

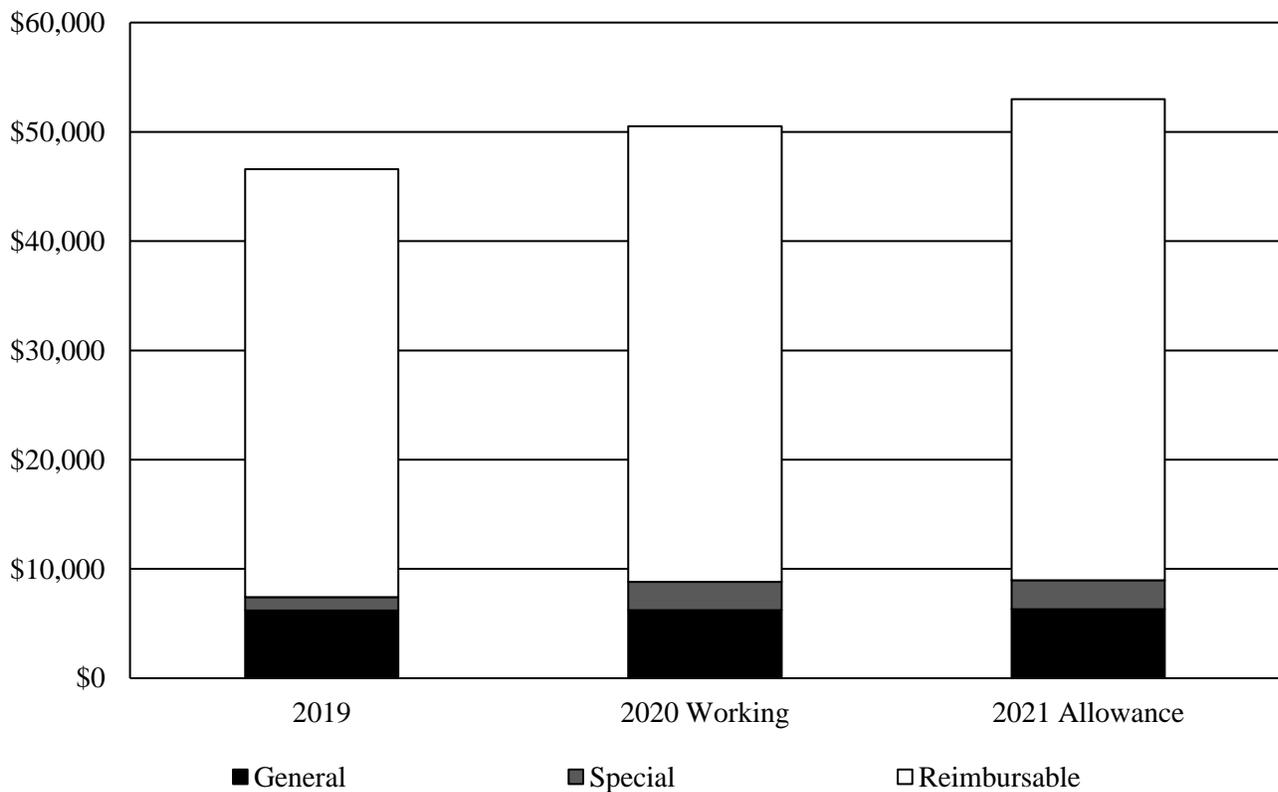
E20B State Treasurer

Program Description

The State Treasurer's Office (STO) is responsible for the receipt, disbursement, safekeeping, and investment of State assets. Specifically, the Treasurer is responsible for selecting financial institutions to serve as depositories for State funds, reconciling the related bank accounts, procuring banking and financial services for State agencies, and coordinating the State's general obligation debt functions for the Board of Public Works. Additionally, STO's insurance division maintains an insurance program for State property and personnel.

Operating Budget Summary

Fiscal 2021 Budget Increases \$2.5 Million or 4.9% to \$53 Million (\$ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

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- The adjusted fiscal 2021 allowance increases by \$2,457,000, or 4.9%, from the adjusted fiscal 2020 working appropriation mainly due to increased costs for insurance coverage through the State’s Insurance Program.

Fiscal 2020

Proposed Deficiency

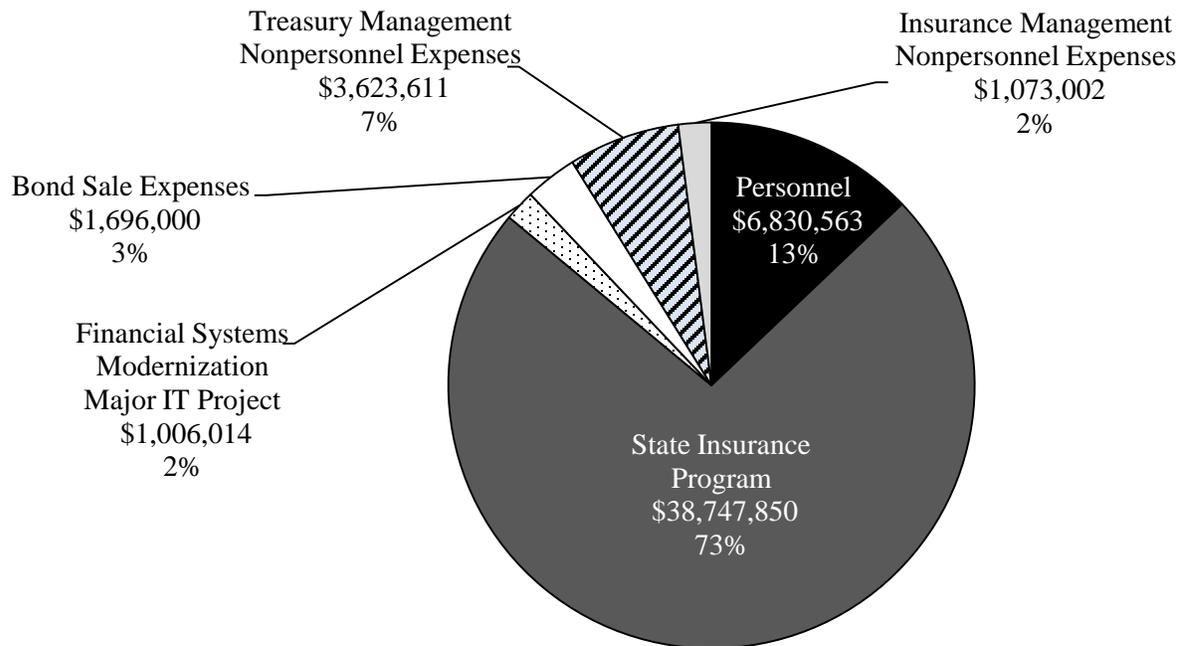
There is a proposed fiscal 2020 deficiency appropriation for STO of \$1,148,338 to supplement funding for the Financial Systems Modernization (FSM) major information technology (IT) project.

Fiscal 2021 Overview of Agency Spending

As shown in **Exhibit 1**, the adjusted fiscal 2021 allowance for STO is \$52,977,040 and consists primarily of the State’s Insurance Program, which is funded by reimbursable funds from other State agencies. The State Insurance Trust Fund is maintained by the State Treasurer to pay claims and the costs associated with handling those claims. The State’s Insurance Program makes up 73%, or \$38,747,850, of the fiscal 2021 allowance.

The remaining 27% of the agency’s budget consists of personnel expenses, bank fees and other operating expenses, and funding for the FSM major IT project. Regular personnel expenses make up \$6,830,563, or 13%, of the budget and support 40 positions in the Treasury Management Division and 20 positions in the Insurance Division. The Treasury Management Division’s operating expenses total \$3,623,611, or 7%, of the budget; the Insurance Division’s operating expenses total \$1,073,002, or 2%, of the budget; and bond sale expenses total \$1,696,000, or 3%, of the budget. Funding for the FSM major IT project totals \$1,006,014, or 2%, of the budget.

Exhibit 1
Overview of Agency Spending
Fiscal 2021 Allowance



IT: information technology

Note: The fiscal 2021 allowance includes contingent reductions and general salary increases.

Source: Governor's Fiscal 2021 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, the adjusted fiscal 2021 allowance increases by \$2,457,000, or 4.9%, from the fiscal 2020 working appropriation. The largest change is an increase of \$2,887,070 in insurance coverage payments by the Treasurer and other State agencies to the State's Insurance Program. Additionally, regular personnel expenses increase by \$223,528, and bond sale expenses increase by \$140,000. Funding for the FSM major IT project decreases by \$807,576.

**Exhibit 2
Proposed Budget
State Treasurer
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2019 Actual	\$6,195	\$1,228	\$39,175	\$46,598
Fiscal 2020 Working Appropriation	6,216	2,592	41,712	50,520
Fiscal 2021 Allowance	<u>6,322</u>	<u>2,652</u>	<u>44,003</u>	<u>52,977</u>
Fiscal 2020-2021 Amount Change	\$106	\$60	\$2,291	\$2,457
Fiscal 2020-2021 Percent Change	1.7%	2.3%	5.5%	4.9%
Where It Goes:				<u>Change</u>
Personnel Expenses				
Employee and retiree health insurance				\$99
Regular earnings				70
Employee retirement system contributions				66
Fiscal 2021 2% general salary increase effective January 1, 2021				29
Fiscal 2021 costs of January 1, 2020 1% general salary increase				14
Reclassification				-56
Other Changes				
Insurance coverage paid to the State Treasurer’s Office				2887
Bond sale expenses				140
Other				16
Financial Systems Management Major Information Technology Project				-808
Total				\$2,457

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

Personnel Data

	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20-21</u> <u>Change</u>
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	60.00	60.00	60.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.10	6.84%
Positions and Percentage Vacant as of 12/31/19	4.00	6.67%
Vacancies Below Turnover	-0.10	

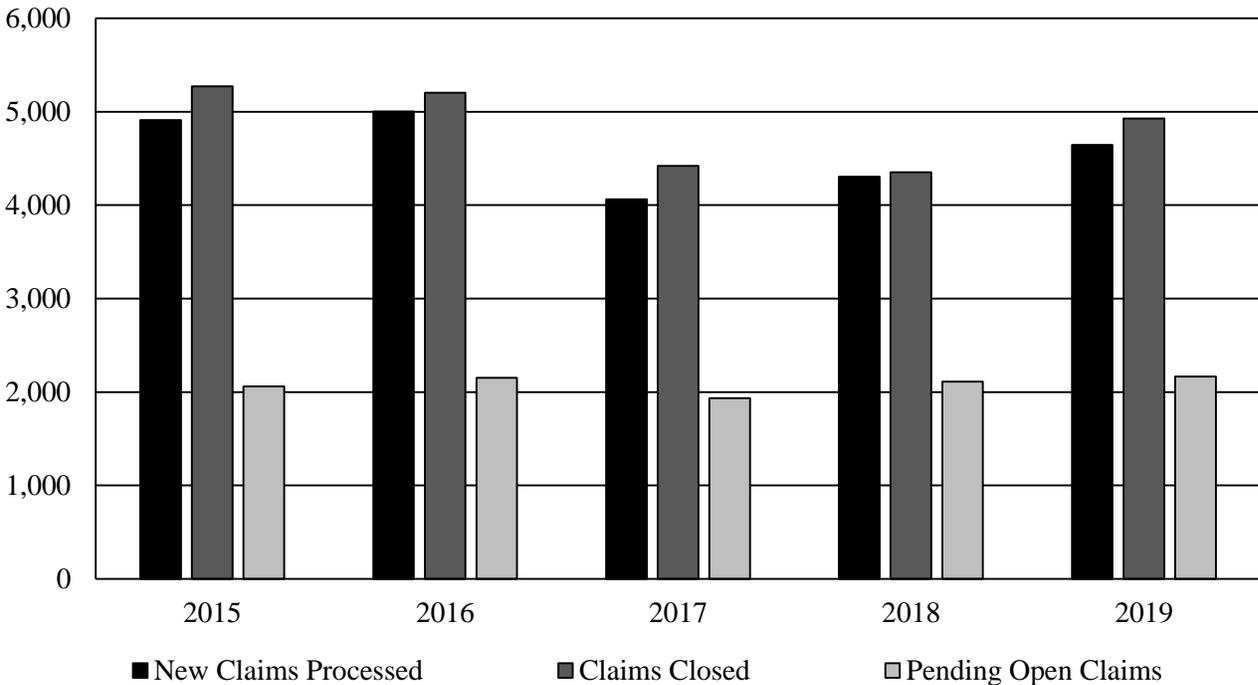
Key Observations

1. State Insurance Program

STO is responsible for administering the State’s Insurance Program, which is comprised of both commercial and self-insurance that cover catastrophic property and liability losses, as well as other obligations derived from State contracts, statutes, and regulations. Self-insurance coverage includes State-owned real and personal property, vehicles, and liability claims covered under the Maryland Tort Claims Act. The State Insurance Trust Fund is maintained by STO to pay claims filed against the State, its agencies, and employees and the costs associated with handling these claims.

As shown in **Exhibit 3**, in fiscal 2019, there were 4,646 new claims processed, 4,928 claims closed, and 2,166 pending open claims. The total number of claims filed can fluctuate from year to year, particularly depending on weather conditions. Higher numbers of claims in fiscal 2015 and 2016 were the result of weather-related claims caused by road hazards, snow, and other extreme weather conditions. Weather conditions in general were milder in fiscal 2017, but record rain totals in fiscal 2018 and 2019 resulting in flooding and downed trees gave rise to a larger number of road hazard, auto collision, and property loss claims received.

**Exhibit 3
Insurance Claims Processed, Pending, and Closed
Fiscal 2015-2019**



Source: Managing for Results, State Treasurer’s Office

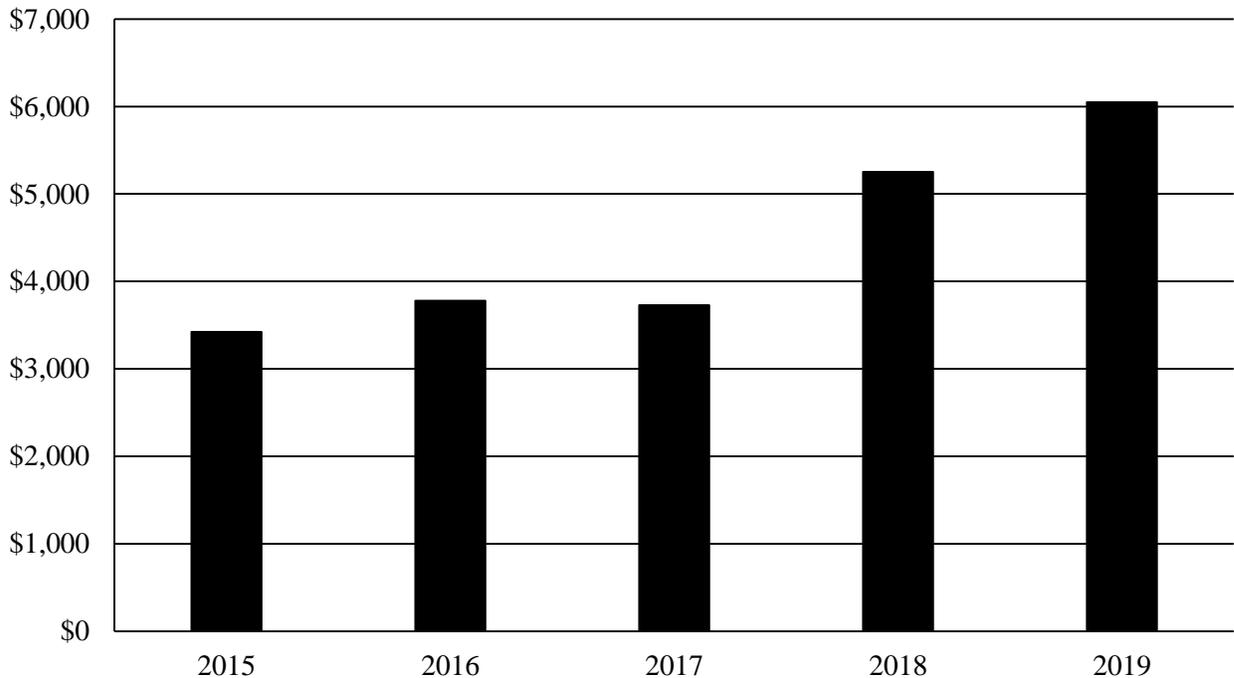
Insurance premiums have noticeably increased for fiscal 2021 and are projected to continue to increase in the future due to increases in the State’s loss history and claims filed in recent years. This can be attributed to a general lack of investment in building maintenance for State-owned buildings and poor risk management that has resulted in claims filed against the State related to property damage and torts for personal injury and death. For private insurance coverage, these losses have resulted in stricter underwriting criteria and a tightening insurance market, with some carriers reluctant to underwrite the risks inherent to State-owned assets. The total value of State assets, as well as the location of various properties in windstorm, flood, and fire prone areas, have also impacted rates for private insurance coverage.

2. Local Government Investment Pool Fund Balance

The State Treasurer is responsible for administering the Local Government Investment Pool (LGIP), which is defined by Title 17, Subtitle 3 of the Local Government Article. The purpose of LGIP

is to provide local government units a safe investment tool for the short-term investment of funds. Participants benefit from professional money management, a diversified portfolio, and reduced investment costs. The fund is currently rated “AAAm” by Standard and Poor’s, which is their highest rating. As shown in **Exhibit 4**, the fund balance increased to over \$6 million in fiscal 2019. The average rate of return on LGIP was 2.27% in fiscal 2019, up from 1.34% in the previous fiscal year. In comparison, the average rate of return on the State’s investment portfolio was 1.82% in fiscal 2019.

Exhibit 4
Local Government Investment Pool Fund Balance
Fiscal 2015-2019
(\$ in Thousands)



Source: Managing for Results, State Treasurer’s Office

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- ***Transition of Statewide Depository Banking Services:*** Following the expiration of the previous Statewide depository banking service contract on September 30, 2018, this contract was rebid through a competitive procurement process. As a result, Bank of America, which was the incumbent vendor of banking services for STO and State agencies, lost the rebid of the contract to Wells Fargo. Out of five proposals received, Wells Fargo was ranked highest by the evaluation committee based on the criteria outlined in the Request for Proposals for the contract. Since Bank of America had been servicing this contract for over 20 years, the subsequent transition of banking services has been extensive.

Depository accounts for all State agencies are now in the process of being transitioned to Wells Fargo, a process which has ranged in complexity based on the number of accounts and deposits and accounting practices by the agency. Some agencies have had issues with filling out the necessary conversion paperwork, which has delayed conversion and resulted in increased bank fees as a result of extending the incumbent bank accounts longer than projected. Uncertainty over bank fees is a notable concern for STO, as bank fees for all State agencies are paid for by STO out of its own budget. Additionally, conversion of depository banking services has caused a delay in the implementation of the FSM major IT project.

At this time, a majority of State agencies have been converted, and it is anticipated that all agencies will be converted by the end of March 2020. The final phase of the conversion process includes agencies that have cash deposits requiring cash vault and armored courier services or solutions for small cash deposits, and or/cash exchange for agencies where there is no banking branch presence. Contracts are currently being finalized with third-party couriers to provide these necessary services.

In addition to transferring existing depository banking services, another goal of this transition is to offer new modernized depository solutions to meet the needs of State agencies. Remote deposit capture technology, which allows State agencies to process and deposit checks using desktop scanners without having to deliver them to the bank or using an armored courier, is one of the biggest changes. Under the new contract, almost all State agencies will be using this service.

Appendix 1
2019 Joint Chairmen’s Report Responses from Agency

The 2019 *Joint Chairmen’s Report* (JCR) requested that the State Treasurer’s Office prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Report on Alternative Financial Investment Bonds:*** A study was completed to provide an overview of the potential adoption and implementation of alternative financial investment bonds. The phrase “alternative financial investment bonds” in this report refers to sukuk bonds, a type of security that is structured to avoid practices prohibited by Islamic law, such as the charging of interest, which are common in traditional financings. Several types of sukuk bonds exist, but in general, they are financial instruments issued in equal value to an investor that represent a common share of ownership of an asset. To date, no government entity in the United States has issued sukuk bonds, so the study recommends further research into the potential legal framework, possible State issuers, transaction costs, and marketability and pricing before the General Assembly moves forward with a program in Maryland.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	August 25, 2015 – March 27, 2018
Issue Date:	June 2019
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	50%
Rating: (if applicable)	n/a

Finding 1: The State Treasurer’s Office (STO) did not determine the propriety of amounts paid to the Injured Workers’ Insurance Fund for the State’s workers’ compensation claims and related costs, a condition that has been outstanding since at least 2007.

Finding 2: STO did not refer all delinquent accounts receivable to the State’s Central Collection Unit in accordance with State regulations.

Finding 3: STO did not publish contract awards totaling \$51.3 million on *eMaryland Marketplace* as required.

Finding 4: STO did not periodically review the propriety of access capabilities assigned to users of three significant information systems.

Finding 5: Sensitive personally identifiable information maintained by STO was stored without adequate safeguards.

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

Appendix 3
Major Information Technology Project
State Treasurer’s Office
Financial Systems Modernization (FSM)

New/Ongoing: Ongoing.								
Start Date: 2016					Est. Completion Date: 2021			
Implementation Strategy: Agile								
(\$ in Thousands)	Prior Year	2020	2021	2022	2023	2024	Remainder	Total
GF	\$2,963	\$1,252	\$1,025					\$5,240
SF	278	413	290					\$981
RF	973	1,401	716					\$3,091
Total	\$4,215	\$3,066	\$2,031					\$9,312

- Project Summary:** This project will replace the current midrange AS400/i5 Treasury Management System (TMS) and Insurance Management System (IMS) with a cloud-based Microsoft Enterprise Resource Planning financials and Azure custom insurance management applications. The AS400/i5 is the core financial interface system and is critical to the ability of the State Treasurer’s Office (STO) to execute its constitutional and statutory responsibilities to disburse funds as warranted by the Comptroller of Maryland. Additionally, this system is used for daily cash flow management and reconciliation functions, Automatic Clearing House and wire transfers for Statewide receipts and disbursements, investment of State funds, daily budget and accounting functions, and overall State Insurance Trust Fund claims management processing and recordkeeping.
- Need:** International Business Machines designated an end-of-service date of December 31, 2018 for the current midrange AS400/i5 TMS and IMS. Therefore, the system hardware will no longer be serviced once the end of its extended service contracts is reached. The current applications and databases are no longer maintainable and cannot be functionally enhanced. In addition, the current insurance claims process is heavily manual, so the new system will provide for more efficient tracking of claims and quicker processing and payment to claimants.
- Observations and Milestones:** New functionality has been rolled out on the STO website, including a searchable online database for checks in the Unrepresented and Undeliverable fund. Online reporting of Notice of Claim forms have also been rolled out, allowing for the electronic submission of insurance claims related to the Maryland Tort Claims Act. Future rollouts include the agency portal for State agencies to log in with secure user IDs to conduct business and financial transactions with STO, anticipated by March 2020, the financial module for the agency’s accounting department, expected in April 2020, and the insurance division module.
- Changes:** There have been delays to the project schedule and cost increases as a result of the depository banking transition to Wells Fargo, which caused duplicative programming work and required additional resources. Additional cost increases are due to additional support for

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programming, developing, and overseeing of the rollout of the project, as well as increases in Azure cloud storage costs. There have been no changes to the scope of the project.

- **Concerns:** Resource availability has been a high risk for this project due to challenges related to staffing the project, including difficulty finding qualified implementation consultants, loss of qualified consultant team members due to changes in federal visa policies, limited STO staff availability due to the depository banking transition process, and existing lack of information technology staff.

**Appendix 4
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
Total Positions	60.00	60.00	60.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 6,139,820	\$ 6,592,620	\$ 6,772,459	\$ 179,839	2.7%
02 Technical and Spec. Fees	1,248	4,150	6,500	2,350	56.6%
03 Communication	83,899	36,450	36,485	35	0.1%
04 Travel	17,846	10,002	10,002	0	0%
07 Motor Vehicles	2,004	2,731	2,630	-101	-3.7%
08 Contractual Services	6,632,181	6,521,586	6,978,474	456,888	7.0%
09 Supplies and Materials	179,770	190,380	203,371	12,991	6.8%
10 Equipment – Replacement	135,563	116,320	126,815	10,495	9.0%
13 Fixed Charges	33,405,817	35,883,130	38,782,200	2,899,070	8.1%
Total Objects	\$ 46,598,148	\$ 49,357,369	\$ 52,918,936	\$ 3,561,567	7.2%
Funds					
01 General Fund	\$ 6,194,531	\$ 6,203,423	\$ 6,270,266	\$ 66,843	1.1%
03 Special Fund	1,228,263	2,369,845	2,645,777	275,932	11.6%
09 Reimbursable Fund	39,175,354	40,784,101	44,002,893	3,218,792	7.9%
Total Funds	\$ 46,598,148	\$ 49,357,369	\$ 52,918,936	\$ 3,561,567	7.2%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.