan premium and deductible. Enrollment in SPDAP is automatic for individuals enrolled in the Senior Prescription Drug Program. However, enrollees will need to apply to a Medicare prescription drug plan. If they do not choose a drug plan, enrollees may be auto-assigned to a plan.

MHIP, which administers the Senior Prescription Drug Program, sent letters to enrollees and held 10 Medicare Prescription Drug Plan Information Expos, as well as enrollment assistance workshops, throughout the State to help enrollees choose a plan that best serves their needs. Enrollees are also assisted in applying for the federal low-income subsidy. MHIP has selected a new third-party administrator for SPDAP – Affiliated Computer Services – and is negotiating contracts with each prescription drug plan to coordinate benefits. The intent is for the coordination to occur behind the scenes, so enrollees only need to produce their Medicare prescription drug plan card in order to obtain both the federal and State benefit at their pharmacy. In addition to the approximately 35,000 members of the Senior Prescription Drug Program that were automatically enrolled in SPDAP, SPDAP has received approximately 800 new applications and has sent applications to the approximately 7,000 participants of the Maryland Pharmacy Discount Program which terminated December 31, 2005.

MHIP has introduced emergency legislation in the 2006 session (SB 283/HB 702) to provide more flexibility in the use of the SPDAP subsidy. Chapter 282 limited the SPDAP subsidy to the prescription drug plan premium and deductible to keep the new State benefit as close to the old State benefit as possible. Since enactment of Chapter 282, some prescription drug plans have been approved with no deductible, and SPDAP has been effectively limited to subsidizing just the premium in order to be applied in an equitable manner. SPDAP will provide up to \$25 per month to help pay plan premiums. The emergency legislation is intended to authorize a subsidy of other cost-sharing requirements. The emergency legislation will also extend the sunset on SPDAP until at least December 31, 2007, to allow MHIP to negotiate contracts with prescription drug plans on a calendar year basis, in accordance with the Medicare benefit year. The program is funded at \$8 million for the January 1, 2006, to June 30, 2006, period, and \$14 million is included in the budget for fiscal 2007.

The executive director should brief the committees on the progress of implementing the SPDAP.

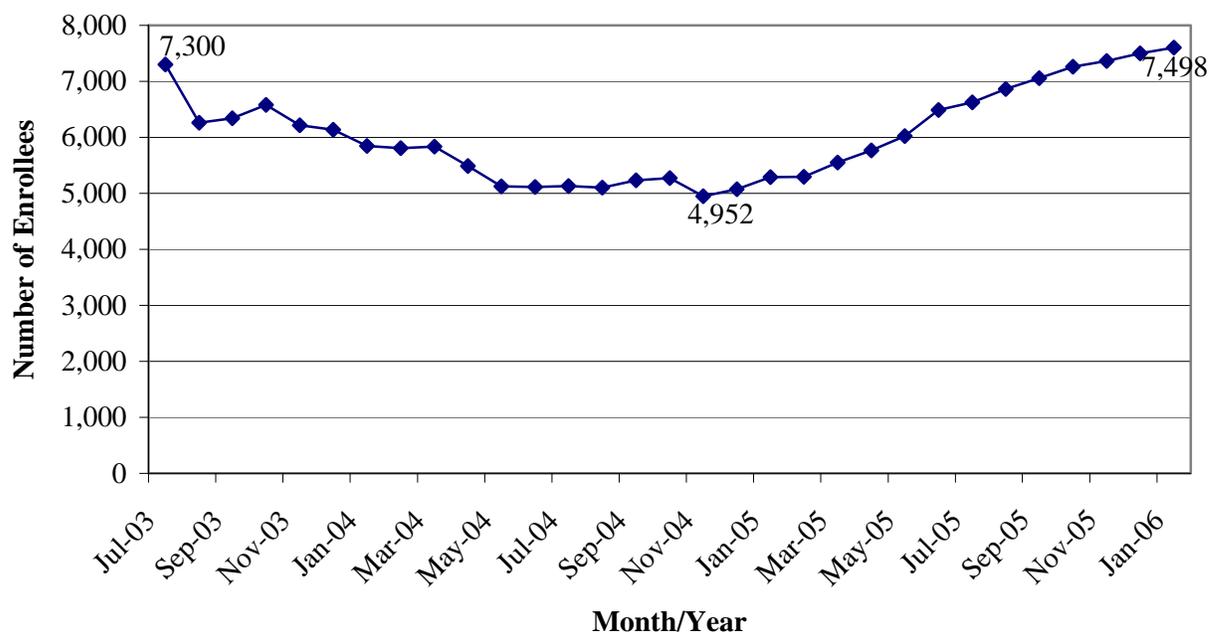
2. Despite Increases in Enrollment, Maryland Health Insurance Plan Fund Balance Remains High

MHIP, the State's high-risk pool for medically uninsurable individuals, became operational in July 2003. Funded through an assessment on hospitals, MHIP as originally implemented had the capacity to serve approximately 15,000 enrollees. Enrollment has never approached this level, however, as indicated in **Exhibit 4**. From an initial level of 7,300, enrollment fell steadily throughout 2003 and 2004. High premiums and a small health care provider network contributed to the decline. The MHIP board of directors has taken several steps to make the plan more attractive, and the decline has reversed in 2005. These steps include:

- expanding the provider network;
- lifting the ban on coverage of preexisting conditions;
- enhancing the benefit package;
- reducing premiums;
- increasing the referral fee paid to insurance producers; and
- marketing the plan to providers, insurance producers, hospitals, and local health departments.

A particularly effective strategy was to work with CareFirst, the State's largest carrier in the individual health insurance market, to enclose a "mini-application" for MHIP with all CareFirst denial notices. MHIP reports that 30% of the approximately 500 monthly applications it now receives result from the "mini-application." As of January 2006 enrollment stood at 7,498.

Exhibit 4
Maryland Health Insurance Plan Enrollment
Number of Enrollees



Source: Maryland Health Insurance Plan

Additional measures were approved by the board in November 2004 but put on hold, including increasing the premium subsidy for low-income enrollees and instituting a mass marketing campaign. The board delayed implementing these measures pending a market conduct examination by MIA. This examination is now complete, and the board is moving forward with these measures. In November 2005, MHIP began to subsidize the premiums of enrollees with family income up to 225% of the federal poverty guidelines (\$21,533 for a single person and \$28,868 for a married couple). A mass marketing campaign, using radio and print media, will get underway in February 2006. The lower premiums and premium subsidies have increased the cost of the program such that MIA estimates the program now has the capacity to serve a maximum of 10,000 enrollees on an ongoing basis. The fund balance, discussed below, would allow enrollment to climb above that level if demand is sufficient.

MHIP Fund Balance Continues to Grow but Forecast Shows Decline in Fiscal 2007

Despite the uptick in enrollment, MHIP continues to accumulate a large fund balance from the hospital assessment, as indicated in **Exhibit 5**. As of June 30, 2005, the balance in the MHIP fund

Exhibit 5
Cash Flow Activity for MHIP Fund
Fiscal 2004 – 2007

Fund Balance 6/30/04		\$38,325,360
Fiscal 2005 Activity		
Revenues		
Hospital assessment	\$65,101,080	
Premiums and other	21,146,439	
Expenditures	-38,060,950	
Change in Non-admitted Assets	2,558,678	
Fund Balance 6/30/05		\$89,070,607
Fiscal 2006 Projected Activity		
Revenues		
Hospital assessment	\$66,800,000	
Premiums and other	25,137,000	
Expenditures		
Basic MHIP program	-67,199,000	
Low-income subsidy	-2,600,000	
Projected expenditure for Medicaid eligibility system	-15,000,000	
Fund Balance 6/30/06		\$96,208,607
Fiscal 2007 Projected Activity		
Revenues		
Hospital assessment	\$68,804,000	
Premiums and other	36,013,033	
Expenditures		
Basic MHIP program	-120,724,000	
Low-income subsidy	-7,900,000	
Fund Balance 6/30/07		\$72,401,640

Source: Maryland Health Insurance Plan

was \$89.1 million. In addition to enrollee premium revenue, the hospital assessment is expected to provide an additional \$66.8 million in revenues in fiscal 2006. Even with the low-income subsidy, projected fiscal 2006 expenditures are far below the level of funding available. Included in projected expenditures is the spending of up to \$15 million, as authorized by Chapters 280 and 343 of 2005, in fiscal 2006 only, for the design and development of a computerized eligibility system for the Medicaid program. While this one-time-only expenditure will reduce the MHIP fund balance and the

low-income subsidy will consume additional funds going forward, the imbalance between ongoing revenues and expenditures is expected to persist through fiscal 2006 with a projected ending balance of \$96.2 million. According to MHIP's estimates, expenses in fiscal 2007 will exceed revenues by \$23.7 million resulting in an ending balance of \$72.4 million. Like a commercial health insurance plan, MHIP needs to maintain a level of reserves against unanticipated losses. Clearly, MHIP can maintain a comfortable level of reserves, fulfill its responsibilities to its enrollees, and still have surplus revenues for the next few years.

The Health Services Cost Review Commission (HSCRC) determines the amount of the hospital assessment applicable to MHIP, according to a methodology set in statute. HSCRC is expected to propose legislation for the 2006 session to permit the MHIP board to request a lower amount of funding from the hospital assessment than would otherwise be required by statute in any year in which the full amount of funding is not needed. An amendment that would have accomplished this same purpose was considered and rejected by the House Health and Government Operations Committee in its deliberations on HB 1328 of 2005, a departmental bill that would have made other changes to MHIP. Opponents of the amendment cited the need to safeguard the hospital assessment for medically uninsurable individuals without access to other sources of health care coverage. The assessment falls under the State's federal Medicare waiver, which means that any use of the funds generated by the assessment must keep hospital costs less than what they would be in the absence of the waiver.

The growing MHIP surplus may prompt legislative proposals for alternative uses of the hospital assessment. Possible alternatives include a Medicaid expansion, subsidized insurance coverage of low-income workers, third-party buy-in of MHIP coverage, and electronic medical records. **The MHIP executive director should inform the committees on what, if any, actions should be taken to reduce the fund balance and the minimum fund balance that should be maintained as a reserve.**

3. Maryland Health Insurance Plan Faulted in Market Conduct Examination Report and in Legislative Audit

The Compliance Unit of the Maryland Insurance Administration reviews insurance company operations to determine how the company operates in the market place. A market conduct examination was conducted for MHIP for the period July 1, 2004, to December 31, 2004, with the resulting report released January 13, 2006. The examiners' review includes, but is not limited to, sales practices, advertising materials, underwriting practices, and claims handling practices. The resulting examination report presents a detailed analysis of a company's general business practice.

The market conduct examination report for MHIP notes numerous areas where MHIP or its third party administrator failed to comply with State laws and regulations relating to how claims were processed, reviewed and paid or denied, and documentation that did not conform to requirements. In its response, MHIP generally noted that corrective actions had already been taken or were in process.

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The October 2005 legislative audit report for MIA covered the period beginning July 1, 2001, and ending December 31, 2004. It had four findings relating to MHIP:

1. Adequate procedures were not in place to help monitor provider claim payments by the third party administrator;
2. Accountability and control over assessment and premium revenue was not adequate;
3. [MHIP's] procedures for verifying the propriety of invoices received from the third party administrator for additional funding were not sufficient; and
4. [MHIP] reported inaccurate Plan financial data to the legislature.

MHIP's response to these items also indicated that corrective actions had been taken or were in process of being implemented. **The MHIP executive director should brief the committees on the steps it has taken to resolve the issues raised by the market conduct examination and the legislative audit and what actions are still needed and the timeline for accomplishing those actions to fully address these issues.**

4. Rate Stabilization Fund: Making Maryland Safe for Medical Specialties

The Maryland Health Care Provider Rate Stabilization Fund, created by Chapter 5 of the 2004 special session as the Maryland Medical Professional Liability Insurance Rate Stabilization Fund and subsequently renamed by Chapter 1 of 2005, was established for the purpose of retaining health care providers in the State by allowing insurers to charge lower premium rates for medical malpractice insurance and increasing Maryland Medical Assistance Program payment rates for physicians.

The fund consists of two accounts: the Rate Stabilization Account and the Medical Assistance Program Account. The funding source is the repeal of the premium tax exemption for Health Maintenance Organizations and Medicaid Managed Care Organizations (MCOs). The repeal took effect January 1, 2005, but was not collected for MCOs before April 1, 2005. Monies in the Rate Stabilization Account are appropriated in the MIA budget. Monies in the Medical Assistance Program Account are appropriated in the budget of the Department of Health and Mental Hygiene.

Under the legislation, the Rate Stabilization Account is to receive decreasing amounts of funding from fiscal 2006 to 2009 as follows:

FY 2006	\$52 million
FY 2007	\$45 million
FY 2008	\$35 million
FY 2009	\$25 million

In addition, MIA receives an annual administrative allowance of \$350,000. The fund is nonlapsing and any balance must remain in the fund until otherwise directed by law. However, if the

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allocations made in a fiscal year exceed the revenues estimated for that year, the funds unallocated balance may be substituted to the extent of the deficit.

The subsidies apply only to policies issued by insurance providers on or after January 1, 2005, and will continue for three years. In order to begin providing the premium relief as soon as possible, MIA processed a budget amendment in fiscal 2005 for \$27.5 million of the \$52 million originally intended for fiscal 2006. This allowed insurers to be reimbursed for policies issued early in calendar 2005. The fiscal 2006 working appropriation represents the remaining \$24.5 million of the \$52 million. Of the \$27.5 million credited to fiscal 2005, only \$20.8 million was expended. The remaining \$6.7 million was cancelled at the end of the fiscal year and remains as an unappropriated balance that can be added, if needed, by budget amendment in fiscal 2006.

Total subsidies for policies issued in calendar 2005 are estimated at approximately \$35 million. An equal amount is anticipated for policies issued in calendar 2006 with the amount diminishing through calendar 2008. Under this scenario, the current appropriation schedule should be sufficient to pay subsidies as needed. It is also likely that funds will remain after all subsidies have been paid out at which point they will be credited to the Medical Assistance Program to reduce Medicaid costs. The fiscal 2007 allowance is the \$45,350,000 anticipated by the legislation. **MIA should update the committees on the operation of the Rate Stabilization Fund and the likelihood that the planned appropriation schedule will allow payments of subsidies as needed.**

Recommended Actions

	<u>Amount Reduction</u>
1. Increase turnover to better reflect historical levels. Over the past three years, the Maryland Insurance Administration's (MIA's) vacancy rate has averaged 6.1% and as of January 1, 2006, the rate was 4.88%. This reduction increases the turnover rate to 3% which will still allow MIA to fill 5.4 additional positions.	\$ 170,000 SF
Total Special Fund Reductions	\$ 170,000

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 2005					
Legislative Appropriation	\$0	\$84,658	\$0	\$0	\$84,658
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	28,420	1,929	0	30,349
Reversions and Cancellations	0	-27,278	-1,710	0	-28,988
Actual Expenditures	\$0	\$85,800	\$219	\$0	\$86,019
Fiscal 2006					
Legislative Appropriation	\$0	\$88,792	\$0	\$0	\$88,792
Budget Amendments	0	25,228	1,710	0	26,938
Working Appropriation	\$0	\$114,019	\$1,710	\$0	\$115,729

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

Fiscal 2005

The fiscal 2005 budget for MIA closed out \$1.4 million higher than the legislative appropriation. Special and federal fund budget amendments totaling \$30.3 million added to the budget but were almost entirely offset by cancellations at year's end of \$29.0 million.

Added by budget amendment was \$27.5 million of special funds to provide subsidies for medical malpractice insurance. Special funds in the amount of \$500,000 were added to pay additional claims in the Senior Prescription Drug Program and \$1.7 million in federal funds was added to pay for public education and administrative activities for that program. MIA also added by budget amendment a federal grant of \$185,000 received for the purpose of helping to pay for the administrative costs of the Maryland Health Insurance Program. Finally, nearly \$420,000 of special funds was added to cover the cost-of-living allowance (\$241,179) and for salaries and benefits for four new positions created by the Board of Public Works (\$178,349).

Of the \$27.3 million in special fund cancellations, \$20.0 million resulted from lower than anticipated enrollment in the Maryland Health Insurance Program. Only two medical malpractice insurers applied for subsidies before the end of fiscal 2005 resulting in the cancellation of \$6.7 million. The remaining special fund cancellations resulted from funds remaining in the salary account due to unfilled positions (\$482,966) and a slightly less than anticipated need to pay Senior Prescription Drug Program claims (\$92,136). The \$1.7 million federal fund cancellation represents most of the federal grant brought in by budget amendment to cover education and administrative costs in the Senior Prescription Drug Program.

Fiscal 2006

Budget amendments have increased the MIA budget by \$25.2 million in special funds and \$1.7 million in federal funds. The federal fund amendment represents the federal grant funds cancelled at the end of fiscal 2005 for the Senior Prescription Drug Program. Two special fund amendments brought in funds for the general cost-of-living allowance and for annual salary review increases for specific employees (\$377,844) and \$24.9 million to fund subsidies to medical malpractice insurers.

Audit Findings

Audit Period for Last Audit:	July 1, 2001 – December 20, 2004
Issue Date:	October 2005
Number of Findings:	16
Number of Repeat Findings:	4
% of Repeat Findings:	25%
Rating: (if applicable)	n/a

- Finding 1:** Adequate procedures were not in place to help monitor provider claim payments by the third party administrator.
- Finding 2:** Accountability and control over assessment and premium revenue was not adequate.
- Finding 3:** MIA’s procedures for verifying the propriety of invoices received from the third party administrator for additional funding were not sufficient.
- Finding 4:** MIA reported inaccurate plan financial data to the legislature.
- Finding 5:** **MIA’s record of premium tax revenues was not reconciled with the State’s accounting records in a timely manner, and our tests disclosed that tax payments were not always recorded in MIA’s automated tax system.**
- Finding 6:** Controls over certain premium tax refunds were not adequate.
- Finding 7:** **MIA did not adequately monitor and enforce certain critical contract provisions.**
- Finding 8:** Cash receipts were not adequately controlled.
- Finding 9:** Controls over the processing of non-cash credit adjustments to accounts receivable were inadequate.
- Finding 10:** The internal computer network was not sufficiently secured from untrusted networks.
- Finding 11:** MIA’s internal computer network was not adequately secured.
- Finding 12:** **Password controls, account controls, and system privileges on critical operating system servers were inadequate.**
- Finding 13:** Auditing features were disabled and updates for the operating systems of several critical servers were not adequately controlled.

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Finding 14: MIA did not adequately address backup of critical files and disaster recovery.

Finding 15: **Missing equipment was not adequately investigated and reported as required. Furthermore, equipment records were not adequately maintained and critical responsibilities were not separated.**

Finding 16: MIA appears to have circumvented the intent of State law relating to the hiring of a retired State employee.

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

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	296.00	287.00	287.00	0	0%
02 Contractual	4.50	10.00	9.00	-1.00	-10.0%
Total Positions	300.50	297.00	296.00	-1.00	-0.3%
Objects					
01 Salaries and Wages	\$ 17,466,010	\$ 18,755,582	\$ 20,134,349	\$ 1,378,767	7.4%
02 Technical & Spec Fees	314,892	621,815	660,071	38,256	6.2%
03 Communication	377,591	350,271	386,599	36,328	10.4%
04 Travel	341,984	424,800	375,700	-49,100	-11.6%
07 Motor Vehicles	80,440	79,330	88,391	9,061	11.4%
08 Contractual Services	65,439,149	93,712,752	99,543,805	5,831,053	6.2%
09 Supplies & Materials	293,815	242,767	288,626	45,859	18.9%
10 Equip - Replacement	186,757	100,342	148,942	48,600	48.4%
11 Equip - Additional	286,302	80,183	57,569	-22,614	-28.2%
12 Grants, Subsidies, and Contributions	366,001	428,765	416,874	-11,891	-2.8%
13 Fixed Charges	865,742	932,822	985,538	52,716	5.7%
Total Objects	\$ 86,018,683	\$ 115,729,429	\$ 123,086,464	\$ 7,357,035	6.4%
Funds					
03 Special Fund	\$ 85,799,507	\$ 114,019,431	\$ 123,086,464	\$ 9,067,033	8.0%
05 Federal Fund	219,176	1,709,998	0	-1,709,998	-100.0%
Total Funds	\$ 86,018,683	\$ 115,729,429	\$ 123,086,464	\$ 7,357,035	6.4%

**Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Administration and Operations	\$ 21,690,689	\$ 22,483,479	\$ 24,310,140	\$ 1,826,661	8.1%
05 Rate Stabilization Fund	20,820,916	24,850,000	45,350,000	20,500,000	82.5%
01 Maryland Health Insurance Program	19,565,038	39,421,223	39,426,324	5,101	0%
02 Senior Prescription Drug Program	23,942,040	28,974,727	14,000,000	-14,974,727	-51.7%
Total Expenditures	\$ 86,018,683	\$ 115,729,429	\$ 123,086,464	\$ 7,357,035	6.4%
Special Fund	\$ 85,799,507	\$ 114,019,431	\$ 123,086,464	\$ 9,067,033	8.0%
Federal Fund	219,176	1,709,998	0	-1,709,998	-100.0%
Total Appropriations	\$ 86,018,683	\$ 115,729,429	\$ 123,086,464	\$ 7,357,035	6.4%