

D80Z01
Maryland Insurance Administration

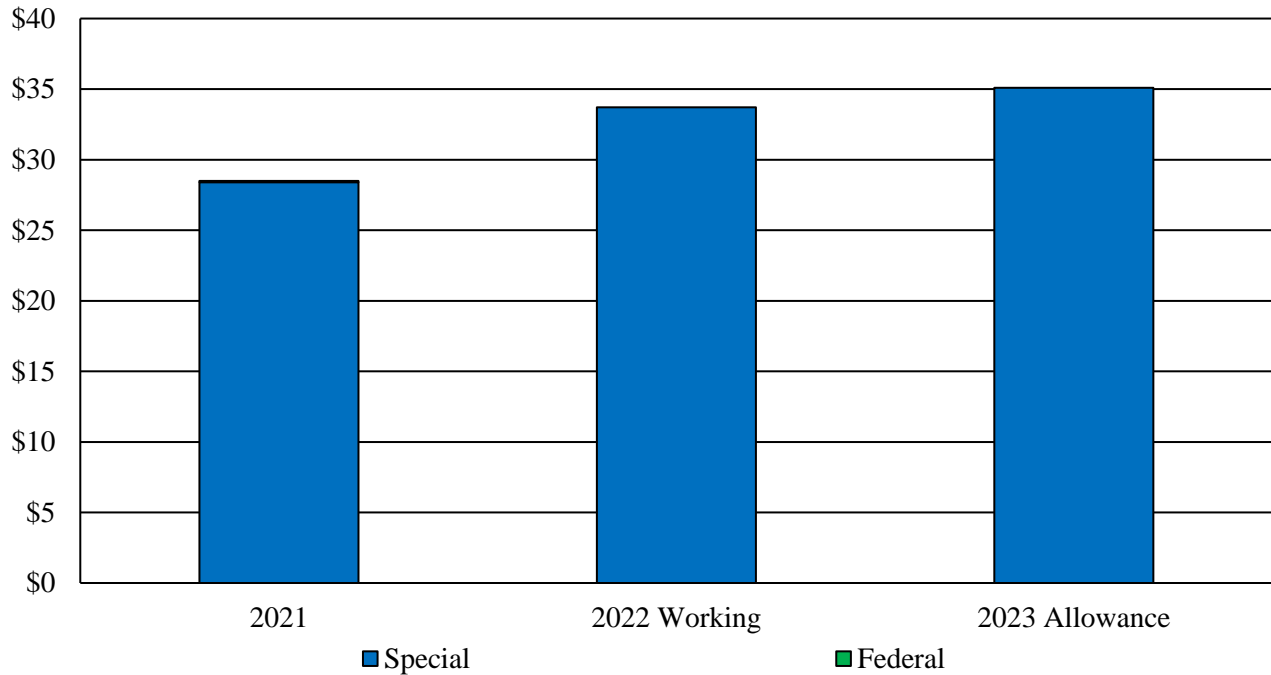
Program Description

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 producers.

MIA is a special-funded State agency supported entirely through fees and assessments on the insurance industry. Up to 60% of MIA’s annual appropriation may be funded by assessments on the insurance industry, with the remainder coming from fees.

Operating Budget Summary

**Fiscal 2023 Budget Increases \$1.5 Million, or 4.4%, to \$35.1 Million
(\$ in Millions)**

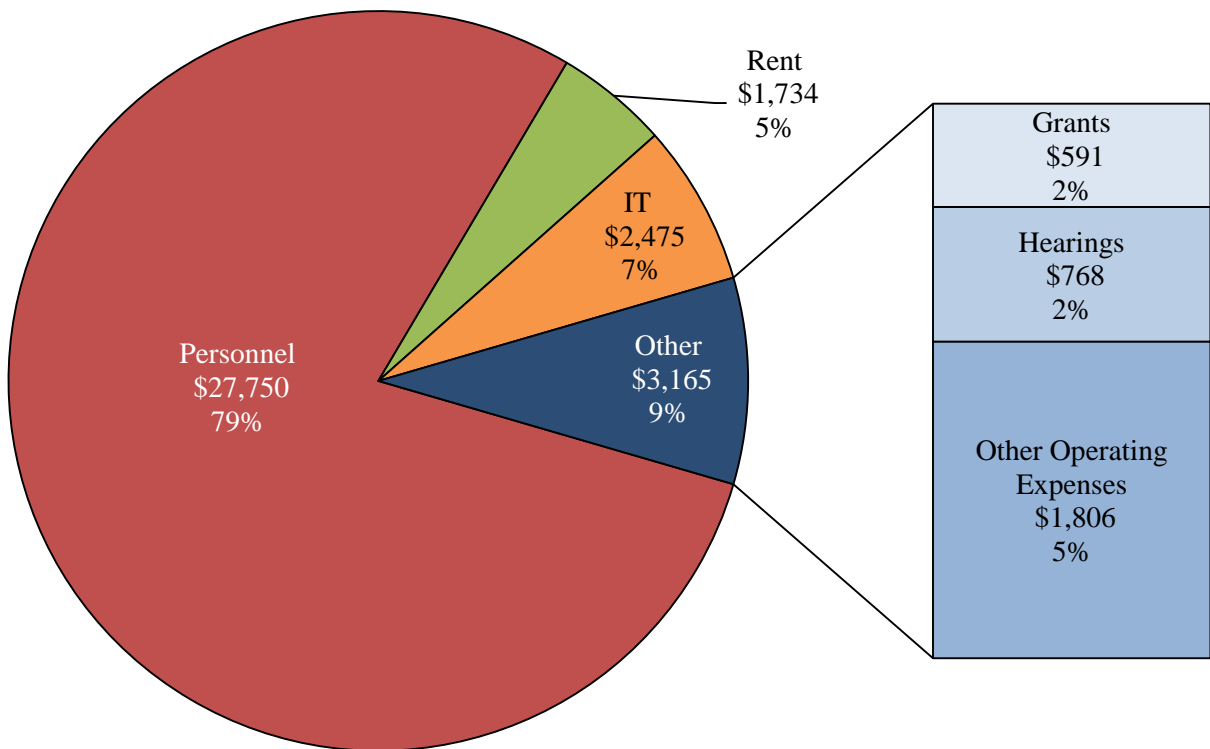


Note: The fiscal 2022 working appropriation does not include deficiencies. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Fiscal 2023 Overview of Agency Spending

The fiscal 2023 allowance is approximately \$35.1 million. As shown in **Exhibit 1**, the largest portion of the allowance is \$27.8 million for personnel expenses, or 79% of the total. The next largest portion is \$2.5 million in information technology (IT) costs for the implementation and support of replacements for the agency’s existing legacy systems.

Exhibit 1
Overview of Agency Spending
Fiscal 2023 Allowance
(\$ in Thousands)



IT: information technology

Source: Governor’s Fiscal 2023 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2023 allowance increased by \$1.5 million, or 4.4%, over the fiscal 2022 working appropriation.

Exhibit 2
Proposed Budget
Maryland Insurance Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2021 Actual	\$28,418	\$122	\$28,541
Fiscal 2022 Working Appropriation	33,653	0	33,653
Fiscal 2023 Allowance	<u>35,124</u>	<u>0</u>	<u>35,124</u>
Fiscal 2022-2023 Amount Change	\$1,471	\$0	\$1,471
Fiscal 2022-2023 Percent Change	4.4%	n/a	4.4%
			<u>Change</u>
Personnel Expenses			
Employee and retiree health insurance.....			\$212
Workers' compensation premium assessment.....			62
Reclassification and other salary increases			25
Other fringe benefit adjustments			12
Social Security contributions			8
Turnover adjustments			-3
Other Changes			
Copier machines for various units.....			510
Increase in various IT items			435
DoIT services allocation.....			66
Administrative hearings			43
Major IT Project – MIA Insurance Tracking System.....			42
Other adjustments.....			32
Office of the Attorney General staff assistance.....			27
Total			\$1,471

DoIT: Department of Information Technology
IT: information technology
MIA: Maryland Insurance Administration

Note: Numbers may not sum to total due to rounding. The fiscal 2022 working appropriation does not include deficiencies. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Personnel Data

	<u>FY 21</u> <u>Actual</u>	<u>FY 22</u> <u>Working</u>	<u>FY 23</u> <u>Allowance</u>	<u>FY 22-23</u> <u>Change</u>
Regular Positions	259.00	259.00	259.00	0.00
Contractual FTEs	<u>21.40</u>	<u>19.60</u>	<u>19.60</u>	<u>0.00</u>
Total Personnel	280.40	278.60	278.60	0.00

Vacancy Data: Regular Positions

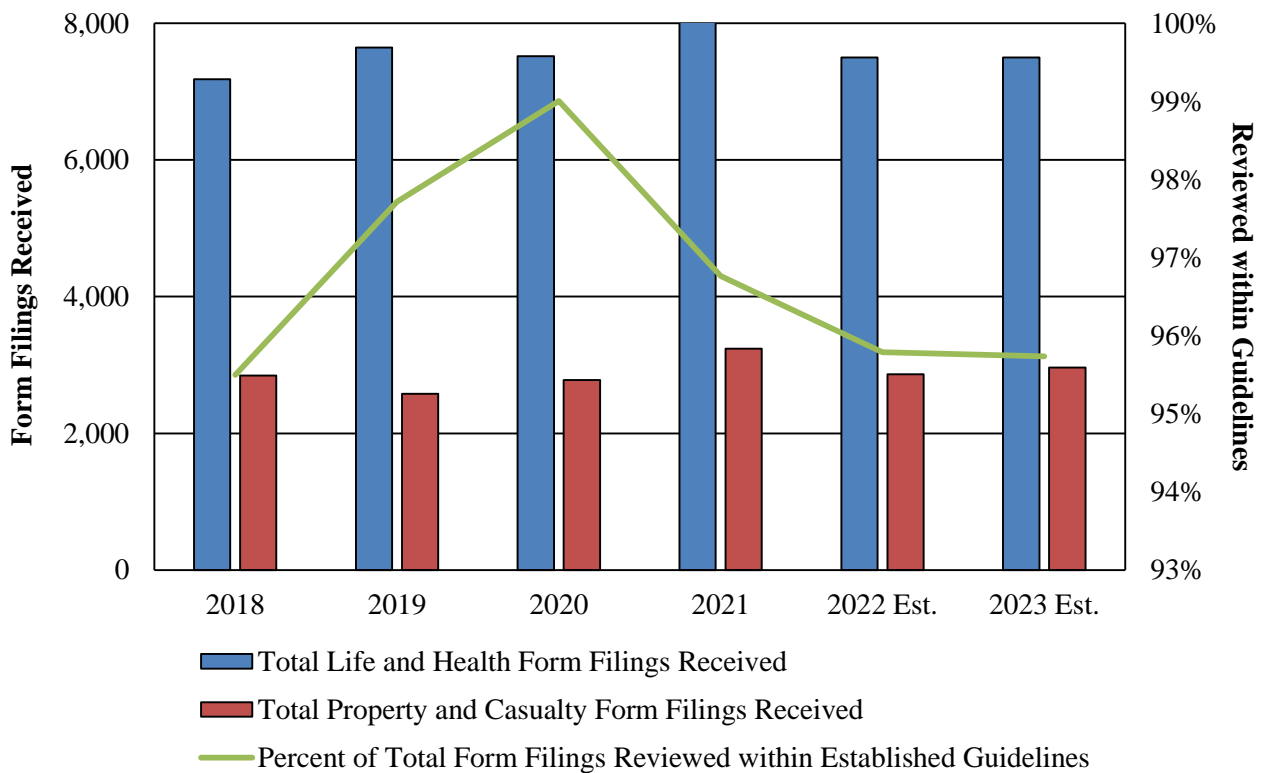
Turnover and Necessary Vacancies, Excluding New Positions	15.88	6.13%
Positions and Percentage Vacant as of 12/31/21	34.00	13.13%
Vacancies Above Turnover	18.12	

Key Observations

1. Form Filings

MIA conducts a review of every insurance policy and contract to ensure that all the legal requirements for the policy and contract are met. MIA also reviews and approves rates for most life and health and property and casualty insurance products. **Exhibit 3** shows that form filings for both types of products increased slightly in fiscal 2021. However, the agency estimates that filings will decrease in fiscal 2022 and 2023. The MIA review of form filings within the established guidelines declined from 99% in fiscal 2020 to 96.8% in fiscal 2021 and is expected to decline further in the coming fiscal years.

Exhibit 3
Form Filings Received and Reviewed
Fiscal 2018-2023 Est.

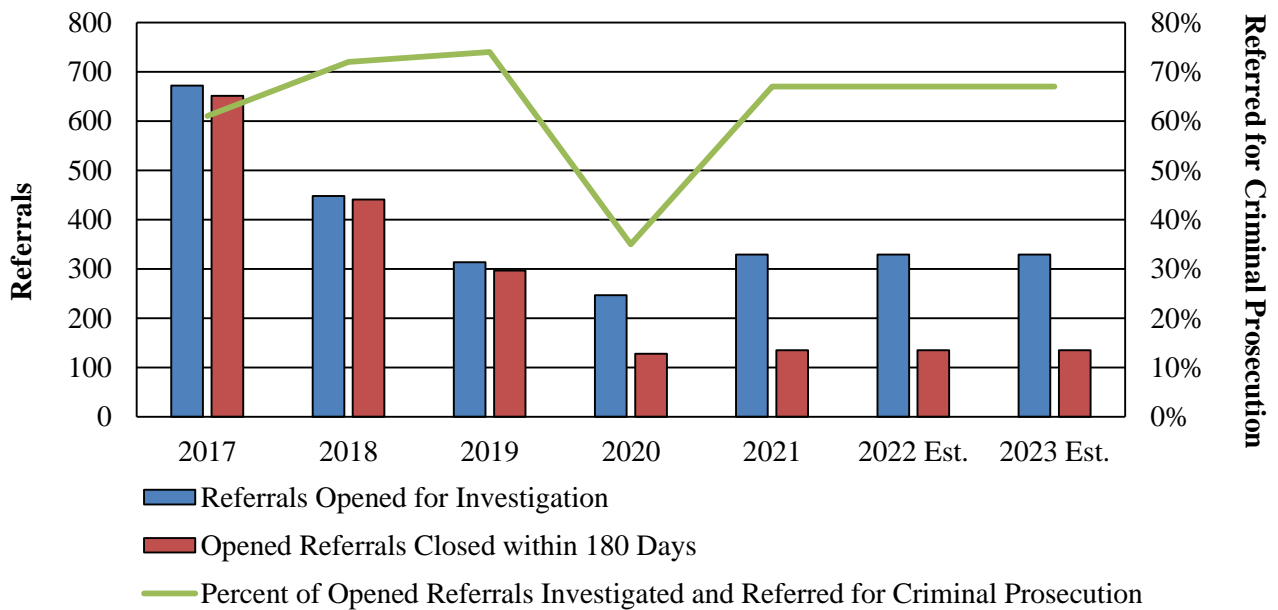


Source: Maryland Insurance Administration

2. Fraud Division

The Insurance Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud. **Exhibit 4** shows the number of fraud cases opened, the number of cases closed within 180 days, and the percentage of cases referred for criminal prosecution. Fiscal 2021 saw an increase in the number of referrals opened for investigation (329) and the rate of cases referred for criminal prosecution (67%). However, the percentage of opened referrals closed within 180 days has not reached prepandemic levels, with only 41% of cases closed in that timeframe. MIA indicated that this trend reflects the continuing impact of the COVID-19 pandemic on daily operations at the agency and will likely continue into calendar 2022. In addition to the pandemic, two long-term criminal investigations are impacting the agency’s closing rate and attrition issues in the Fraud Division. Currently, the agency is recruiting for 2 positions for the Fraud Division. Another contributing factor to the decrease in output could be the agency’s dependency on Excel spreadsheets for case tracking. The agency has begun a major IT project, the MIA Insurance Tracking System, to address this issue. **MIA should comment on how the new tracking system will improve its operations and when it is expected to be implemented.**

Exhibit 4
Fraud Cases Opened and Closed within 180 Days and
Referred for Criminal Prosecution
Fiscal 2017-2023 Est.



Source: Maryland Insurance Administration

3. Audit Violations Detected by the Office of Legislative Audits

The Office of Legislative Audits (OLA) released an audit of MIA in March 2021. The audit had eight findings; a full list can be found in **Appendix 2**. OLA found that MIA:

- did not reconcile premium tax revenue records to the State’s accounting records in a timely fashion;
- did not always assess allocations to insurance companies as required or were sometimes incorrect; and
- did not ensure that producer licensing fees collected by a third party were remitted and deposited into the Insurance Regulation Fund as required.

There was one repeat finding from a previous OLA audit, indicating that MIA continued to use premium tax spreadsheets that lacked adequate controls to ensure the propriety of tax data recorded and the results of premium tax audits. **MIA should comment on the audit findings and its efforts to address the issues raised in the audit, particularly the adoption of an automated system to address the repeat finding.**

In its January 2022 *Statewide Review of Budget Closeout Transactions for Fiscal Year 2021* report, OLA identified two repeat findings related to MIA. First, OLA found that MIA could not readily explain a deficit in the Health Care Regulatory Fund, which had increased from approximately \$250,000 as of June 30, 2017, to \$1.4 million as of June 30, 2020. The current review disclosed that there was a deficit balance of \$1.0 million in the fund as of June 30, 2021. Again, the deficit was improperly offset by unrelated surplus funds in the Insurance Regulation Fund. As a result, MIA did not report the deficit fund balance at the end of the fiscal year to the General Accounting Division as required. MIA has developed a plan to eliminate the deficit by fiscal 2025. **MIA should be prepared to brief the budget committees on the reason for this continued deficit and the corrective actions that are being taken.**

In a second finding, OLA reported that MIA did not transfer the balance of the Health Care Provider Rate Stabilization Fund (RSF) to the Maryland Department of Health (MDH) as required by State law. In the audit report, MIA failed to justify retention of the RSF fund balance of \$3.3 million as of December 2021. According to State law, any funds in the RSF should be transferred to MDH for the purpose of retaining certain health care providers in the State. MIA management argued that a fund balance was necessary to cover any health maintenance organization (HMO) and managed care organization (MCO) premium tax refunds that were required to be paid. Chapter 538 of 2020 repealed the RSF effective July 1, 2021. At that point, all premium tax payments were to be deposited to the General Fund. **MIA should brief the budget committees on the current balance being held in the RSF and provide further explanation as to why it believes that these funds had to be retained, including a timeframe on potential refund requests.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Audit Findings**

Audit Period for Last Audit:	January 31, 2017 – January 20, 2020
Issue Date:	March 2021
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	12.5%
Rating: (if applicable)	n/a

Finding 1: MIA continued to use premium tax spreadsheets that lacked adequate controls to ensure the propriety of tax data recorded and the results of premium tax audits.

Finding 2: MIA did not ensure that certain premium tax collections received from HMOs and MCOs were properly recorded and transferred to MDH as required, and significant recording errors occurred.

Finding 3: Reconciliations of MIA’s premium tax revenue records to the State’s accounting records were not conducted timely and did not ensure that all tax revenue had been credited to the appropriate fund.

Finding 4: MIA did not prepare its overall assessment calculation for the Insurance Regulation Fund in accordance with its procedures, could not support certain estimates used in the calculation, and could not document that the calculation was reviewed and approved by supervisory personnel.

Finding 5: Allocations of assessments to insurance companies were not always made as required or, when made, were sometimes incorrect.

Finding 6: MIA could not readily explain a growing deficit in the Health Care Regulatory Fund, which had a deficit balance over \$1.3 million as of June 30, 2020.

Finding 7: MIA did not ensure that producer licensing fees collected by a third party were remitted and deposited into the Insurance Regulation Fund as required.

Finding 8: Intrusion detection and prevention system coverage did not exist for traffic flowing into the MIA network from certain untrusted origin points.

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

Appendix 2
MIA’s Insurance Tracking System
Major Information Technology Project
Maryland Insurance Administration

New/Ongoing: Ongoing								
Start Date: 5/1/2020					Est. Completion Date: 4/11/2023			
Implementation Strategy: Agile								
(\$ in Millions)	Prior Year	2022	2023	2024	2025	2026	Remainder	Total
SF	\$2.000	\$0.120	\$0.160	\$0.160	\$0.000	\$0.000	\$0.000	\$2.440
Total	\$2.000	\$0.120	\$0.160	\$0.160	\$0.000	\$0.000	\$0.000	\$2.440

- Project Summary:** MIA has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s for the following business functions: company licensing; market conduct case tracking; and case tracking for hearings and orders. The new system will also include a case tracking capability for MIA fraud investigations. The new system will leverage the following modern technologies: document management; workflow; collaboration; data analysis; and data reporting.
- Need:** The current system requires manual data entry of company demographic data by MIA rather than allowing insurance companies to maintain their contact and address information electronically. The current system does not provide the ability to store or manage documents submitted by insurance companies as part of the licensing process. Company documents are submitted to MIA in hard copy or via email and then scanned and stored electronically on MIA network file shares without a link or connection to the company data stored in the enterprise system. In addition, MIA currently prints hard copy licenses and mails them to insurance companies rather than issuing licenses electronically. As part of MIA’s regulatory responsibilities for the insurance industry, MIA also conducts market conduct exams, holds hearings, issues orders, and researches insurance fraud cases. The current enterprise system is used to store market conduct exams, hearings, and orders in a legacy Sybase database that is difficult to query. However, the current system does not provide any case tracking functionality to support fraud investigations, causing the Fraud Unit to rely on Excel spreadsheets to store all data associated with fraud cases.
- Observations and Milestones:** MIA has chosen a vendor for the project. The contract was awarded to MERP Systems, Inc. and approved by the Board of Public Works on October 6, 2021.

**Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 21 Actual</u>	<u>FY 22 Working Appropriation</u>	<u>FY 23 Allowance</u>	<u>FY 22 - FY 23 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	259.00	259.00	259.00	0.00	0%
02 Contractual	21.40	19.60	19.60	0.00	0%
Total Positions	280.40	278.60	278.60	0.00	0%
Objects					
01 Salaries and Wages	\$ 21,669,854	\$ 26,539,743	\$ 26,855,644	\$ 315,901	1.2%
02 Technical and Special Fees	1,275,822	899,513	894,691	-4,822	-0.5%
03 Communication	260,061	264,951	264,951	0	0%
04 Travel	17,390	248,463	264,463	16,000	6.4%
07 Motor Vehicles	199,950	190,019	189,429	-590	-0.3%
08 Contractual Services	2,478,530	2,781,257	3,922,527	1,141,270	41.0%
09 Supplies and Materials	212,418	263,994	263,994	0	0%
10 Equipment – Replacement	39,704	41,618	41,618	0	0%
11 Equipment – Additional	64,821	1,650	1,650	0	0%
12 Grants, Subsidies, and Contributions	603,753	590,714	590,714	0	0%
13 Fixed Charges	1,718,363	1,831,092	1,834,518	3,426	0.2%
Total Objects	\$ 28,540,666	\$ 33,653,014	\$ 35,124,199	\$ 1,471,185	4.4%
Funds					
03 Special Fund	\$ 28,418,179	\$ 33,653,014	\$ 35,124,199	\$ 1,471,185	4.4%
05 Federal Fund	122,487	0	0	0	0.0%
Total Funds	\$ 28,540,666	\$ 33,653,014	\$ 35,124,199	\$ 1,471,185	4.4%

Note: The fiscal 2022 working appropriation does not include deficiencies. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which may include cost-of-living adjustments, increments, annual salary review increases, and bonuses.