Audit Report

Maryland Insurance Administration

March 2021

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

To Obtain Further Information

Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

March 30, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Insurance Administration (MIA) for the period beginning January 31, 2017 and ending January 20, 2020. MIA is responsible for licensing and regulating insurers, insurance agents, and brokers who conduct business in the State, and for monitoring the financial solvency of licensed insurers. MIA is also responsible for collecting taxes levied on all premiums collected by insurance companies doing business within the State.

Our audit disclosed that MIA's use of electronic spreadsheets to record and compile premium tax data did not provide sufficient controls to ensure the propriety of recorded data and the results of premium tax audits. In addition, MIA did not ensure that all premium tax payments received from managed care organizations (MCOs) and health maintenance organizations (HMOs) were properly recorded and transferred to the Maryland Department of Health as required by law. MIA collected approximately $592.4 million in premium tax revenue during fiscal year 2020, of which $185.6 million came from MCOs and HMOs.

Our audit also disclosed that the total amount assessed each year by MIA against insurers to help fund MIA's budgeted expenditures was not being calculated in accordance with MIA's established procedures, and individual insurers were sometimes assessed incorrect amounts, or in some cases, not at all. Assessments collected during fiscal year 2019 totaled approximately $14.5 million.

Furthermore, MIA was unable to explain an increasing deficit balance in its Health Care Regulatory Fund, which consists of a separate assessment against insurers to support MIA’s Appeals and Grievances Unit, and should be self-supporting. The Fund’s deficit balance of $250,000 as of June 30, 2017 rose to over $1.3 million in the span of three years. MIA also did not ensure that all producer licensing fees collected by a third party were remitted and deposited as required. In addition, intrusion detection and prevention system coverage did not exist for traffic entering the MIA network from certain untrusted origin points.

Finally, our audit also included a review to determine the status of the seven findings contained in our preceding audit report. We determined that the Department satisfactorily addressed six of the seven findings. The remaining finding is repeated in this report.

MIA’s response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. We have edited MIA’s response to remove certain vendor names or products, as allowed by our policy.

We wish to acknowledge the cooperation extended to us during the audit by MIA and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

* **Denotes item repeated in full or part from preceding audit report**

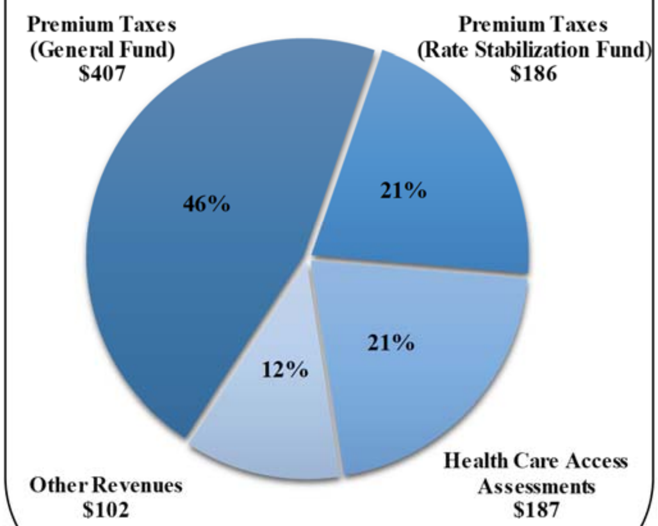
Background Information

Agency Responsibilities

The Maryland Insurance Administration (MIA) operates under the authority of the Insurance Article, Title 2, of the Annotated Code of Maryland. MIA is responsible for licensing and regulating insurers, insurance agents, and brokers who conduct business in the State and for monitoring the financial solvency of licensed insurers. MIA is also responsible for collecting taxes levied on all premiums collected by insurance companies within the State. According to MIA's records as of January 3, 2020, there were 1,831 insurers authorized to conduct business in the State. MIA's records also indicated that direct premiums written by domestic (based in Maryland) and foreign (based in other states) companies operating in Maryland during calendar year 2019 totaled approximately $41.9 billion.

According to the State's records, during fiscal year 2020 MIA's revenues totaled approximately $881.9 million (see Figure 1). The majority of MIA's revenue related to premium taxes and Health Care Access Assessment revenue, which was first collected in fiscal year 2019 pursuant to the Health Care Access Act of 2018.

Figure 1
MIA Revenues Fiscal Year 2020
(In Millions)



Source: State records

As required by State law, MIA transferred $406.8 million in revenue to the State's General Fund, $185.6 million to the Maryland Health Care Provider Rate Stabilization Fund, and $30.9 million to the State's Insurance Regulation Fund in fiscal year 2020. Health Care Access Assessments for fiscal year 2019 and 2020, which totaled $428.3 million as of June 30, 2020, are being held by MIA pending a request from the Maryland Health Benefit Exchange to transfer the funds for the State Reinsurance Program.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated May 15, 2018. As disclosed in Figure 2 below, we determined that MIA satisfactorily addressed six of these findings. The remaining finding is repeated in this report.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Maryland Insurance Administration (MIA) used a premium tax spreadsheet system that lacked adequate controls to ensure the propriety of data recorded and the results of premium tax audits performed.	**Repeated** (Current Finding 1)
Finding 2	MIA did not establish adequate controls over the processing of premium tax refunds paid to insurance companies.	Not repeated
Finding 3	Employees who processed certain producer license applications also had the capability to approve the licenses.	Not repeated
Finding 4	Controls over cash receipts and non-cash credits were not sufficient.	Not repeated
Finding 5	Business partners had excessive access into the MIA computer network.	Not repeated
Finding 6	MIA did not have a complete information technology disaster recovery plan for recovering computer operations.	Not repeated
Finding 7	MIA lacked assurance that the insurance producer pre-licensing, licensing, and disaster recovery services systems, each managed by separate services providers, were each sufficiently protected against operational and security risks.	Not repeated

Findings and Recommendations

Premium Taxes

Background
The Insurance Article of the Annotated Code of Maryland generally provides for the imposition of an annual tax on insurance companies for premiums derived from insurance business transacted in the State. Insurance companies are required to make estimated tax payments to the Maryland Insurance Administration (MIA) on a quarterly basis throughout the calendar year. By March 15 of each year, insurance companies are required to file a final tax return reporting premiums written during the preceding calendar year and to remit any remaining premium taxes due to the State. MIA conducts annual premium tax audits to determine whether any additional taxes are owed, including interest and penalties, or whether the insurance company is due a refund.

By law, premium taxes collected are to be credited to the State's General Fund, except for taxes collected from health maintenance organizations (HMOs) and managed care organizations (MCOs), which are to be credited to the State's Health Care Provider Rate Stabilization Fund (RSF), which is administered by MIA. Funds in the RSF must be periodically transferred by MIA to the Maryland Department of Health (MDH) for the purpose of retaining certain health care providers in the State. In addition, MIA reports premium tax revenues quarterly to the Comptroller's Bureau of Revenue Estimates (BRE) for its use in preparing revenue projections for the State.

According to the State's records, during fiscal year 2020 MIA collected approximately $592.4 million in premium tax revenue including $185.6 million in payments from HMOs and MCOs. MIA completes approximately 1,600 premium tax audits annually.

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

Analysis
MIA continued to use premium tax spreadsheets that lacked adequate controls to ensure the propriety of data recorded and the results of premium tax audits performed. As noted in our prior audit report, MIA discontinued using its automated premium tax system in November 2014. In response to that prior finding, MIA implemented a product available from the National Association of

Insurance Commissioners, which it had previously advised us would provide the appropriate recordation of tax and audit transactions and activity. Although MIA is now using that product, we noted that it is essentially a web payment and document filing portal, not a tax and audit tracking system. Consequently, since 2014 MIA has used electronic spreadsheets to track the receipt of quarterly estimated and annual tax payments, document the performance of the annual premium tax audits, and calculate any penalties and interest. Our prior report noted numerous control deficiencies with the use of the spreadsheets. As noted above, MIA has not procured a new system and has not implemented procedures to correct the control deficiencies identified last audit.

Specifically, data recorded on spreadsheets, as well as formulas in templates used by MIA in the spreadsheets to automatically compile data and perform needed calculations, could still be modified without independent supervisory review and approval. As noted in the prior report, the spreadsheets do not provide a means for changes in data or formulas to be recorded for subsequent review, and the identity of the individuals performing such changes could not be ascertained. In addition, MIA still did not use certain available controls to restrict access to recorded data and formulas, and had not implemented adequate compensating controls to ensure the integrity of the data.

In this regard, the employees who were responsible for ensuring that all premium taxes due were received and accurately recorded, and for identifying any penalties and interest due to the State, also had the capability to modify both premium and payment data and the formulas used to recalculate premium tax liabilities, penalties, and interest within the spreadsheets. In addition, the employee responsible for reviewing and approving the audit results and approving premium tax refunds had these same capabilities.

Since data recorded in the spreadsheets is used extensively in the performance of premium tax audits, there was a lack of assurance that audit results, including taxes due from or refunds due to insurance companies were proper. While no significant errors or discrepancies were noted in our tests of premium tax audits, the lack of controls over the data and the lack of accountability over critical changes made recorded premium data, premium tax payments, and formulas vulnerable to such errors or other discrepancies.

Recommendation 1

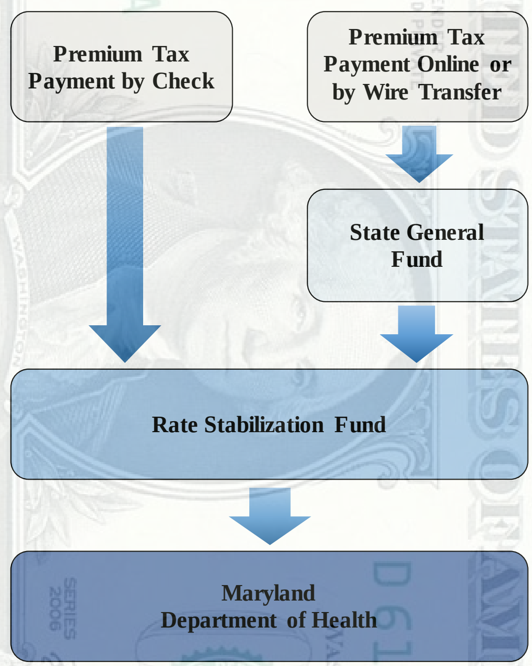
We recommend that MIA take appropriate action to control the propriety of premium tax data and audit activity. Specifically, we recommend that MIA procure and implement an automated premium tax system with sufficient

control capabilities or establish adequate controls within its existing use of spreadsheets (repeat).

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. Significant recording errors were not detected timely or at all, including an improper reversion of $59 million to the State's General Fund that may no longer be available for transfer to MDH.

Analysis
MIA did not ensure that premium tax collections received from HMOs and MCOs were properly recorded in the State's accounting records and transferred to MDH as required. Premium tax collections from the 14 HMOs and MCOs are to be allocated to the State's RSF, then transferred to MDH. HMO and MCO premium taxes are submitted by check or wire transfer directly to MIA or online similar to premium taxes submitted by other insurers. Check payments are generally deposited directly into the RSF while payments made online and by wire are deposited into the State's General Fund along with the other premium tax payments and transferred periodically by MIA to the RSF (see Figure 3). According to agency records, HMO and MCO premium tax collections totaled approximately $185.6 million during fiscal year 2020 ($23.0 million by check and $162.6 million online or by wire transfer).

Figure 3
HMO and MCO Premium Tax Transfers



<u>Transfers Were Not Adequately Supported Resulting In Errors Going Undetected or Not Being Detected Timely</u>
Journal entries processed by MIA to transfer payments made online and by wire from the General Fund to the RSF often lacked supporting documentation. The

journal entries were often made for lump sum amounts without adequate documentation explaining how the amounts were derived. As a result, it was not always possible to verify that specific online and wire payments had been transferred from the General Fund to the RSF as required. Consequently, errors were not detected timely or at all.

Specifically, our review of 55 payments from HMOs and MCOs totaling approximately $187.4 million made for calendar year 2018 premium taxes disclosed 14 payments totaling $58.9 million that were initially credited to the General Fund, but based on available records, were never transferred to the RSF as required. These funds were reverted to the State's General Fund upon the fiscal 2018 year-end closing, and MIA management advised us that the Comptroller of Maryland's General Accounting Division (GAD) notified them the funds are no longer available for transfer to the RSF.

Furthermore, during fiscal years 2019 and 2020, MIA made a series of recording errors, such as duplicate transfers, which resulted in excess allocations of HMO and MCO premium taxes from the State's General Fund to the RSF totaling approximately $139.8 million and $92.6 million, respectively. These errors were identified by GAD or by MIA after significant increases in RSF revenue were noted and investigated. Adjusting journal entries were subsequently processed by GAD for fiscal year 2019 and by MIA for fiscal year 2020.

<u>RSF Balance Was Not Transferred to MDH As Required</u>
MIA could not justify retention of the RSF fund balance, which totaled approximately $8.1 million[1] as of June 30, 2020. In accordance with State Law, any funds in the RSF should be transferred to MDH. MIA management claimed that a fund balance was necessary to cover any HMO and MCO premium tax refunds that were required to be paid. However, refunds processed during fiscal years 2019 and 2020 related to HMO and MCO premium taxes totaled $17,000 and $3 million, respectively, well below the $8.1 million retained by MIA.

Chapter 538, 2020 Laws of Maryland, repeals the RSF effective July 1, 2021; after which all premium tax payments will be deposited to the General Fund. Although the RSF is scheduled for repeal, it is still incumbent upon MIA to ensure that all funds are properly accounted for.

[1] This amount includes a $2.4 million accounting error for an entry made after the close of fiscal year 2019.

Recommendation 2
We recommend that MIA develop adequate procedures and controls to ensure the proper disposition of HMO and MCO premium tax payments. Specifically, we recommend that MIA

a. **implement procedures to ensure accurate recording of all HMO and MCO premium tax payments;**
b. **adequately document journal entries processed to transfer funds including details regarding specific HMO and MCO premium tax payments being transferred;**
c. **work in conjunction with Department of Budget and Management and GAD to determine if there is any course of action available to retroactively correct the improper disposition of the aforementioned $59 million that was not transferred to the RSF; and**
d. **transfer all funds in the RSF to MDH, as required, unless there is documented justification for retaining certain funds in the RSF.**

Finding 3
MIA's reconciliations of its 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.

Analysis
MIA's reconciliations of premium tax revenue were not conducted timely and did not ensure that all tax revenue had been credited to the appropriate fund. MIA prepared reconciliations between its premium tax revenue records and the State's accounting records for total premium tax revenue received. Our review disclosed that, as of August 2020, the most recently completed reconciliation was for December 2019. In addition, the reconciliations conducted before this time were not comprehensive as they did not include a verification that all premium tax revenue had been credited to the appropriate fund, either the General Fund or the RSF.

The lack of timely and adequate reconciliations may have contributed to MIA's failure to timely detect certain of the accounting errors with HMO and MCO premium taxes noted in Finding 2. In addition, we were advised by management personnel from the Comptroller of Maryland's Bureau of Revenue Estimates (BRE) and GAD that premium tax revenue data submitted to BRE by MIA was not always accurate. As a result, BRE was unable to effectively use this data in its preparation of revenue projections for the State.

Recommendation 3
We recommend that MIA
a. **conduct premium tax revenue reconciliations on a timely basis,**
b. **verify as part of its reconciliations that revenue has been properly credited to the appropriate funds, and**
c. **ensure that revenue information reported to BRE is accurate.**

Insurance Regulation Fund Assessments

Background
In accordance with State law, MIA calculates an annual assessment to be collected from all health, life, and property and casualty insurers doing business in the State to fund 60 percent of its annual budget appropriation[2]. MIA first calculates the overall assessment and then allocates the assessment to each licensed insurer based on its percentage of total premiums written, with a minimum assessment of $300. These assessments are deposited into MIA's Insurance Regulation Fund (IRF). According to the State's records, assessments collected and deposited into the IRF during fiscal year 2019 totaled approximately $14.5 million, and the Fund's balance at June 30, 2019 totaled $6.5 million.

Finding 4
MIA did not prepare its overall assessment calculation for the IRF 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.

Analysis
MIA did not prepare its overall assessment calculation for the IRF 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.

- MIA did not take into account the beginning fund balance, as required by its procedures, when calculating the overall IRF assessment each year. Specifically, MIA did not reduce the overall assessment calculated for funds already on hand at the beginning of the year as required. We ultimately determined that MIA's overall assessments for fiscal years 2018, 2019, and 2020 were overstated by approximately $6.8 million, $7.2 million, and $6.5

[2] MIA also collects fees for certain certifications, licenses, and other services which fund the remaining portion of its budget.

million, respectively, and the corresponding billings to individual insurance companies reflected these overstatements.

- MIA was unable to support certain significant estimates included in its overall IRF assessment calculation. For example, MIA's calculation for fiscal year 2020 included estimated other revenue of $14,141,831, but MIA was unable to provide documentation supporting how this amount was determined.

- MIA could not document that the overall IRF assessment calculation was reviewed and approved by supervisory personnel. We were advised by MIA that MIA's Insurance Commissioner participated informally in the calculation of the assessment; however, there was no documented review to ensure that the amount assessed was proper and in accordance with State law and MIA procedures.

Due to the aforementioned conditions, there was a lack of assurance that the amounts assessed to and ultimately paid by insurers were proper.

Recommendation 4
We recommend that MIA
a. ensure that the overall IRF assessment calculations are completed as required by its procedures,
b. maintain adequate supporting documentation for estimated amounts included in its assessment calculation, and
c. require a documented supervisory review and approval of the assessment calculation prior to billing insurers.

Finding 5
Allocations of assessments to insurance companies were not always made as required or correct.

Analysis
Insurance companies were not always assessed as required, and initial assessments to individual insurers were sometimes incorrect. Our examination of assessments processed for fiscal year 2020 disclosed the following conditions:

- MIA did not properly allocate the assessment to all insurers. Specifically, our review disclosed MIA had not assessed the Maryland Automobile Insurance Fund (MAIF) since fiscal year 2014 as provided for in State law. Based on our calculation for fiscal year 2020 alone, MAIF should have been assessed approximately $50,000. In addition, based on our examination of the 1,399 insurers licensed as of December 31, 2018, we noted 22 other insurers who had received assessments totaling $22,000 for fiscal year 2019, but had not been assessed any amount for 2020. Although there may be a valid reason why an insurer does not receive an assessment in a particular year, MIA could not explain why these 22 insurers had not been assessed for fiscal year 2020. The amounts not allocated to these insurers would have been allocated to other insurers.

- MIA over-assessed 11 insurers approximately $2.3 million because MIA improperly included exempt federal premiums, such as Medicare premiums, in their assessment calculation.

- MIA under-assessed 67 insurers by approximately $814,000 because they were misclassified as life insurance providers rather than health insurers. These insurers wrote premiums for life and health insurance or only health insurance. State law requires insurers to be assessed in the category in which they wrote the most premiums during the previous calendar year. Proper classification is important because an insurer's assessment is based, in part, on total premium dollars within their designated insurance category.

At the time of our review, adjustments had not been made for any of the discrepancies noted above. However, MIA processed approximately $6.8 million in other adjustments during our audit period related to assessments for fiscal years 2018 to 2020, including adjustments of at least $3.9 million that were due to improper initial assessments. Although the adjustments corrected improper assessments to individual insurers, accurate annual assessments are critical since an assessment error relating to one insurance provider, such as an over or under assessment, will generally impact the amount assessed to all other providers.

Recommendation 5
We recommend that MIA

a. ensure that all applicable insurance providers are accurately assessed, in accordance with State law, for amounts due to the Insurance Regulation Fund; and

b. review the amounts assessed during the audit period to determine any amounts due to or from insurance companies related to errors in the assessment calculations.

Health Care Regulatory Fund

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.

Analysis
MIA could not readily explain a growing deficit balance in the Health Care Regulatory Fund. MIA administered the Fund, which consists of assessments on specified providers of health insurance in the State. State law provides that annual assessments are to cover all costs relating to activities of MIA's Appeals and Grievances Unit. Our review disclosed that the Fund had a deficit balance of approximately $250,000 as of June 30, 2017, which increased to a deficit of over $1.3 million as of June 30, 2020 (see Figure 4). The deficits were improperly offset by unrelated surplus funds in the Insurance Regulation Fund and therefore, MIA did not report these deficits at fiscal year-end to GAD as required.

Figure 4
Increase in Deficit Balance of Health Care Regulatory Fund
From Fiscal Year 2018 to 2020

	2018	2019	2020
Beginning Balance, July 1	$ (249,557)	$ (583,798)	$ (883,273)
Revenues	1,374,714	1,220,671	1,252,477
Expenditures	(1,708,955)	(1,520,146)	(1,721,301)
Ending Balance, June 30	$ (583,798)	$ (883,273)	$ (1,352,097)
Increase in Deficit from Prior Year	$ 334,241	$ 299,475	$ 468,824
Percentage Increase from Prior Year	134%	51%	53%

Source: State records

Although a temporary deficit balance may periodically occur due to the timing of related transactions, a long-term and growing deficit balance may be indicative of inaccurate assessments and/or recording errors.

Recommendation 6
We recommend that MIA
a. investigate the deficit in the Health Care Regulatory Fund and determine appropriate corrective action; and

b. **properly report all fund balances separately at fiscal year-end, as required.**

Producer Licensing Fees

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

Analysis
MIA did not ensure that all producer licensing fees collected by a third party were remitted and deposited into the Insurance Regulation Fund as required. According to State records, producer licensing fees collected during fiscal year 2019 totaled approximately $6.6 million, of which $6.5 million were processed online through the National Association of Insurance Commissioners' National Insurance Producer Registry (NIPR). NIPR's payment portal interfaces with MIA's automated licensing system. In accordance with a memorandum of understanding between MIA and NIPR, NIPR is to make daily electronic fund transfers of the prior day's collections to MIA's Insurance Regulation Fund.

Our review disclosed that MIA did not conduct daily reconciliations of applications processed to the related collections to ensure that NIPR properly transferred all producer licensing fees collected. The reconciliations help to ensure that online payments are accurately reflected on MIA's licensing system (which is the basis for license issuance) and that the related fees were deposited to the Insurance Regulation Fund.

As a result, there was a lack of assurance that all producer licensing fees were remitted and deposited into the Fund as required. The Comptroller of Maryland's *Accounting Procedures Manual* requires reconciliations of total collections with total license applications to be performed.

Recommendation 7
We recommend that MIA perform required daily reconciliations of fee collections to online applications processed, to ensure that all producer licensing fees collected online through the NIPR payment portal are received and properly deposited.

Information Systems Security and Control

Background

MIA's Management Information Systems (MIS) Department is responsible for the development, maintenance, and support of MIA's information systems, including operation of an internal network at MIA. The network is connected to networkMaryland for internet and statewide government intranet connectivity and includes multiple firewalls and intrusion detection prevention systems. MIA's main critical application is the Enterprise system which supports insurance company licensing, complaints, and case tracking.

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

Analysis

IDPS coverage did not exist for untrusted traffic entering the MIA network from certain untrusted origin points. Such coverage did not exist for traffic entering the MIA network over connections from the statewide intranet, MIA's neutral public network zone, and the internet passing to a certain MIA internal network segment. Specifically, we identified 14 firewall rules that allowed traffic from either the statewide intranet or MIA's neutral public network zone to the MIA internal network without defined network IDPS coverage applied. In addition, traffic from a separate MIA internet connection to a certain MIA internal network segment also lacked IDPS coverage as a related IDPS device operating for the network segment was not properly configured to monitor traffic for this purpose. The absence of IDPS coverage for these forms of untrusted traffic entering the MIA network created network security risk, as such traffic could contain undetected malicious data.

The State of Maryland *Information Technology Security Manual* requires protection against malicious code and attacks by using IDPS coverage to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information. Strong network security uses a layered approach, relying on various resources, and is structured according to assessed network security risk. Properly configured IDPS protection can aid significantly in the detection/prevention of, and response to, potential network security breaches and attacks.

Recommendation 8

We recommend that MIA ensure that IDPS protection exists for all traffic from untrusted sources entering the MIA network flowing to critical servers and network segments.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Insurance Administration (MIA), for the period beginning January 31, 2017 and ending January 20, 2020. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MIA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included disbursements, cash receipts, payroll, information system security and control, accounts receivable, premium taxes, the Insurance Regulation and the Health Care Regulatory Funds, producer licensing, and examinations and audits. We also determined the status of the findings contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of January 31, 2017 to January 20, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MIA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from MIA's producer licensing system for the purpose of testing the issuance of licenses and assessments. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MIA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MIA, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MIA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MIA that did not warrant inclusion in this report.

MIA's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MIA regarding the results of our review of its response.

APPENDIX

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lt. Governor

KATHLEEN A. BIRRANE
Commissioner

GREGORY M. DERWART
Deputy Commissioner

Maryland
INSURANCE ADMINISTRATION

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2000 Fax: 410-468-2020
1-800-492-6116 TTY: 1-800-735-2258
www.insurance.maryland.gov

March 25, 2021

Via Email: response@ola.state.md.us

Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

RE: Maryland Insurance Administration Response to Draft Audit Report

Dear Mr. Hook:

Attached please find the Maryland Insurance Administration's response to the draft audit report prepared by your Office for the period beginning January 31, 2017 and ending January 20, 2020.

We appreciate the collaborative and professional process conducted by Edward Welsh and his team. My staff and I are happy to respond to any questions that you may have.

Sincerely,

Kathleen A. Birrane

Kathleen A. Birrane
Commissioner

Attachment
KAB:jdb

cc: Gregory M. Derwart, Deputy Commissioner, MIA (via e-mail w/attachment)
Godwin O. Ehirim, Director, Fiscal Services, MIA (via e-mail w/attachment)

Maryland Insurance Administration

Agency Response Form

Premium Taxes

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

We recommend that MIA take appropriate action to control the propriety of premium tax data and audit activity. Specifically, we recommend that MIA procure and implement an automated premium tax system with sufficient control capabilities or establish adequate controls within its existing use of spreadsheets (repeat).

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 1.		
Recommendation 1	Agree	**Estimated Completion Date:**	Completed 7-31-2020
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work, the MIA altered certain of its procedures under the guidance of the Auditors beginning in March 2020. In addition, the MIA conducted an internal review and analysis of its premium tax data and audit activity. Following that review, the MIA updated and enhanced its procedures, protocols, tools, and controls, including controls regarding spreadsheets. The MIA's revised Premium Tax Data and Audit Procedures ("PTDA Procedures"), which include a revised Audit Summary Workbook, are designed to ensure the integrity of its premium tax data and audit activities. Interim and longer term control procedures related to changes in the Audit Summary Workbook were reviewed and determined to be acceptable by the Auditors and have been implemented. Following receipt of the Audit Report and Findings, the MIA evaluated its updated PTDA Procedures to assure that they incorporated the Auditors' recommendations. The final PTDA Procedures document is available to the Auditors for review and comment.		

	The final PTDA Procedures have been implemented and the MIA believes that, as implemented, they satisfy the recommendation to take action to control the propriety of premium tax data and audit activity. Separately, the MIA is developing an internal audit function pursuant to which auditors who work in the Examination and Auditing (E&A) Unit will evaluate and report to the Commissioner on the Fiscal Services Unit's (FSU) compliance with the FSU's core and critical procedures (the "Fiscal Unit Audit"). The scope of the Fiscal Unit Audit will include confirming compliance with procedures adopted by the MIA as a result of the audit, including the MIA's revised PTDA Procedures. With respect to the two specific, alternative, recommendations set forth above: 1.) The MIA appreciates the limits of the OPT*ins* system and agrees that an automated system is preferred. The MIA will develop a two-phased request for proposal, consistent with Maryland procurement law and budgetary constraints, for the design and implementation of an automated system that leverages data sources such as OPT*ins*. To the extent that procurement laws allow, the MIA will seek to identify and acquire software utilized by other state regulators for the same purpose. The MIA anticipates making this project part of its FY2023 budget request. **2.)** In the meantime, as noted above, the MIA has implemented controls over the existing spreadsheet-based system that fully address the deficiencies identified by the auditors.

Agency Response Form

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. Significant recording errors were not detected timely or at all, including an improper reversion of $59 million to the State's General Fund that may no longer be available for transfer to MDH.**

We recommend that MIA develop adequate procedures and controls to ensure the proper disposition of HMO and MCO premium tax payments. Specifically, we recommend that MIA

- **a. implement procedures to ensure accurate recording of all HMO and MCO premium tax payments;**
- **b. adequately document journal entries processed to transfer funds including details regarding specific HMO and MCO premium tax payments being transferred;**
- **c. work in conjunction with Department of Budget and Management and GAD to determine if there is any course of action available to retroactively correct the improper disposition of the aforementioned $59 million that was not transferred to the RSF; and**
- **d. transfer all funds in the RSF to MDH, as required, unless there is documented justification for retaining certain funds in the RSF.**

<table>
<tr><th colspan="4">Agency Response</th></tr>
<tr><td>Analysis</td><td colspan="3">Factually Accurate</td></tr>
<tr><td>Please provide additional comments as deemed necessary.</td><td colspan="3">The MIA does not dispute the factual accuracy of Finding 2.</td></tr>
<tr><td>Recommendation 2a</td><td>Agree</td><td>Estimated Completion Date:</td><td>Completed 1-15-21</td></tr>
<tr><td>Please provide details of corrective action or explain disagreement.</td><td colspan="3">As a result of communications with the auditors during their field work, the MIA conducted an internal review and analysis of its procedures for the timely and accurate identification and transfer to the Rate Stabilization Fund established under § 19-802 of the Insurance Article (the "RSF") of premium tax revenue earmarked for deposit to the RSF. As part of that internal review and analysis, the MIA worked closely with its counsel to assure the proper interpretation and applications of the relevant statutes.

Following that review and analysis, the MIA substantially revised, and implemented, procedures respecting the identification of premium tax that must be deposited to the RSF, as well as the transfer and reconciliation of the RSF deposits (the "RSF Procedures"). The RSF</td></tr>
</table>

	Procedures have been made available to the auditors for review. They will be included in the scope of the Fiscal Unit Audit. Under the revised RSF Procedures, the E&A Unit uses the MIA's company licensing database to generate the list of RSF Companies in order to aid the FSU in accurately identifying and reporting the premium tax payments to be deposited into the RSF. The FSU uses the E&A list to create the RSF Payment Schedule which tracks the receipt of quarterly estimated and annual premium tax payments by RSF Companies, the transfer/deposit of those payments to the RSF, and the calculation of interest. The RSF Payment Schedule is reconciled against the Premium Tax Payment Log (also kept by FSU) and the DAFR 7470 Activity Report on a monthly basis.		
Recommendation 2b	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	The RSF Procedures require that all RSF transfers include adequate documentation for all journal entries; namely, company name, NAIC company number, amount of the transfer, and date. This documentation information is reconciled against the RSF Payment Schedule, the FSU's Premium Tax Payment Schedule and the DAFR 7470 Activity report on a monthly basis.		
Recommendation 2c	Agree	**Estimated Completion Date:**	Completed 3-15-2021
Please provide details of corrective action or explain disagreement.	The MIA has been informed by GAD multiple times that it is not possible to transfer the $59 million from the General Fund to the RSF, because FY2018 is closed. Notwithstanding that, the MIA requested that its Principal Counsel review the position taken by GAD and undertake on behalf of the MIA and the RSF any lawful options which the OAG believes to be available to restore these funds to the RSF. In response to the request for legal advice, the MIA's Principal Counsel prepared a legal memorandum. In summary, the MIA's Principal Counsel reached out to the Department of Budget and Management (DBM) and was told, through its counsel, that DBM feels that it does not make sense to pursue the correction due to the imminent sunset of the RSF and the fact that the funds remained in the General Fund (and were therefore available to pay similar initiatives). The legal memorandum prepared by Principal Counsel has been shared with the auditors.		

Maryland Insurance Administration

Agency Response Form

Recommendation 2d	Agree	Estimated Completion Date:	Completed 1-15-2021
Please provide details of corrective action or explain disagreement.	The MIA has historically retained a balance within the RSF to fund premium tax refunds to companies that overestimated and overpaid their annual premium tax and are entitled to a refund. Premium tax is assessed on a calendar year basis and carriers must pay estimated premium tax payments quarterly during the calendar year and then submit an annual tax return by March 15 of the following year (based on the prior year's premium). Because of certain timing considerations, discussed in more detail below, the MIA has historically retained an estimated refund amount because an actual refund amount may not be known at fiscal year-end. Specifically, MCOs are subject to Medicaid premium adjustments that could impact the final audit. Additionally, the MIA's premium tax audit process, as outlined in § 6-109(b) of the Insurance Article, allows for the completion of the premium tax audit within 3 years of the date the tax return is due (although the MIA's current practice and procedure is to complete the premium tax audit by the end of August for the prior calendar year). Finally, and significantly, because the RSF is due to sunset in 2021, retention of an appropriate amount to address potential refunds is especially vital because it ensures there are funds *available* to address refunds to companies that are entitled to a refund. In response to the auditors' recommendation, the MIA revised its RSF Procedures to address and revise the MIA's historical practice of retaining a balance in the RSF fund by adding certain additional requirements. The Procedures require: (1) that the refund estimate is calculated by taking the average refund amount of the prior two (2) fiscal years' refund requests, and (2) that the Fiscal Services Director document the estimate calculation. This revised approach will more closely approximate the funds needed to be retained for refund requests, ensure transfers (i.e. refunds) from the RSF fund remain within the same fiscal year, and ensure that funds are available during this final year of the RSF.		

Agency Response Form

Finding 3

MIA's reconciliations of its 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.

We recommend that MIA

a. conduct premium tax revenue reconciliations on a timely basis,
b. verify as part of its reconciliations that revenue has been properly credited to the appropriate funds, and
c. ensure that revenue information reported to BRE is accurate.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 3.		
Recommendation 3a	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work, the MIA conducted an internal review and analysis of its premium tax activities, including the timeliness of the conduct of premium tax reconciliations, which resulted in the adoption and implementation of the revised PTDA Procedures and the RSF Procedures. Those Procedures require that premium tax reconciliations be performed monthly and that the monthly performance be verified by the Director or Assistant Director of the FSU. In addition, the timeliness and accuracy of the premium tax reconciliation process will be included in the scope of the Fiscal Unit Audit.		
Recommendation 3b	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	The RSF Procedures (relating to premium tax revenue) are described in the Response to Finding 2. Compliance with these Procedures and verification of these calculations also will be included in the scope of the Fiscal Unit Audit.		

Agency Response Form

Recommendation 3c	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	The MIA and GAD met in February 2020 to discuss errors and corrections in RSF reporting that occurred in FY2018, FY2019, and FY2020. Recommendations from GAD regarding how to avoid such errors in the future were incorporated into the RSF Procedures. Since the February 2020 meeting and the subsequent adoption and implementation of the RSF Procedures, neither GAD nor BRE have identified any new reporting errors.		

Insurance Regulation Fund Assessments

Finding 4
MIA did not prepare its overall assessment calculation for the IRF 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.

We recommend that MIA

a. **ensure that the overall IRF assessment calculations are completed as required by its procedures,**
b. **maintain adequate supporting documentation for estimated amounts included in its assessment calculation, and**
c. **require a documented supervisory review and approval of the assessment calculation prior to billing insurers.**

Agency Response	
Analysis	**Not Factually Accurate**
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual finding in the first bullet point. However, the auditors' calculation of the amounts of the carry forward amounts for 2018, 2019 and 2020 included certain unused/old fund accounts which the MIA would not have included in the calculation. The MIA agreed, however, that steps needed to be taken to address and close out those accounts appropriately. During the January 20, 2021 exit meeting with the auditors, the MIA agreed that the best way to proceed would be to research the genesis of the unused/old accounts and to work with GAD to close or remove those accounts. The

	MIA did reach out to GAD, which recommended that the MIA work with DBM, which is currently researching the best way to resolve the issue. The MIA will determine the appropriate steps to take once that research is complete. The FSU Director will ensure that those steps are promptly implemented. The MIA does not dispute the factual accuracy of the remainder of Finding 4.

Auditor's Comment: MIA has indicated not factually accurate in reference to the analysis, but the response clarified that MIA does not dispute the factual finding. MIA further explained that certain unused/old accounts included in the carry-forward (beginning fund) balance referenced in the analysis need to be appropriately closed out, which it intends to do. Consequently, we do not consider this an area of disagreement.

Recommendation 4a	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work, the MIA conducted an internal review and analysis of its procedures relating to the calculation, assessment, and collection of assessments to be paid by insurers to the insurance regulation fund ("IRF"). Following that review, the MIA adopted and implemented new procedures, protocols, tools, and controls designed to ensure the accuracy of those activities (the "IRF Procedures). Following receipt of the Audit Report and Findings, the MIA evaluated the IRF Procedures to assure that they incorporated the Auditors' recommendations and adopted an updated version of the IRF Procedures. This document is available to the Auditors for review and comment. The IRF Procedures will be included in the scope of the Fiscal Unit Audit. Per the IRF Procedures, the FSU uses the MIA Legislative Appropriation amount transmitted from DBM for the fiscal year as the starting point for the IRF calculation. From that amount, the FSU adjusts the Appropriation for any step movement or reserve needed, and then subtracts the Health Care Regulatory Appropriation and reserve, the estimated IRF carry forward amount, and revenue from certain fees and investment income outlined by law. The resulting amount is the IRF		

	assessment amount for the fiscal year and must equal 60% of the MIA's approved budget appropriation. The revised IRF Procedures require documentation of the review and approval of the assessment calculation prior to billing insurers**.**		
Recommendation 4b	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	The IRF Procedures include the requirement that supporting documentation be maintained for each estimated amount used in the assessment calculation.		
Recommendation 4c	Agree	**Estimated Completion Date:**	Completed 1-15-21
Please provide details of corrective action or explain disagreement.	A supervisory review is part of the IRF Procedures. In addition, compliance with the IRF Procedures will be included within the scope of the Fiscal Unit Audit.		

Finding 5
Allocations of assessments to insurance companies were not always made as required or correct.

We recommend that MIA

a. **ensure that all applicable insurance providers are accurately assessed, in accordance with State law, for amounts due to the Insurance Regulation Fund; and**
b. **review the amounts assessed during the audit period to determine any amounts due to or from insurance companies related to errors in the assessment calculations.**

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 5.		
Recommendation 5a	Agree	**Estimated Completion Date:**	Completed 1-15-21

Please provide details of corrective action or explain disagreement.	As noted previously, the MIA has adopted and implemented the revised IRF Procedures, which are designed to assure the accuracy of the calculation of the assessment; the allocation of the assessment among the entities subject to it; and verification, reconciliation and audit of assessment payments and fund deposits. In developing the IRF Procedures, the MIA worked closely with counsel to assure that the IRF statutory requirements were correctly interpreted and applied. In addition, the IRF Procedures will be included in the scope Fiscal Unit Audit. Under the revised IRF Procedures, the FSU and the E&A Unit use the MIA's company licensing database and premium tax filing data to generate the list of entities subject to the IRF assessment. Companies are then classified per the applicable statutory law for assessment purposes according to procedures approved by the OAG. The IRF Procedures include a verification check within the FSU and sign-off by the Director of the FSU.		
Recommendation 5b	Agree	**Estimated Completion Date:**	8-1-2021
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work, the MIA began to review company listings used to allocate assessments during the audit period to identify errors in the amounts assessed. The MIA identified two entities that were subject to the IRF assessment that were not assessed (MAIF and Renaissance Reinsurance). The MIA reached out to both entities and it was agreed that the MIA would issue an assessment for the missing years based on the data for those years. That calculation was made and invoices were issued in November 2020. As a separate process, the MIA is recreating the company listing, premium Workbook, and allocation calculation for FY2016 through FY2020. This exercise will then lead to the identification of shortfalls and overpayments (including for the two entities that were missed) for those years. Our expectation is that this process will be completed by August 1, 2021. The MIA is working with counsel to determine our authority for adjusting these payments and will make any lawful adjustments as part of the FY2022 assessment.		

Agency Response Form

Health Care Regulatory Fund

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.

We recommend that MIA

a. investigate the deficit in the Health Care Regulatory Fund and determine appropriate corrective action; and

b. properly report all fund balances separately at fiscal year-end, as required.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 6.		
Recommendation 6a	Agree	**Estimated Completion Date:**	Completed 10-20-2020
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work in which they identified potential deficiencies in the HCRF during the audit period, the MIA conducted an internal investigation as to whether such deficiencies existed and, if so, the cause of the deficiencies. The investigation confirmed that the balance of the HCRF was deficient in each year within the audit period. The MIA determined that these deficiencies resulted from the failure of the FSU to consider the historic costs and expenses of the Appeals & Grievance Unit and to project the needs of the HCRF based on annually updated historic data. The MIA thereafter developed, adopted and implemented revised HCRF Procedures, which now requires the FSU to identify the annual costs and expenses incurred by the MIA's Appeals & Grievance Unit, to determine the cost/expense and complaint trends, and to estimate future costs/expenses and HCRF needs based on those considerations. Additionally, the FSU must consider the HCRF fund balance deficit (or surplus) in its calculation of the HCRF assessment and to document the review and approval of the assessment calculation. The revised Procedures require documentation of the review and approval of the assessment calculation. The HCRF Procedures will be included within the scope of the Fiscal Unit Audit.		

	Working with counsel, the MIA has developed a five-year plan of recoupment which has been shared with the auditors. The first phase of that plan was implemented in October 2020.		
Recommendation 6b	Agree	**Estimated Completion Date:**	July 2021
Please provide details of corrective action or explain disagreement.	While GAD has not noted errors in MIA closing reports in the past, the MIA intends to report all special fund balances separately at fiscal year-end as recommended.		

Producer Licensing Fees

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

We recommend that MIA perform required daily reconciliations of fee collections to online applications processed, to ensure that all producer licensing fees collected online through the NIPR payment portal are received and properly deposited.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 7.		
Recommendation 7	Agree	**Estimated Completion Date:**	Completed 1-25-2021
Please provide details of corrective action or explain disagreement.	As a result of communications with the auditors during their field work, the MIA conducted an internal evaluation of the procedures employed to verify and reconcile the accuracy and receipt of the producer licensing fees collected online via the National Insurance Producer Registry (NIPR) website. As a result of its internal investigation and review, the MIA developed, adopted and implemented new procedures for calculating the amount due to the MIA as producer licensing fees and for reconciling amounts due with the amount reported through NIPR and the amounts remitted to the MIA from NIPR (the "NIPR Reconciliation Procedures"). A copy of the NIPR Reconciliation		

	Procedures has been made available to the auditors for review and will be included within the scope of the Fiscal Unit Audit. Per the new NIPR Reconciliation Procedures, the FSU performs the reconciliation each business day on which the MIA is notified via the R*stars ACH entry report received from the Maryland Treasurer that NIPR revenue was received into the General Fund. The reconciliation is performed by first reconciling MIA licensing data with the State Based Systems (SBS) that house the NIPR transactions and the fees associated with them, and then compare the amounts owed to the MIA against the R*stars ACH entry report received from the Maryland Treasurer.

Information Systems Security and Control

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

We recommend that MIA ensure that IDPS protection exists for all traffic from untrusted sources entering the MIA network flowing to critical servers and network segments.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	The MIA does not dispute the factual accuracy of Finding 8.		
Recommendation 8	Agree	**Estimated Completion Date:**	Completed 10-30-2020
Please provide details of corrective action or explain disagreement.	The MIA conducted an assessment of its network security risks relative to IDPS coverage. An Intrusion Policy has been created and applied for one of our firewalls and its access control rules. The MIA has added the MIA Intrusion Policy to another separate NGFW’s ACL rules listed in the audit recommendations. The MIA will apply logging/reporting to all Access Policy rules.		

Audit Team

Michael J. Murdzak, CPA
Audit Manager

R. Brendan Coffey, CPA, CISA
Information Systems Audit Manager

Edward J. Welsh, CFE
Anthony V. Calcagno
Senior Auditors

Michael K. Bliss, CISA
Information Systems Senior Auditor

Malik A. Farooq
Matthew P. Henry
Ibijoke O. Owolabi, CPA
Staff Auditors

Charles O. Price
Malcolm J. Woodard
Information Systems Staff Auditors