

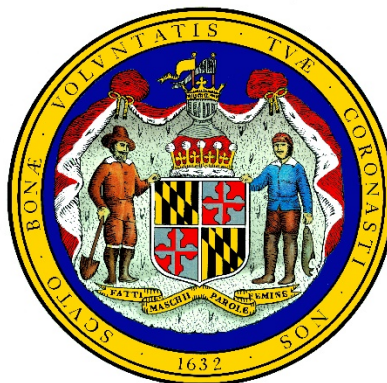
Audit Report

State Treasurer's Office

July 2025

Public Notice:

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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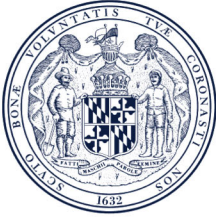
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

July 9, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 State Treasurer's Office (STO) for the period beginning August 1, 2021 and ending August 11, 2024. STO is responsible for the receipt, disbursement, safekeeping, and investment of the funds of the State Treasury. STO is also responsible for reconciling the related bank accounts, procuring banking and financial services for State agencies, and maintaining an insurance program for State property and personnel. In addition, STO coordinates the State's general obligation debt functions for the Board of Public Works. Finally, effective June 1, 2023, STO is responsible for managing the Maryland 529 program college savings plans.

Our audit disclosed that STO did not conduct critical assessments (such as independent verification and validation (IV&V) assessments) to help monitor the implementation of its new financial and insurance claims management system, which has experienced significant delays and increased cost. An IV&V is an independent assessment on the overall health of the project, identifies areas that need improvement and serves to strengthen the oversight of the project. As of January 2025 (more than 8 years after the project was initiated), the project was still not complete and the total estimated cost to complete the project was \$37.8 million; a \$32.6 million increase from the \$5.2 million initially budgeted for the project. In addition, STO did not always ensure the propriety of payments to the vendor contracted to implement this system.

Our audit also disclosed that STO did not determine the propriety of amounts paid to the Injured Workers' Insurance Fund (IWIF) for State employee workers' compensation claims and related administrative costs, a condition that we have reported upon since 2007. Payments to IWIF totaled \$262.3 million for fiscal years 2023 through 2025.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of these cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

STO’s response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of STO’s responses related to the cybersecurity audit findings and references to cybersecurity information. In accordance with State law, we have reviewed the response and, while STO generally agrees with the recommendations in this report, we identified certain instances in which statements in the response disagree with a report finding and recommendations. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted auditing standards, we have included “auditor’s comments” within STO’s response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with STO.

We wish to acknowledge the cooperation extended to us during our audit by STO.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Table of Contents

Background Information	5
Agency Responsibilities	5
Maryland 529	7
Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
Financial and Insurance Claims Management System	
Finding 1 – The State Treasurer’s Office (STO) did not conduct critical assessments to help monitor the implementation of the new financial and insurance claims management system, which has experienced significant delays and increased costs, and did not always ensure the propriety of payments to the system implementation vendor.	10
Injured Workers’ Insurance Fund	
* Finding 2 – STO did not determine the propriety of amounts paid to IWIF for workers’ compensation claims and related costs, and did not follow up on deficiencies noted in the Maryland Insurance Administration audits.	12
Information Systems Security and Control	
Finding 3 – Redacted cybersecurity-related finding.	13
Finding 4 – Redacted cybersecurity-related finding.	13
Finding 5 – Redacted cybersecurity-related finding.	13
Audit Scope, Objectives, and Methodology	14
Agency Response	Appendix

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

Background Information

Agency Responsibilities

The State Treasurer's Office (STO) is responsible for the receipt, disbursement, safekeeping, and investment of the funds of the State Treasury. It is also responsible for reconciling the related bank accounts, procuring banking and financial services for State agencies, and maintaining an insurance program for State property and personnel. STO also coordinates the State's general obligation debt functions for the Board of Public Works. As noted below, effective June 1, 2023, STO is responsible for managing the Maryland 529 college savings plan program.

According to the State's records, during fiscal year 2024, STO's expenditures totaled approximately \$109.5 million (see Figure 1). Expenditures have significantly increased during the audit period (from \$56.7 million in fiscal year 2022) primarily due to increased insurance costs and the addition of the Maryland 529 program. During the period June 30, 2022 through June 30, 2024, STO had vacancy rates that ranged from 11.5 to 18.3 percent. As of June 30, 2024, 12 of the 96 positions (12.5 percent) were vacant. These vacancies may have contributed, at least in part, to the findings in this report.

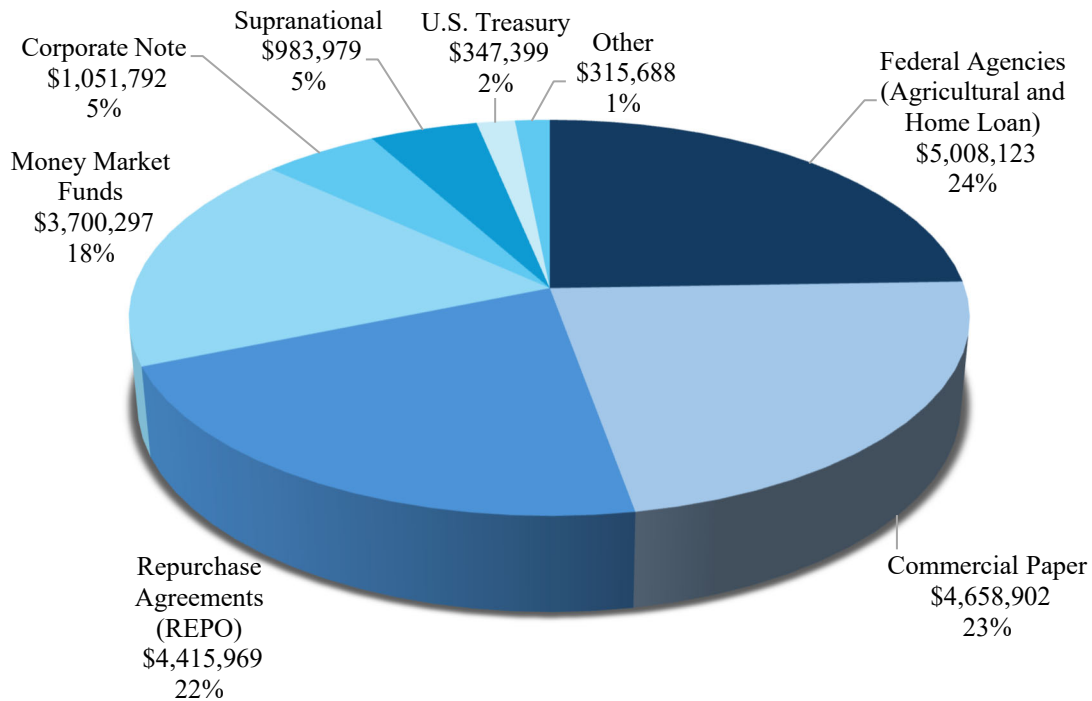
Figure 1
STO Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	84
Vacant	12
Total	96
Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages, and Fringe Benefits	\$ 12,273,734
Technical and Special Fees	174,594
Operating Expenses	97,070,632
Total	\$109,518,960
Fiscal Year 2024 Funding Sources	
	Funding
General Fund	\$ 15,954,902
Special Fund	6,582,391
Reimbursable Fund	86,981,667
Total	\$109,518,960

Source: State financial and personnel records

State law provides that State Treasury investments are limited to secured bank accounts, full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, obligations issued and unconditionally guaranteed by certain supranational issuers (for example the World bank), repurchase agreements collateralized by those securities, certain money market mutual funds, and commercial paper. As of June 30, 2024, the State Treasury investment portfolio, based on market value, totaled approximately \$20.5 billion (see Figure 2).

Figure 2
State Treasury Investment Portfolio
as of June 30, 2024
(in thousands)



Source: Agency records; Inventory by Market Value as of June 30, 2024.

Maryland 529

The Maryland 529 was an independent State agency that provided two separate college savings plans, the Maryland Senator Edward J. Kasemeyer College Investment Plan, and the Maryland Senator Edward J. Kasemeyer Prepaid College Trust (MPCT), to help individuals save for future college expenses and to reduce dependence on student loans and other forms of debt. Additionally, Maryland 529 was responsible for the oversight of Maryland Achieving a Better Life Experience, which allowed individuals to invest funds to help individuals with disabilities maintain health, independence, and quality of life. Chapter 113, Laws of Maryland 2023, abolished the Maryland 529 Board and transferred all Maryland 529 related programs, functions, and operations to STO effective June 1, 2023. Additionally, the law began a phase out of the MPCT, prohibiting any new MPCT account enrollments as of the aforementioned date.

On February 3, 2025, we issued a fiscal compliance report on Maryland 529 for the period beginning July 1, 2018 and ending May 31, 2023. Our audit identified several findings including inadequate oversight of the conversion of MPCT operations from a third-party administrator (TPA), insufficient action to address delinquent and expired MPCT accounts, and TPAs not assessing and/or remitting fees they collected.

Since Maryland 529 is now a unit within STO, report findings and recommendations were addressed to STO. In response to the report, STO agreed with the findings and related recommendations. The activities of Maryland 529 subsequent to the aforementioned audit will be subject to review during our next audit of STO.

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 August 24, 2023. See Figure 3 for the results of our review.

Figure 3 Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	The Office of the State Treasurer (STO) did not adequately monitor the project administrator responsible for developing the new financial and insurance claims system and did not pursue damages when the project encountered severe implementation problems, delays, and cost increases.	Not Repeated
Finding 2	STO did not sufficiently document several contract modifications to expand and extend the services of the vendor providing technical staff on the contract, which precluded STO from effectively monitoring the contract and validating the related charges.	Not Repeated
Finding 3	STO did not determine the propriety of amounts paid to Injured Workers' Insurance Fund for the State's workers' compensation claims and related costs, and did not follow up on deficiencies noted in Maryland Insurance Administration audits.	Repeated (Current Finding 2)
Finding 4	Redacted cybersecurity-related finding. ¹	Status Redacted
Finding 5	Redacted cybersecurity-related finding. ¹	Status Redacted
Finding 6	Redacted cybersecurity-related finding. ¹	Status Redacted
Finding 7	Redacted cybersecurity-related finding. ¹	Status Redacted

¹ The description of this cybersecurity-related finding and specific information on the current status of this finding has been redacted from the publicly available report in accordance with State Government Article, Section 1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Financial and Insurance Claims Management System

Background

In November 2016, the State Treasurer's Office (STO) initiated a Major Information Technology Development Project (MITDP) to replace its financial and insurance claims management system. The replacement system included four modules; accounting, insurance claims, citizen and agency portal, and banking. Although the related contract included multi-year renewal options, the system was intended to be implemented within one year.

In accordance with State law, the Department of Information Technology (DoIT) has oversight and monitoring responsibilities for MITDPs. As part of this function, DoIT works with State agencies such as STO to ensure proper project management practices are in place and that project stakeholders are provided timely and accurate information showing project status. DoIT designated STO to administer the project to replace its financial and insurance claims system. STO ultimately contracted with a project administrator vendor and a system implementation vendor to design and develop the system.

As noted in our prior audit report, there were issues with the project administrator vendor hired by STO to develop the system, which resulted in project cost increases and delays in the implementation. Specifically, the project was initially estimated to cost \$5.2 million and be completed by September 2019, but as of June 2022, \$11.5 million had been expended on the project through six modifications. At that time, STO had revised the date to complete the project to December 2023 at an estimated cost of \$21.3 million. As a result, STO terminated the contract with the vendor.

In September 2023, after the original contract including the option years had expired, STO entered into a new sole source contract with the implementation vendor to complete the system and assumed the role of administrator for the project. The new contract, totaling \$10.8 million, covered the period from September 2023 to September 2024 with a one-year renewal option. As of January 2025 (more than 8 years after the project was initiated), the project is still not complete and the total estimated cost to complete the project was \$37.8 million.

Finding 1

STO did not conduct critical assessments to help monitor the implementation of the new financial and insurance claims management system, which has experienced significant delays and increased costs, and did not always ensure the propriety of payments to the system implementation vendor.

Analysis

STO did not conduct critical assessments to help monitor the implementation of the new financial insurance claims management system, which has experienced significant delays and increased costs. Additionally, STO did not always ensure the propriety of payments to the vendor for the system implementation.

STO Did Not Conduct Critical Assessments to Monitor the Project

STO did not conduct critical assessments, such as an independent verification and validation (IV&V) assessment, of the project to help ensure the implementation was on schedule and the related systems were working as intended. An IV&V is an independent assessment on the overall health of the project by identifying strengths and areas that need improvement and serves to strengthen the oversight of the project.

According to the DoIT *Major Information Technology Development Projects – Standards Manual*, an IV&V review may be requested by the agency that owns the project. It is also expected that results of the IV&V will be used by agency project management to implement efficient and effective processes, pursue risk reduction and enable project success. Since STO's fiscal year 2025 annual project report to DoIT indicated the project had high risks for funding, resource availability, interdependencies with other State agencies, implementation, and technical changes, it should have requested an IV&V as provided for in the *Manual*.

The lack of the IV&V is significant since the project is significantly behind schedule and over budget. Specifically, the accounting and insurance claims modules were completed in February 2024, which is 53 months after its originally scheduled completion date of September 2019. The citizen and agency portal and banking modules were supposed to be completed by the end of 2024, but STO informed us that the completion date was subsequently extended to December 2025. STO advised us that the extension was due in part to a separate contract with payments to the vendor totaling \$813,000 as of December 2024 to implement a new college savings program claims system to handle the management of the Maryland 529 plans that were transferred to STO.

Payments Were Not Always Supported

STO did not always ensure the propriety of payments to the system implementation vendor. STO's original contract with the vendor required the vendor to submit support with their invoices to document the services performed by the vendor's employees. Our review of 3 invoices totaling \$1.3 million for services provided between May 2023 and May 2024 disclosed that sufficient documentation was not provided to support labor charges. Specifically, 21 of the 51 timesheets submitted to support charges totaling approximately \$524,000 did not include the required descriptions of the services performed by the vendor's employees to help STO ensure the propriety of the charges.

Recommendation 1

We recommend that STO

- a. in conjunction with DoIT, effectively manage the implementation of the financial and insurance claims management system as currently scheduled by conducting an IV&V; and**
- b. ensure the vendor properly documents work performed on vendor employees' timesheets submitted with invoices for payment.**

Injured Workers' Insurance Fund

Background

Under the terms of a 1990 contract (most recently modified in November 2001), between the Injured Workers' Insurance Fund (IWIF) and the Board of Public Works (BPW), IWIF is the third-party administrator² and provides claims processing services for workers' compensation claims filed by State employees, for which the State is self-insured. The contract provides that STO is responsible for administering the contract on behalf of BPW.

State law also requires the Maryland Insurance Administration (MIA) to conduct audits of IWIF every five years to determine whether the State is receiving effective administrative services at a reasonable cost. The audit scope used by MIA with input from STO includes a review of:

- The STO agreement with IWIF,
- Administrative expenses allocated to IWIF to be paid by the State,

² Effective October 1, 2013, Chesapeake Employers' Insurance Company, a private, non-stock, nonprofit insurer, was established and became the State's insurer of last resort for workers' compensation. In accordance with State law, IWIF continues to serve as the third-party administrator until it no longer has any employees. As of September 2023, IWIF continued to exist with 126 employees.

- Internal controls over claims processing and the propriety of claim payments, and
- Subrogation processes.

MIA is required to report the results of the IWIF audit to STO. We were advised by MIA personnel that the audit primarily focuses on transactions that occurred within the latest year of the audit cycle.

Finding 2

STO did not determine the propriety of amounts paid to IWIF for workers' compensation claims and related costs, and did not follow up on deficiencies noted in the MIA audits.

Analysis

STO did not determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related costs, and did not follow up on deficiencies noted in MIA audits. Payments to IWIF totaled \$262.3 million for fiscal years 2023 through 2025, consisting of claims costs (\$215.9 million), administrative costs (\$50.7 million), and other adjustments (\$4.3 million).

STO did not determine the propriety of amounts paid to IWIF. From June 2023 to January 2024, STO assigned personnel to perform IWIF claim payment verifications; however, these reviews were not adequately documented to determine the propriety of claims payments. For example, the review did not always document claim payment dates, payment amounts, and review results. The employee assigned to perform the reviews left STO in January 2024 and although a new employee was assigned, no reviews were performed from January 2024 through the end of our audit period in August 2024.

STO also had not taken any action to implement eight recommendations made by MIA in its audit report of IWIF dated June 2022 covering July 2018 through December 2020, including all six of the recommendations that were repeated from MIA's previous audit. For example, MIA recommended that the IWIF contract be amended to reflect the current cost methodology used by IWIF for calculating administrative fees, and caps on the fees to ensure that they remain fair and reasonable. However, STO had not taken any action to ensure the recommendations were implemented as of the time of our review.

Similar conditions regarding the verification of amounts paid to IWIF were noted in our six preceding audit reports dating back to 2007 and a similar condition regarding STO's follow-up of MIA report recommendations was noted in our preceding audit report. In response to our preceding report, STO agreed with our

findings and indicated that it would implement the related recommendations to ensure the propriety of amounts paid to IWIF by June 2023. Although STO advised us that it obtained certain information from IWIF and attempted to verify the amounts paid to IWIF, as noted above, this review was not adequately documented and as of January 2024 was not completed. STO also indicated it would implement the MIA audit recommendations by June 2024 but as noted above did not implement the recommendations as indicated in its response.

Recommendation 2

We recommend that STO

- a. establish a documented process, such as verifying charges reported by IWIF to supporting documentation, to determine the propriety of amounts paid to IWIF for the State’s workers’ compensation claims and related administrative costs (repeat); and**
- b. take appropriate action to address recommendations made by MIA in its audit reports of IWIF, including those noted above (repeat).**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 3 through 5 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with STO’s responses, have been redacted from this report copy.

Finding 3

Redacted cybersecurity-related finding.

Finding 4

Redacted cybersecurity-related finding.

Finding 5

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Treasurer's Office (STO) for the period beginning August 1, 2021 and ending August 11, 2024. 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 STO'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 payroll, procurements, disbursements, investments, debt management, monitoring of State agency bank accounts, reconciling the State's bank accounts, monitoring payments to the Injured Workers' Insurance Fund, the State Insurance Program and information systems security and control. 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 August 1, 2021 to August 11, 2024, 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 STO's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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 STO's automated financial systems for the purpose of testing banking and insurance transactions. 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.

STO'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 STO, 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 STO'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 STO that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to STO and those parties responsible for acting on our recommendations in an unredacted audit report.

STO's response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise STO regarding the results of our review of its response.



Dereck E. Davis

State Treasurer

Jonathan D. Martin

Chief Deputy Treasurer

July 3, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden
Yards 351 West Camden
Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen,

Enclosed, please find the Office of the State Treasurer's (STO) responses to certain findings identified in the Financial and Insurance Claims Management System, Injured Workers' Insurance Fund (IWIF), and the Information Systems Security and Control audit. This audit covered the period from August 1, 2021, through August 11, 2024.

If you have any questions, please contact Jonathan Martin, Chief Deputy Treasurer at jmartin@treasurer.state.md.us.

Sincerely,

Dereck E. Davis
State Treasurer

State Treasurer's Office

Agency Response Form

Financial and Insurance Claims Management System

Finding 1

STO did not conduct critical assessments to help monitor the implementation of the new financial and insurance claims management system, which has experienced significant delays and increased costs, and did not always ensure the propriety of payments to the system implementation vendor.

We recommend that STO

- a. in conjunction with DoIT, effectively manage the implementation of the financial and insurance claims management system as currently scheduled by conducting an IV&V; and
- b. ensure the vendor properly documents work performed on vendor employees' timesheets submitted with invoices for payment.

Agency Response			
Analysis	Not Factually Accurate		
Please provide additional comments as deemed necessary.	STO has had oversight on this Major IT project from the inception of the project. The responsibility of oversight for such projects is charged to the Department of Information Technology (DoIT) and not the individual agency. However, the agency works in collaboration with DoIT to support the project.		
Recommendation 1a	Disagree	Estimated Completion Date:	N/A
Please provide details of corrective action or explain disagreement.	STO does not believe that it should be blamed or disciplined for a responsibility that it is compensating another agency to perform. From an agency perspective, DoIT is responsible for the oversight and the implementations of necessary IV&V. STO will further note that the cost of IV&V was deducted from our project appropriations and staff was told that DoIT would implement such services. It is important to note that when the project was introduced in 2018, it was grossly underestimated and has grown significantly in scope, approved by way of the DoIT required Rebaseline process.		
Recommendation 1b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	Office of Legislative Audits (OLA) is correct that details of work completed was not properly documented on timesheets from one particular vendor employed by our Prime Contractor. However, as discussed with the staff auditors during the audit, the work completed and accuracy of the deliverables is documented daily via standup meetings with the project team. The STO Project Manager attended these daily meetings to stay abreast of the progress. Additionally, the Project Manager uses an electronic task tracking board. Each project		

State Treasurer's Office

Agency Response Form

	team member updates their work on assigned tasks and reviews their following day assignments. There are also Bi-Weekly sprint planning and demo meetings that both the STO Project Manager and IT Project Managers are involved in. These meetings document staff availability and allocated time to work on certain tasks as well as demonstrate the work completed in the previous iteration. This provides visibility for the STO Project Manager to review time off either planned or unplanned and to track the daily work detail. STO feels that the process explained above is a much better assessment of work completed and a tighter control on progress than that of written detail on a timesheet. However, as was recommended verbally to our team during the audit, we have instructed the vendor to include project staff timesheets that include the description of tasks going forward and will refrain from approving invoices that lack the appropriate detail until such issues can be resolved.
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Auditor's Comment: STO disagrees with the factual accuracy of our finding by stating the Department of Information Technology (DoIT) has the oversight responsibility and STO works in collaboration with DoIT to support the project. However, as noted in the finding background comment, STO's role is to administer the implementation of the project and DoIT's role is to oversee and monitor STO's administration of the project. STO's administration of the project includes the responsibility to monitor the vendor implementing the financial and insurance claims management system to ensure it is delivered on schedule and on budget.

Additionally, STO disagrees with recommendation (a) since it believes DoIT is responsible for conducting an IV&V assessment. However, as noted in the finding, according to DoIT's *Major Information Technology Development Projects – Standards Manual*, an IV&V assessment may be requested by the agency that owns the project (in this case STO). Therefore, we stand by the accuracy of our finding and recommendation and continue to believe that STO should work in conjunction with DoIT to conduct an IV&V assessment.

State Treasurer's Office

Agency Response Form

Injured Workers' Insurance Fund

Finding 2

STO did not determine the propriety of amounts paid to IWIF for workers' compensation claims and related costs, and did not follow up on deficiencies noted in the MIA audits.

We recommend that STO

- a. establish a documented process, such as verifying charges reported by IWIF to supporting documentation, to determine the propriety of amounts paid to IWIF for the State's workers' compensation claims and related administrative costs (repeat); and**
- b. take appropriate action to address recommendations made by MIA in its audit reports of IWIF, including those noted above (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 2a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	A process has been established for the Workers' Compensation Program Administrator to independently verify/audit Injured Workers Insurance Fund (IWIF) financial transactions on a monthly basis. These audits include claim payments for medical services, prescriptions, awards and administrative services. The process begins with an evaluation of IWIF's claim register. At least two random claims are selected to be reviewed monthly. During the audit, invoices in the claim files are reviewed to ensure that all payments align with the records in each file. These verifications will also ensure that payments will only be processed once the required documentation has been attained. All discrepancies are referred to IWIF for explanation and correction until the issues are resolved.		
Recommendation 2b	Agree	Estimated Completion Date:	Completed

State Treasurer's Office

Agency Response Form

Please provide details of corrective action or explain disagreement.	<p>Several recommendations were made by Maryland Insurance Administration (MIA) with regard to IWIF. Below we have listed MIA's recommendations and provided explanation of the action taken by STO:¹</p> <ol style="list-style-type: none">1) Agency Response has been redacted by OLA.2) Agency Response has been redacted by OLA.3) IWIF improperly charged the State \$82,777 for federal longshore workers' compensation coverage, but the federal law generally excludes government employees; recommend crediting the State.<ul style="list-style-type: none">• Previously provided to OLA (September 26, 2024) documentation from USL&H regarding the adjustment; IWIF/Chesapeake was provided evidence that the State is credited the amount of \$82,777 assessed by the US Department of Labor under the Longshore and Harbor Workers' Compensation Act.4) IWIF/Chesapeake has experienced some issues allocating costs in part because of its legacy billing application/system; recommend reviewing the allocation process and having allocations be reviewed by a supervisor to ensure accuracy.<ul style="list-style-type: none">• STO will discuss billing issues with Department of Budget & Management in an effort to correct the cost allocation issues.5) Review of annual administrative costs revealed that fees appear to be fair and reasonable; recommend memorializing the Intercompany Agreement and the 23% cap in the agreement.<ul style="list-style-type: none">• The above referenced MOU addresses the fee structure, now a flat fee of \$14,500,000 per year and not a percentage of claims.6) In 2020, the State paid \$3.47 million in reinsurance fees for catastrophic losses, but IWIF has not had a claim that "pierced the reinsurance level" since 1989; recommend the State consider the costs and benefits of catastrophic loss coverage and include the desired level of coverage in the agreement.<ul style="list-style-type: none">• IWIF's reinsurance program renewed with a higher attachment point (\$10M), which resulted in a substantial reduction to the State's proportion of the cost of reinsurance/catastrophic loss coverage.
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¹ Certain elements of the following response have been redacted from this publicly available report in accordance with State Government Article, Section 1224(i) of the Annotated Code of Maryland.

State Treasurer's Office

Agency Response Form

	<p>7) IWIF has submitted the annual financial report late. The State and IWIF have relaxed the July 15 deadline because the reports have become increasingly complex and claim volume has increased over time; recommend that IWIF comply with the deadline or that the agreement be updated to specify new due dates.</p> <ul style="list-style-type: none">• The 2023 Annual Audit performed by Johnson Lambert dated September 19, 2024, was presented to their Board of Directors on October 28, 2024, and copies are requested by the Treasurer's office on an annual basis. The Workers Compensation Program Administrator receives internal monthly financials from IWIF, which include paid claims, administrative charges and reinsurance. <p>8) The State is getting substantial value from its relationship with IWIF, but many services are not reflected in the agreement; recommend updating the agreement to include these services.</p> <ul style="list-style-type: none">• The above referenced MOU has been finalized which includes the scope of services for IWIF. STO is happy to forward a copy of the executed MOU as needed.
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State Treasurer's Office

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Findings 3 through 5 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with STO’s responses, have been redacted from this report copy, STO’s responses indicated agreement with the findings and related recommendations.

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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