

**E20B
State Treasurer**

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,924	\$5,033	\$5,186	\$153	3.0%
Special Fund	927	1,729	1,595	-134	-7.7%
Reimbursable Fund	<u>32,908</u>	<u>39,737</u>	<u>38,833</u>	<u>-904</u>	<u>-2.3%</u>
Total Funds	\$38,758	\$46,499	\$45,614	-\$885	-1.9%

- The fiscal 2009 allowance decreases by \$885,000 from the current year working appropriation. However, the underlying fiscal 2009 budget change for this agency, absent health insurance and Other Post Employment Benefits funding which distorts year-to-year comparisons, is -\$1.1 million, or -2.4%.

Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>
Regular Positions	58.00	64.00	64.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	58.00	64.00	64.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	2.52	3.93%
Positions Vacant as of 12/31/07	10.00	15.63%

- There is no change in the number of regular positions in the fiscal 2009 allowance.
- Four of the 10 vacant positions as of December 31, 2007, are associated with the new Tort Litigation Unit created in the current year. Two of these positions were filled in January 2008, and an offer had been extended to fill a third.

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

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Analysis in Brief

Major Trends

Bank Accounts Are Reconciled Timely: Dramatic improvement has occurred since fiscal 2003 in the average number of days it takes to reconcile the bank accounts administered by the State Treasurer's Office (STO).

Claims Are Adjudicated Accurately and Timely: In fiscal 2007, STO reduced the number of open claims by closing more claims than were opened during the year. STO projects that it will continue closing as many claims as are opened going forward.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Tort Litigation Unit Begins Operation: A Tort Litigation Unit was created in STO in fiscal 2008 to centralize management of tort claims made against the State.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. To carry out these responsibilities, the State Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against damage to State property and liability of State employees. The State Treasurer also administers the sale of Maryland general obligation bonds and serves as a member of the Board of Public Works (BPW). The State Treasurer's Office (STO) consists of four programs: treasury management; insurance management; insurance coverage; and bond sale expenses.

The goals of the Treasurer's Office are to:

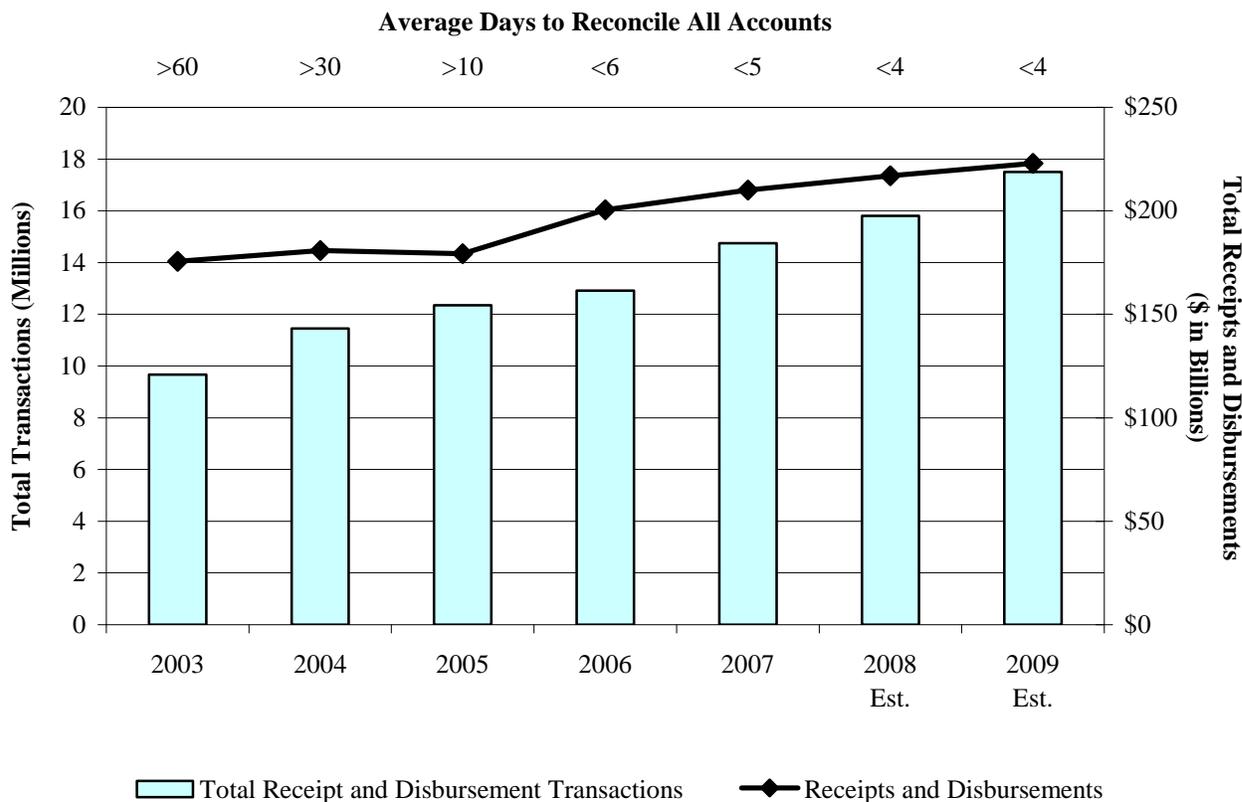
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law;
- maintain and enhance the information technology capability and infrastructure to meet the diverse needs of TSO and the agencies it serves; and
- process all agency and third party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

Bank Accounts Are Reconciled Timely

As shown in **Exhibit 1**, the number and dollar value of total receipts and disbursements from the bank accounts administered by STO have increased since fiscal 2003. Since 2003, there has been dramatic improvement in the length of time it takes to reconcile all accounts dropping from over 60 days on average in fiscal 2003 to under 5 days in fiscal 2007.

**Exhibit 1
Total Receipts and Disbursements and Days to Reconcile All Accounts
Fiscal 2003-2009**

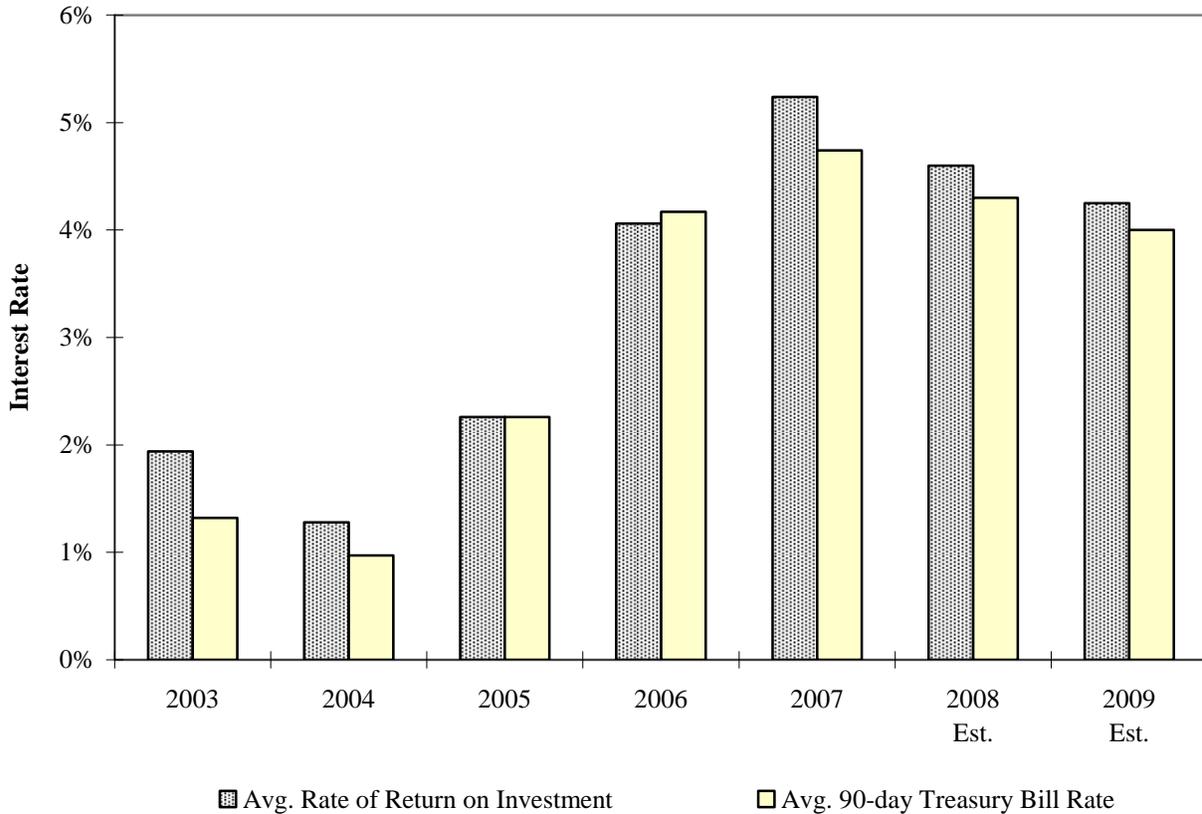


Source: Governor’s Budget Books, Fiscal 2009

Investment Earnings Are Maximized

STO is responsible for maximizing investment earnings for the State’s surplus funds. It is limited by law in the types of investments it may make. **Exhibit 2** compares the rate of return on the State’s investment portfolio compared with the average 90-day U.S. Treasury Bill rate. In fiscal 2007 the average return on the State’s investment portfolio exceeded the average 90-day Treasury rate by 50 basis points. In the preceding two fiscal years the State’s return equaled or was just under the Treasury rate.

Exhibit 2
Comparison of State’s Investment Portfolio and 90-day U.S. Treasury Bill Rates
Fiscal 2003-2009

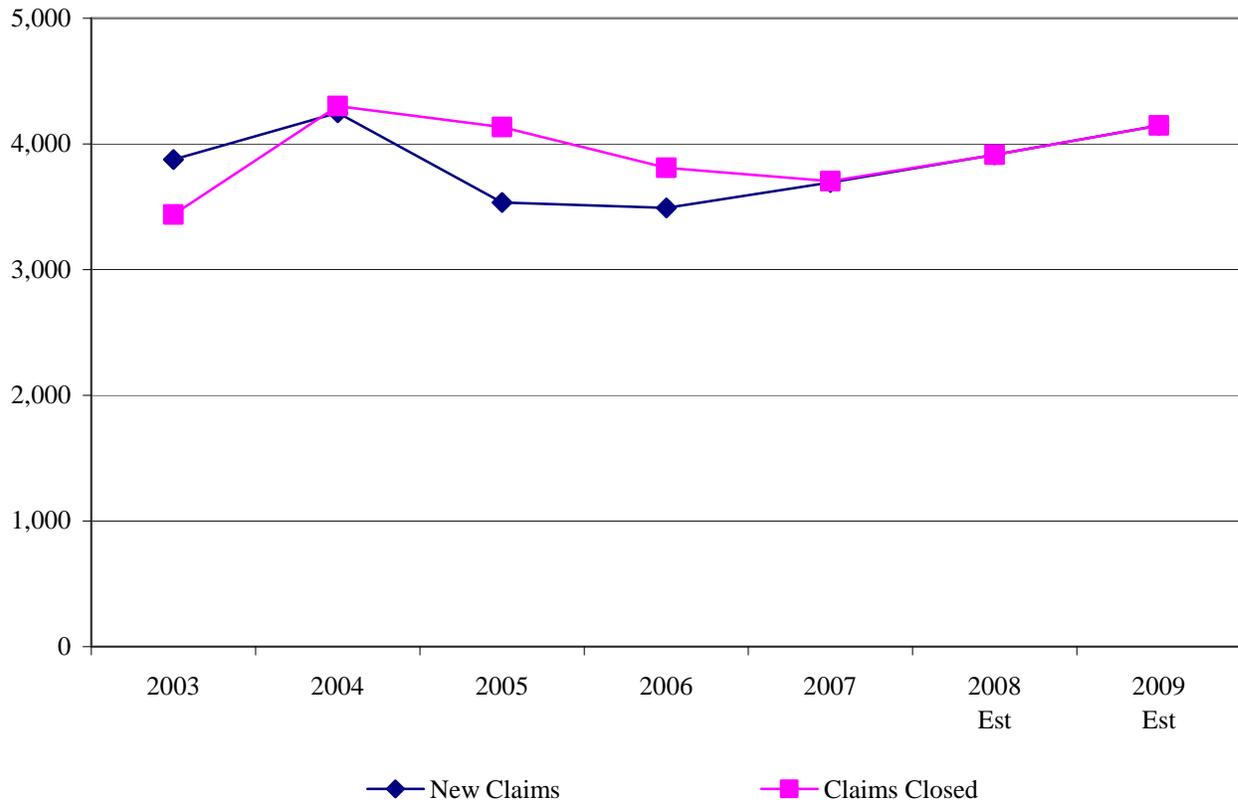


Source: Governor’s Budget Books, Fiscal 2009

Claims Are Adjusted Accurately and Timely

STO is responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. **Exhibit 3** compares the number of new claims received with the number of claims closed. At the end of fiscal 2005, there were 825 open claims. The number of open claims dropped to 497 by the end of fiscal 2007, and STO anticipates end-of-year open claims to remain at this level by closing as many cases as are opened each year.

**Exhibit 3
New Claims v. Claims Closed
Fiscal 2003-2009**



Source: Governor's Budget Books, Fiscal 2009

Governor's Proposed Budget

As shown in **Exhibit 4**, the STO fiscal 2009 allowance is \$885,000 lower than the current year working appropriation. Insurance coverage purchased for other agencies, bond sale expenses, and personnel costs account for the majority of change in the allowance.

Impact of Cost Containment

A \$51,000 reduction was made to the STO budget in the June 2007 BPW cost containment action. This represented excess funds for banking services contracts that are estimated on a per transaction cost basis.

Exhibit 4
Governor’s Proposed Budget
State Treasurer
(\$ in Thousands)

How Much It Grows:	<u>General</u>	<u>Special</u>	<u>Reimb.</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
2008 Working Appropriation	\$5,033	\$1,729	\$39,737	\$46,499
2009 Governor’s Allowance	<u>5,186</u>	<u>1,595</u>	<u>38,833</u>	<u>45,614</u>
Amount Change	\$153	-\$134	-\$904	-\$885
Percent Change	3.0%	-7.7%	-2.3%	-1.9%

Where It Goes:

Personnel Expenses

Increments and other compensation.....	\$259
Health insurance – reduce long-term Other Post Employment Benefits liability.....	201
Annualization of turnover for new fiscal 2008 Tort Unit positions.....	81
Employee retirement.....	47
Health insurance – pay-as-you-go costs	34
Fiscal 2008 Budget Section 45 – one-time hiring freeze savings.....	8
Increased turnover.....	-42
Other fringe benefit adjustments.....	-4

Operations

Insurance management fiscal and administrative support charges	82
Check printing supplies – paper, toner, ribbons, etc.....	36
Banking services contract	28
Replace two vehicles	21

Other Changes

Insurance coverage purchased for agencies decreases due to policies renewal at lower cost (\$337,000) and fewer losses.....	-1,407
Bond sale expenses	-240

Other..... 11

Total **-\$885**

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

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Tort Litigation Unit Begins Operation

A Tort Litigation Unit was created in STO in the fiscal 2008 budget. The purpose of the unit is to centralize tort litigation activities that are currently spread throughout the State's agencies in order to develop a more efficient and effective method of managing the settlement or defense of tort claims filed against the State. The unit, when fully staffed, will consist of four attorneys (including the manager of the unit), a paralegal, and an administrative/clerical support person. STO believes the unit will pay for itself through reductions in the number and amount of claims paid.

In the current fiscal year, the tort unit will concentrate its efforts on handling all automobile liability, premises liability, and highway design defect cases for the following agencies:

- Department of Corrections;
- Department of Human Resources;
- Department of Juvenile Services;
- Department of Natural Resources;
- Maryland Transportation Authority; and
- State Highway Administration.

The unit will soon begin handling medical malpractice cases and will continue coordinating with Assistant Attorneys General in the remaining State agencies on tort claims.

Current and Prior Year Budgets

Current and Prior Year Budgets State Treasurer (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2007					
Legislative Appropriation	\$4,956	\$808	\$0	\$34,606	\$40,370
Deficiency Appropriation	48	115	0	0	163
Budget Amendments	-7	4	0	0	-3
Reversions and Cancellations	-73	0	0	-1,698	-1,771
Actual Expenditures	\$4,924	\$927	\$0	\$32,908	\$38,758
Fiscal 2008					
Legislative Appropriation	\$5,045	\$1,724	\$0	\$39,737	\$46,506
Cost Containment	-51	0	0	0	-51
Budget Amendments	39	5	0	0	44
Working Appropriation	\$5,033	\$1,729	\$0	\$39,737	\$46,499

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

Fiscal 2007

The fiscal 2007 budget closed out \$1.6 million lower than the legislative appropriation. Deficiency appropriations approved during the 2007 session added \$163,000, and budget amendments added \$33,992 for the general salary increase. These increases were offset by budget amendments which transferred funds to the Department of Budget and Management to help pay for a salary study (\$406), recognized general administrative savings as part of cost containment efforts (\$36,826), and by a general fund reversion of \$72,923 and a reimbursable fund cancellation of \$1,698,466. The general fund reversion resulted from lower than projected capital lease payments and savings from a consultant contract related to the bank accounts reconciliation system, while the reimbursable fund cancellation reflects lower than expected activity in the State Insurance Trust Fund.

Fiscal 2008

The fiscal 2008 working appropriation is \$6,820 lower than the legislative appropriation. A cost containment reduction of \$51,000 related to banking fees is partially offset by funds added by budget amendment for the general salary increase (\$44,180.)

Audit Findings

Audit Period for Last Audit:	November 1, 2002 – April 30, 2006
Issue Date:	July 2007
Number of Findings:	19
Number of Repeat Findings:	9**
% of Repeat Findings:	56%
Rating: (if applicable)	n/a

- Finding 1:** Despite improvement of conditions noted last audit, oversight and control over the State’s bank reconciliation process could be further strengthened.
- Finding 2:** **Deficiencies were noted in the office’s oversight of certain other aspects of its banking operations, such as not routinely analyzing existing agency bank accounts to ensure that they had been authorized.**
- Finding 3:** As of September 2006, all portions of banking contracts had not been finalized even though the contracts were effective July 1, 2004.
- Finding 4:** One employee had virtually complete control over the State’s investment activities, investment brokers were not always approved, and required investment broker information was not always obtained.
- Finding 5:** The services provided by the Injured Workers’ Insurance Fund (IWIF) have not been subject to a competitive bid process, and the appropriateness of making advance payments to IWIF has not been adequately assessed.
- Finding 6:** The office did not adequately monitor the agreement to ensure the propriety of amounts paid to IWIF.
- Finding 7:** **The amount owed to bond holders for unrepresented bonds exceeded the cash balance of the fund by approximately \$645,000 and unredeemed bond funds were not transferred to the Comptroller’s Abandoned Property Fund, as required.**
- Finding 8:** Internal controls over claims paid from the State Insurance Trust Fund were inadequate.
- Finding 9:** Commercial insurance policies were procured without publicly advertising solicitations and publishing contract awards.

- Finding 10:** The office had not established adequate security over withdrawals from the Local Government Investment Pool.
- Finding 11:** **Certain unrepresented checks were not credited to the Unrepresented Check Fund, and the office could not adequately document that sufficient funds were transferred from both the Unrepresented and Undeliverable Check Funds to the general fund in accordance with State law.**
- Finding 12:** The firewall used to help secure the office’s network was not properly configured, administered, or monitored.
- Finding 13:** **Procedures for monitoring security of the minicomputer system need improvement.**
- Finding 14:** **The office’s disaster recovery plan was incomplete and outdated.**
- Finding 15:** **Certain fees were retained without authorization.**
- Finding 16:** The office did not advise BPW that an information technology contract also included \$660,000 for consulting services.
- Finding 17:** **The office did not adequately monitor State agency reporting of Cash Management Improvement Act activity.**
- Finding 18:** An employee independent of the cash receipts function did not account for pre-numbered cash receipt forms used to record collections.
- Finding 19:** A potential conflict of interest involving a management official should be submitted to the State Ethics Commission for re-evaluation.

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

**Three repeat findings from the previous audit were combined into one finding in this audit.

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	58.00	64.00	64.00	0	0%
Total Positions	58.00	64.00	64.00	0	0%
Objects					
01 Salaries and Wages	\$ 4,157,070	\$ 4,908,340	\$ 5,492,960	\$ 584,620	11.9%
02 Technical and Spec. Fees	21,296	4,000	5,250	1,250	31.3%
03 Communication	97,760	92,687	96,464	3,777	4.1%
04 Travel	23,790	33,500	35,237	1,737	5.2%
07 Motor Vehicles	28,275	10,769	34,366	23,597	219.1%
08 Contractual Services	3,816,617	4,545,166	4,423,720	-121,446	-2.7%
09 Supplies and Materials	199,805	147,577	186,873	39,296	26.6%
10 Equipment – Replacement	42,907	143,660	130,125	-13,535	-9.4%
11 Equipment – Additional	22,550	3,415	6,613	3,198	93.6%
13 Fixed Charges	30,347,803	36,609,895	35,202,498	-1,407,397	-3.8%
Total Objects	\$ 38,757,873	\$ 46,499,009	\$ 45,614,106	-\$ 884,903	-1.9%
Funds					
01 General Fund	\$ 4,923,670	\$ 5,033,092	\$ 5,185,870	\$ 152,778	3.0%
03 Special Fund	926,591	1,728,599	1,594,782	-133,817	-7.7%
09 Reimbursable Fund	32,907,612	39,737,318	38,833,454	-903,864	-2.3%
Total Funds	\$ 38,757,873	\$ 46,499,009	\$ 45,614,106	-\$ 884,903	-1.9%

Note: The fiscal 2008 appropriation does not include deficiencies.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
01 Treasury Management	\$ 6,051,202	\$ 6,193,652	\$ 6,558,186	\$ 364,534	5.9%
01 Insurance Management	1,908,137	2,437,884	2,835,777	397,893	16.3%
02 Insurance Coverage	30,313,534	36,582,473	35,175,143	-1,407,330	-3.8%
01 Bond Sale Expenses	485,000	1,285,000	1,045,000	-240,000	-18.7%
Total Expenditures	\$ 38,757,873	\$ 46,499,009	\$ 45,614,106	-\$ 884,903	-1.9%
General Fund	\$ 4,923,670	\$ 5,033,092	\$ 5,185,870	\$ 152,778	3.0%
Special Fund	926,591	1,728,599	1,594,782	-133,817	-7.7%
Total Appropriations	\$ 5,850,261	\$ 6,761,691	\$ 6,780,652	\$ 18,961	0.3%
Reimbursable Fund	\$ 32,907,612	\$ 39,737,318	\$ 38,833,454	-\$ 903,864	-2.3%
Total Funds	\$ 38,757,873	\$ 46,499,009	\$ 45,614,106	-\$ 884,903	-1.9%

Note: The fiscal 2008 appropriation does not include deficiencies.