

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$3,635	\$3,677	\$4,345	\$669	18.2%
Special Fund	513	621	785	164	26.4%
Reimbursable Fund	<u>25,200</u>	<u>29,428</u>	<u>33,714</u>	<u>4,285</u>	<u>14.6%</u>
Total Funds	\$29,349	\$33,726	\$38,844	\$5,118	15.2%
Contingent & Back of Bill Reductions			-28	-28	
Adjusted Total	\$29,349	\$33,726	\$38,816	\$5,090	15.1%

- The fiscal 2006 allowance includes \$1.8 million to fund two general fund deficiency appropriations. Although the allowance indicates that the use of general funds increases by \$669,000 over the fiscal 2005 working appropriation, if additional general funds provided in the deficiency appropriations are included in the fiscal 2005 working appropriation, the fiscal 2006 general fund allowance actually decreases by \$1.1 million.
- The allowance provides \$33.7 million in reimbursable fund expenditure authority which is \$4.3 million more than what is provided in the fiscal 2005 working appropriation. The increased use of reimbursable funds accounts for 83.7% of the total increase in the State Treasurer's Office budget. Increased premium costs for commercial insurance policies and greater use of the State Insurance Trust Fund to cover operating costs account for the change.
- Proposed special fund expenditures increase by \$164,000 in the budget. Increased special fund revenues resulting from the office's investment activities and an increase in the amount of special funds expected to be needed to cover bond sale expenses accounts for the change.

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

For further information contact: Matthew D. Klein

Phone: (410) 946-5530

Personnel Data

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>
Regular Positions	54.00	55.00	55.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	54.00	55.00	55.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	2.20	4.00%
Positions Vacant as of 12/31/04	7.00	12.3%

- The turnover rate applied to the State Treasurer’s Office budget increased from 2.2% in fiscal 2005 to 4.0% for the fiscal 2006 allowance thus reducing the amount of funds available to support the office’s personnel related costs. Because the number of positions vacant as of December 31, 2004, exceeds the turnover rate applied for fiscal 2006, the office is likely to be able to meet its budgeted turnover rate. The State Treasurer’s Office has indicated, however, that it has already filled two of its vacant positions, leaving five vacancies as of the date of this analysis.
- While the fiscal 2006 allowance provides no new positions, the Treasurer’s Office has received a total of three new positions through the actions of the Board of Public Works in the past year. This has been offset by the abolition of two positions, thus the number of total positions funded increased by only one from fiscal 2004 through the fiscal 2006 proposed budget.

Analysis in Brief

Major Trends

Reconciliation of the State’s Main Bank Accounts: The average number of days it took to reconcile accounts exceeded 60 days in fiscal 2003 and 30 days in fiscal 2004. Problems encountered with the current reconciliation process have stalled the implementation of a new automated reconciliation system that is expected to improve upon this measure.

Investment Portfolio Continues to Outperform the 90-Day U.S. Treasury T-bill: The Treasurer’s Office investment portfolio continues to outperform the average 90-day U.S. Treasury T-bill rate.

State Insurance Claims Processing: The number of new claims filed has increased substantially and is expected to remain at current levels for the foreseeable future. The fiscal 2006 allowance includes funds to purchase and install a new risk management information system intended to improve claims processing and management.

Issues

Account Reconciliation Is Likely to Produce an Unreconciled Difference in the State’s Main Bank Account: On February 3, 2005, the Department of Legislative Services Office of Legislative Audits released a special report covering a statewide review of budget closeout transactions for fiscal 2004 that revealed a difference in the State’s main bank account. **The Department of Legislative Services (DLS) recommends that the Treasurer brief the committees concerning what impact this is likely to have on the State’s fiscal situation.**

State Insurance Trust Fund Unfunded Liability: The State provides insurance protection through the purchase of specific excess commercial insurance policies and through self-insurance from the State Insurance Trust Fund (SITF). Increased costs associated with excess policy coverage and increased claim losses have outpaced agency premiums. As a result, the SITF balance is significantly short of the recommended actuary’s recommended balance resulting in an unfunded liability for the State. To begin to correct this situation, the fiscal 2005 budget increased agency premiums charged to State agencies by almost \$10 million. While the fiscal 2006 allowance maintains the increased level of premiums charged to State agencies and deposited into the fund, the projected fiscal 2006 closing balance is still almost \$24 million below the actuary’s recommended balance. **The Treasurer should comment on the short- and long-term plans for improving the SITF structural balance.**

Recommended Actions

	<u>Funds</u>
1. Reduce funds for training and staff development.	\$ 5,000
Total Reductions	\$ 5,000

Updates

Positions Added through the Board of Public Works: This update summarizes the job description of three new positions added in the past 12 months through the actions of the Board of Public Works.

E20B State Treasurer

Operating Budget Analysis

Program Description

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

The goals of the Treasurer's Office are to:

- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law; and
- process all agency and third party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

The Treasurer's Office is tasked with providing cash management including the reconciliation of the State's main accounts (depository and disbursement) and working funds.

- **Objective:** *Reconcile the State's main depository, main disbursement, and income tax refund accounts within 30 days of receipt of the bank statement.*

As shown in **Exhibit 1**, the number of account transactions processed has increased steadily and while the Treasurer's Office did not meet its 30-day reconciliation objective in fiscal 2003 or 2004, improvement was made. As was outlined in the Treasurer's Office fiscal 2005 budget analysis, the poor bank reconciliation performance can be traced to the office's failed attempt to implement an automated bank reconciliation system in the late 1990s. As a result of this failure, the office continued to utilize a manual monthly reconciliation process. Despite the setback, in 2002 the Treasurer identified the implementation of a new automated system as a top priority. After an extended procurement process, a contract was awarded to TrinTech, Inc. to deliver an automated reconciliation package as one component of system reform. When it became apparent that the existing reconciliation procedures were inadequate and did not provide accurate and reliable daily

E20B – State Treasurer

cash reconciliation, the implementation of a new automated system was put on hold. As will be discussed in the Issue section of this analysis, the office’s ongoing account reconciliation project is likely to result in a significant unreconciled difference between the records of the custodian bank and the State’s reported fiscal 2004 close-out cash balance. The Treasurer’s Office reports that the implementation of the automated reconciliation system is expected to resume early in calendar 2005 after all remaining reconciliation issues have been resolved. At that time, a more current detailed needs analysis, based on the restructured reconciliation process, has to be completed to ensure the purchased system can support all the function necessary for accurate and controlled daily cash reconciliation.

Exhibit 1
Average Number of Days to Reconcile Accounts
Fiscal 2003 – 2006

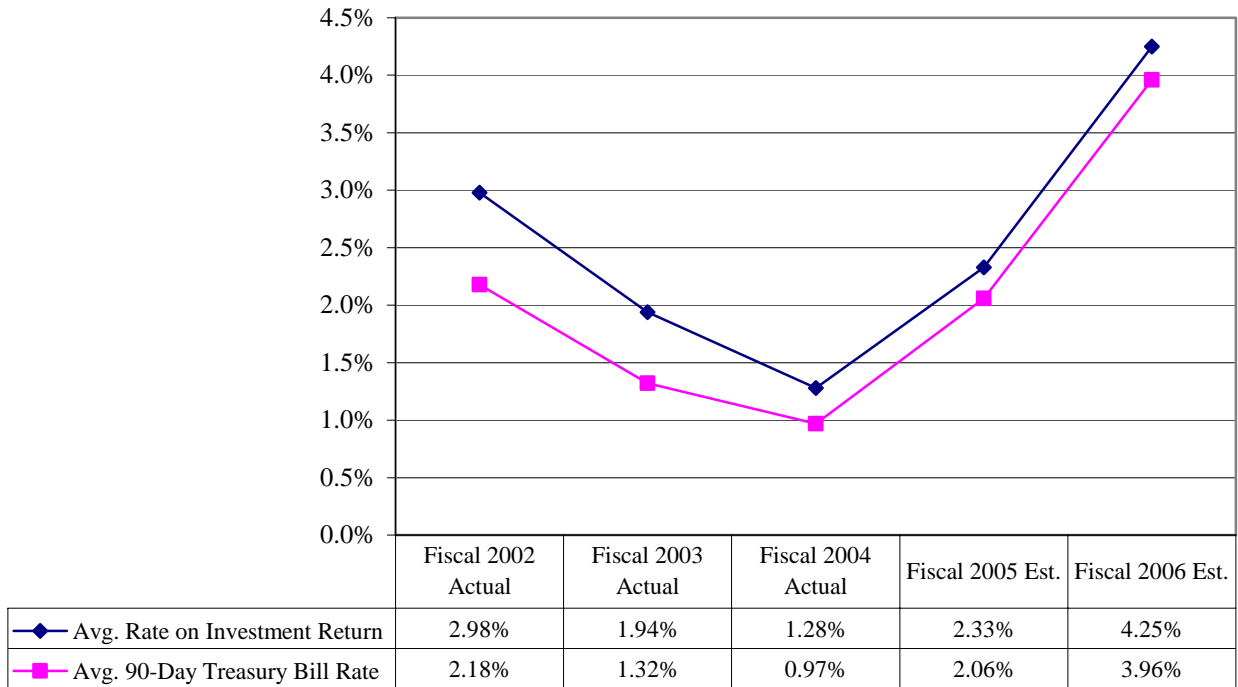
<u>Measures</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Actual</u>	<u>FY 2005 Est.</u>	<u>FY 2006 Est.</u>
Total transactions	9,670,000	11,455,000	11,900,000	12,750,000
Average days to reconcile accounts	>60	>30	<30	<7

Source: State Treasurer’s Office

- **Objective:** *Earn a rate of return on the investment portfolio that exceeds the average 90-day U.S. Treasury Bill rate by 25 basis points on an annual basis.*

The Treasurer’s Office is also responsible for maximizing investment earnings for the State’s surplus funds. **Exhibit 2**, which shows the rate of return on the investment portfolio as compared to the average 90-day U.S. Treasury rate, indicates that the Treasurer’s investment portfolio out performed the average T-bill rate by 80 basis points in fiscal 2002, 62 basis points in fiscal 2003, and 31 points in fiscal 2004. While the Treasurer’s investment portfolio has out perform the T-bill rate, the difference has declined over the past three fiscal years. The low interest rate environment has made it difficult to achieve better results. In fact, the 25 basis point difference articulated in the Treasurer’s Office *Managing for Results* submission has been adjusted down from last year’s submission which indicated an objective to exceed the average T-bill rate by 50 basis points. Had it not been for a change in the performance measure, the Treasurer’s Office would not have exceeded their objective in either fiscal 2003 or 2004. In its December 2004 report to the Legislative Policy Committee, the Treasurer conveyed that interest rates increased during calendar 2004. In fact, the Federal Reserve Board recently raised the prime lending rate for the sixth time since the beginning of calendar 2004.

Exhibit 2
Comparison of Investment Portfolio and
90-day U.S. Treasury Bill Rate



- **Objective:** Promptly and accurately investigate, analyze, and adjust all claims presented under the State Insurance Trust Fund and the Maryland Tort Claim Act. Claims should be adjudicated on a 1:1 ratio.

The Treasurer’s Office is also responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. As shown in **Exhibit 3**, the reported performance measure shows a dramatic increase in the number of new claims filed.

Exhibit 3
Insurance Division Third Party Claims Processing
Fiscal 2002 – 2006

<u>Measures</u>	<u>FY 2002 Actual</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Actual</u>	<u>FY 2005 Est.</u>	<u>FY 2006 Est.</u>
New claims processed	2,994	3,877	4,249	4,325	4,400
Claims closed	2,924	3,439	4,302	4,325	4,400
Pending open cases	1,040	1,478	1,425	1,425	1,425

Source: State Treasurer’s Office

While the number of claims closed also increased significantly in fiscal 2003, this measure did not keep pace with the number of new claims filed. Consequently, the number of pending cases open at the close of fiscal 2003 increased markedly over fiscal 2001 and 2002 levels. In fiscal 2004, the office was able to slightly reverse this trend.

The Treasurer’s fiscal 2006 allowance includes \$150,000 to purchase and install a new risk management information system that is intended to allow for faster claim inquiries and increased operational efficiencies. The Treasurer’s fiscal 2005 budget includes \$50,000 to procure a consultant to assist the office with a needs analysis and the preparation of a Request For Proposal for the design and development of the new system. Once installed, the new system should provide the Treasurer’s insurance management staff with information that can be used to reduce losses. **The Department of Legislative Services recommends that the Treasurer further elaborate on how the new risk management system might assist the office’s efforts at addressing the current State Insurance Trust Fund (SITF) unfunded liability.**

Fiscal 2005 Actions

Deficiency Appropriations for Banking Contract Fees and Account Reconciliation Project

The State Treasurer’s Office fiscal 2006 allowance includes a total of \$1,767,975 in general funds for two deficiency appropriations. The amounts and the justification for both deficiency appropriations are as follows:

- **\$793,039 – Banking Contract Fees:** The State Treasurer procures and monitors all contracts for banking services. These include the main depository account, vendor and payroll disbursement accounts, fiscal agent, custody/safekeeping, and agency working fund accounts. Several of the State’s general banking contracts that were set to expire early in fiscal 2005 were re-bid. The

E20B – State Treasurer

Treasurer's Office issued a Request for Proposal to 30 banks and received proposals from 10. Every bank that submitted a proposal for services was awarded a contract. **Exhibit 4** provides the fiscal 2004 actual and fiscal 2005 and 2006 estimated banking fees. This shows that the amount appropriated in fiscal 2005 for the banking contracts was significantly less than what is estimated to be needed in fiscal 2005 under the new contracts and thus requires a deficiency appropriation.

Exhibit 4
Banking Contract Fees
Fiscal 2004 Actual to Fiscal 2006 Estimate

<u>Bank Contracts</u>	<u>Fiscal 2004 Actual</u>	<u>Fiscal 2005 Est.</u>	<u>Fiscal 2006 Est.</u>
Depository – Bank of America	\$1,146,614	\$1,750,000	\$1,800,000
Disbursement – M&T Bank	253,879	282,000	282,000
Custody/Settlement/Safekeeping – M&T Bank	136,900	154,000	155,000
Employee Payroll Account – M&T Bank	99,722	98,200	98,200
Fiscal Agent – M&T Bank	23,885	25,000	25,000
Investment – Bloomberg/Sungard	46,050	78,000	80,000
Total Fees	\$1,707,050	\$2,387,200	\$2,440,200
Appropriation	\$1,661,056	\$1,594,161	\$2,440,200
Difference	\$45,994	\$793,039	\$0

Note: Agency Working Fund Account contracts were awarded to the following banks: Bank of America, M&T Bank, Sun Trust Bank, Wachovia Bank, CitiBank, Peninsula Bank, Provident Bank, 1st Mariner Bank, Peoples Bank of Kent County, and Country Banking & Trust.

Source: Office of the State Treasurer

-
- **\$974,936 – Account Reconciliation:** This deficiency appropriation is necessary to supplement the fiscal 2005 appropriation to provide funds for the additional costs required to complete the bank reconciliation project. These funds will pay the salaries of contractual workers involved in the project. **DLS recommends that the Treasurer update the committees on the status of the reconciliation process. Furthermore, the Treasurer should discuss the high cost of the reconciliation project, the procedures used for procuring the services of the contractual accountants (why were sole source and not competitively bid contracts awarded), and whether or not the additional costs will spill over into fiscal 2006 and thus require a deficiency in the next budget.**

Governor's Proposed Budget

As shown in **Exhibit 5**, the fiscal 2006 allowance for the Treasurer's Office is \$38.8 million in total funds which represents a \$5.1 million increase over the fiscal 2005 working appropriation.

The general fund allowance is \$4.3 million which is \$0.7 million, or 17.7% more than what is appropriated for fiscal 2005. However, the fiscal 2005 working appropriation does not reflect the funds budgeted for deficiencies – \$793,039 for the banking fees and \$974,936 for the account reconciliation project – which when added to the fiscal 2005 working appropriation results in a \$1.1 million reduction in general funds for the fiscal 2006 allowance. General funds are primarily applied to personnel costs for the treasury management division and the cost of the State's general banking contracts.

The allowance for special funds is \$0.8 million which is almost \$0.2 million more than what is appropriated for fiscal 2005. An increase in the amount of special funds budgeted for bond sale expenses, including legal and administrative expenses from \$250,000 in fiscal 2005 to \$300,000 for fiscal 2006, accounts for a portion of the total increase in special funds. The remainder of the increase is attributable to the budgeting of investment revenues derived from the Treasurer's Office Federal Cash Management Improvement Act activities. Previously these funds were retained in a nonbudgeted account and were not reflected as expenditures in the State budget. However, in response to one of the findings contained in the most recent legislative audit of the Treasurer's Office, these funds are now budgeted as special funds to reflect their expenditure in the budget.

Reimbursable funds increase by \$4.3 million, or 14.5% over fiscal 2005. Factors contributing to this increase include (1) \$3.7 million for the increased cost of commercial insurance premiums; and (2) \$0.4 million reflecting increased use of the Insurance Trust Fund to cover operating expenses such as the purchase and installation of the new risk management system and employee salary and fringe benefit costs.

Impact of Contingent Actions

The fiscal 2006 allowance reflects the elimination of \$27,805 (subtitle 0172) – the appropriation for matching employee deferred compensation contingent upon enactment of a provision in the budget reconciliation legislation.

**Exhibit 5
Governor's Proposed Budget
State Treasurer
(\$ in Thousands)**

How Much It Grows:	General Fund	Special Fund	Reimbursable Fund	Total
2005 Working Appropriation	\$3,677	\$621	\$29,428	\$33,726
2006 Governor's Allowance	4,345	785	33,714	38,844
Contingent & Back of Bill Reductions	<u>-18</u>	<u>0</u>	<u>-10</u>	<u>-28</u>
Adjusted Allowance	4,328	785	33,703	38,816
Amount Change	\$651	\$164	\$4,275	\$5,090
Percent Change	17.7%	26.4%	14.5%	15.1%

Where It Goes:

Personnel Expenses

Additional cost of three positions added by the Board of Public Works	\$152
Increments and other compensation.....	76
Reduction due to increased turnover rate from 3.38% to 4.0% for fiscal 2006.....	-30
Employee and retiree health insurance	58
Retirement contribution cost increase.....	39
Other fringe benefit adjustments.....	12

Other Changes

Training & staff development – cost containment all but eliminated in fiscal 2005	10
Implementation of banking service automated system to be covered by vendor contract	-10
Reduced funding for communications	-17
Elimination of one-time consultant study covering banking services, account reconciliation system, capital lease program and debt.....	-20
Procurement of a new automated insurance management system.....	150
Increased bond sale expenses.....	50
Increased banking service contract fees.....	846
Final lease payment for laser check printer made in fiscal 2005	-110
New computer for risk management position added by BPW	2
Insurance coverage – mainly commercial policies	3,883
Other adjustments	-1

Total **\$5,090**

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

Issues

1. Account Reconciliation Is Likely to Produce an Unreconciled Difference in the State’s Main Bank Account

On February 3, 2005, the Department of Legislative Services Office of Legislative Audits released a special report covering a statewide review of budget closeout transactions for fiscal 2004. In this report, the auditors disclosed a \$3.0 million unreconciled difference in the State’s main bank account – the cash balance on the records of the custodian bank exceed the State’s cash balance. Essentially, this means that individuals within State agencies responsible for recording transactions in the RStars accounting system recorded cash receipts that do not have corresponding deposit transactions in the State’s main bank account. Discussions with the State Treasurer’s Office indicate that the difference may be much more than was reported by the auditors. However, since the Treasurer’s Office has not completed its reconciliation, the exact or full difference is undetermined.

What Ramifications Might This Have on the State’s Budget Situation?

Once the difference between what is on the books and what is in the bank is fully resolved, and all signs indicate that the number on the books exceed the number in the bank, the State will need to reconcile this difference in such a way that reflects that there is less cash available to support State expenditures than what is supported in the fiscal 2006 budget submission. Discussion with the General Accounting Office indicate that the most likely scenario is for a deficiency appropriation or supplemental budget item to be brought forward that would create the authority to make an entry to decrease cash and offset the decrease against the appropriation. Essentially, an appropriation would be provided and corresponding paper transaction expenditure against this appropriation would be booked to reduce the cash balance in the State’s main bank account.

DLS recommends that the Treasurer brief the committees concerning when the reconciliation process is expected to be completed and generally what figure is likely to result from this process. Furthermore, the Treasurer should discuss whether the reconciliation has revealed if there are any specific agencies responsible for the improper transactions that contributed to this situation and whether or not there are any indications that there may be malfeasance involved. Finally, the Treasurer should comment on the level of confidence that the reconciliation will produce a reliable figure, and comment on the actions taken by the Treasurer’s Office to improve the reconciliation process so as to mitigate the reoccurrence of this issue.

2. State Insurance Trust Fund Unfunded Liability

The State provides insurance protection through the purchase of specific excess commercial insurance policies and through self-insurance from the State Insurance Trust Fund (SITF). The SITF self-insurance program is designed to cover State agencies and employees for claims related to property, motor vehicle, torts, and officer and employee liability. Although the Treasurer’s Office’s

E20B – State Treasurer

Insurance Division procures commercial insurance policies for certain risks, most of the coverage is provided through the SITF. Premiums, charged to State agency budgets on an annual basis, provides the source of revenues to the SITF.

As shown in **Exhibit 6**, the SITF fund balance declines rapidly from fiscal 2002 through the estimate for fiscal 2005. If not for the significant increase in premiums, which began in fiscal 2005 and continues in the Governor’s proposed fiscal 2006 budget, the SITF would have been in danger of closing fiscal 2005 with a negative balance due to increasing excess policy coverage costs and incurred losses. While the additional premiums are likely to keep the SITF in a positive fund balance situation, the current and projected fiscal 2006 ending balance are woefully short of the actuary’s recommended balance. Based on the actuary’s recommended balance of \$30.4 million for fiscal 2006, the SITF has an unfunded liability of almost \$24 million. This is despite the two-year increase in premiums. **Appendix 5** provides a fiscal summary of the individual insurance programs funded through the SITF for fiscal 2001 through the fiscal 2006 estimate.

Exhibit 6
Actual and Estimated SITF Fund Accounting
(\$ in Thousands)

	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Actual</u>	<u>FY 2005</u> <u>Estimate</u>	<u>FY 2006</u> <u>Estimate</u>
Beginning Balance	\$28,997	\$19,885	\$11,358	\$5,249	\$5,833
Transfers and Recoveries	552	434	632	600	600
Agency Premiums	8,013	8,679	10,844	20,000	21,000
Excess Policy Coverage	(1,140)	(5,050)	(4,787)	(6,000)	(6,008)
Losses	(9,953)	(11,086)	(11,315)	(12,300)	(12,900)
Operating Costs	(1,585)	(1,504)	(1,484)	(1,716)	(2,122)
Transfer to General Fund	(5,000)	0	0	0	0
Ending Cash Balance	\$19,884	\$11,358	\$5,249	\$5,833	\$6,402
Recommended Actuary Balance	27,505	23,827	30,393	30,393	30,393
Actuarial Shortfall	(\$7,621)	(\$12,469)	(\$25,144)	(\$24,560)	(\$23,990)

Source: State Treasurer’s Office

E20B – State Treasurer

Factors contributing to the declining fund balance:

- **Costs to procure excess commercial insurance blanket coverage increased dramatically in the wake of the September 11, 2001, terrorist attacks** – As shown in Exhibit 6, the State paid just over \$1.1 million for excess commercial insurance in fiscal 2002 compared to slightly more than \$6.0 million for the same coverage in fiscal 2005. These costs are not expected to revert back to fiscal 2002 levels.
- **Officers and employee liability losses increase well in excess of agency premiums** – Officer and employee liability losses totaled just under \$500,000 in fiscal 2000 and 2001, well under the amount of agency premiums collected which averaged approximately \$1.3 million. However, losses incurred in fiscal 2003 and 2004 exceeded agency premiums drawing the balance in the account down.
- **Tort claims and losses exceeded premiums** – In fiscal 2001 through 2003, tort claim losses exceeded agency premiums. Adding to the cost was an increase in the tort claims cap from \$100,000 to \$200,000 beginning October 1, 1999. Premiums have been increased in order to keep pace with annual anticipated losses.
- **Transfer of \$5 million for SITF in fiscal 2002** – The Budget Reconciliation and Financing Act of 2002 transferred \$5 million from the available fund balance to the general fund. This was reduced from the proposed \$11 million transfer.
- **Use of SITF to fund operations:** In each fiscal year represented in Appendix 5 the amount of SITF funds used by the Treasurer's Office to fund the operations of the Insurance Management Division have increased.

DLS recommends that the Treasurer provide the committees with an outline of the measures undertaken to improve the State's insurance claims process, including the contributions of new staff and the impact of the proposed new risk management system. The Treasurer should also comment on what measure the office has taken to reduce claims and losses, and comment on what should be done to improve the balance of funds in the SITF. Finally, the Treasurer should provide some insight as to whether or not the unfunded liability in the SITF has been raised as a concern by the bond rating agencies.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for training and staff development. This reduction would still provide \$5,000 to support training and staff development activities which is double the fiscal 2004 actual expenditure.	\$ 5,000	GF
Total General Fund Reductions	\$ 5,000	

Updates

1. Positions Added through the Board of Public Works

In the past 12 months the Treasurer's Office has received three additional positions through the authority granted to the Board of Public Works (BPW) to add positions to the State budget during the fiscal year – two positions were added in accordance with Section 19 of the fiscal 2004 operating budget (Chapter 202, Acts of 2003), and one position was added in accordance with Section 18 of the fiscal 2005 operating budget (Chapter 429, Acts of 2004). The need for each position is discussed in more detail below.

- **Federal Cash Management Improvement Act Coordinator:** This position is responsible for monitoring and auditing information provided by State agencies requesting federal fund reimbursements.
- **Risk Management and Loss Control Analyst:** This position assists the office's Manager of Underwriting and Risk Management in developing and maintaining a loss prevention risk management program. The Treasurer's Office has developed such a program designed to mitigate the State's insurance claims exposure and minimize State insurance expenditures.
- **Assistant Attorney General:** This position serves as the supervising attorney for all tort claims litigation and appeals. Overall responsibilities include advising the State Treasurer on matters involving the defense of claims brought under the Maryland Tort Claims Act as well as litigation matters brought before the BPW and supervising the handling of tort claims litigation in the Office of the Attorney General.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$3,708	\$619	\$0	\$28,115	\$32,442
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	-73	0	0	0	-73
Reversions and Cancellations	0	-105	0	-2,915	-3,020
Actual Expenditures	\$3,635	\$514	\$0	\$25,200	\$29,349
Fiscal 2005					
Legislative Appropriation	\$3,652	\$621	\$0	\$29,438	\$33,711
Budget Amendments	25	0	0	-10	15
Working Appropriation	\$3,677	\$621	\$0	\$29,428	\$33,726

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

Audit Findings

Audit Period for Last Audit:	October 1, 2000 – October 31, 2002
Issue Date:	December 2003
Number of Findings:	16
Number of Repeat Findings:	5
% of Repeat Findings:	31.2%
Rating: (if applicable)	

- Finding 1:** The office did not adequately reconcile the cash balance in the State’s main bank accounts with the corresponding balance recorded on the State’s accounting records. Due to a number of significant problems we identified with regard to the office’s purported reconciliations, the State’s cash balance could not be adequately determined.
- Finding 2:** An automated bank account reconciliation system, which cost \$1.6 million, was not successfully implemented due, in part, to inadequate contract specifications developed by the office.
- Finding 3:** The office did not require the bank to provide State agencies with adequate deposit documentation to help ensure that all collections were properly deposited.
- Finding 4:** The office did not ensure that the lockbox contractor transferred the available balance to the State daily, as required.
- Finding 5:** **The office did not ensure that all interest earned on funds in State agency bank accounts was transferred to the State’s General Fund, as required.**
- Finding 6:** The office did not ensure that electronic fund deposits were recorded properly in FMIS in a timely manner.
- Finding 7:** **Certain individuals had the ability to unilaterally modify disbursement and investment account fund transfer agreements.**
- Finding 8:** The office did not adequately ensure that all State agency bank accounts were properly authorized.
- Finding 9:** **The office did not ensure that check clearance patterns were reviewed and certified in accordance with Federal regulations.**
- Finding 10:** **The office did not adequately monitor State agency’s reporting of CMIA activity.**
- Finding 11:** Lack of supervisory review and approval of capital lease amortization schedules contributed to collection and payment errors.

E20B – State Treasurer

Finding 12: Certain fees for support services to State agencies were assessed by the office without being authorized.

Finding 13: **Security procedures for minicomputer production data and program files and the program change process were inadequate.**

Finding 14: The information systems disaster recovery plan was incomplete and not current.

Finding 15: Procedures and controls were not adequate over unrepresented checks.

Finding 16: Unredeemed minibond funds were not properly transferred to the Unrepresented Bond and Coupon Fund, or the Comptroller's Abandoned Property Fund, as required.

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

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	54.00	55.00	55.00	0	0%
Total Positions	54.00	55.00	55.00	0	0%
Objects					
01 Salaries and Wages	\$ 3,421,776	\$ 3,579,894	\$ 3,927,852	\$ 347,958	9.7%
02 Technical & Spec Fees	52,322	21,000	11,000	-10,000	-47.6%
03 Communication	42,519	117,158	101,490	-15,668	-13.4%
04 Travel	25,544	31,200	32,800	1,600	5.1%
07 Motor Vehicles	3,011	10,180	6,201	-3,979	-39.1%
08 Contractual Services	2,435,648	2,561,116	3,590,937	1,029,821	40.2%
09 Supplies & Materials	159,130	238,983	232,289	-6,694	-2.8%
10 Equip - Replacement	113,169	109,797	0	-109,797	-100.0%
11 Equip - Additional	1,625	0	1,800	1,800	N/A
13 Fixed Charges	23,093,920	27,056,557	30,939,154	3,882,597	14.3%
Total Objects	\$ 29,348,664	\$ 33,725,885	\$ 38,843,523	\$ 5,117,638	15.2%
Funds					
01 General Fund	\$ 3,634,730	\$ 3,676,851	\$ 4,345,439	\$ 668,588	18.2%
03 Special Fund	513,485	620,640	784,524	163,884	26.4%
09 Reimbursable Fund	25,200,449	29,428,394	33,713,560	4,285,166	14.6%
Total Funds	\$ 29,348,664	\$ 33,725,885	\$ 38,843,523	\$ 5,117,638	15.2%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 Treasury Management	\$ 4,615,075	\$ 4,711,532	\$ 5,491,644	\$ 780,112	16.6%
01 Insurance Management	1,483,935	1,716,053	2,122,219	406,166	23.7%
02 Insurance Coverage	23,064,949	27,026,300	30,907,660	3,881,360	14.4%
01 Bond Sale Expenses	184,705	272,000	322,000	50,000	18.4%
Total Expenditures	\$ 29,348,664	\$ 33,725,885	\$ 38,843,523	\$ 5,117,638	15.2%
General Fund	\$ 3,634,730	\$ 3,676,851	\$ 4,345,439	\$ 668,588	18.2%
Special Fund	513,485	620,640	784,524	163,884	26.4%
Total Appropriations	\$ 4,148,215	\$ 4,297,491	\$ 5,129,963	\$ 832,472	19.4%
Reimbursable Fund	\$ 25,200,449	\$ 29,428,394	\$ 33,713,560	\$ 4,285,166	14.6%
Total Funds	\$ 29,348,664	\$ 33,725,885	\$ 38,843,523	\$ 5,117,638	15.2%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

Fiscal 2001 to 2006 SITF Fund Accounting

	<u>FY 2001</u> <u>Actual</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Actuals</u>	<u>FY 2005</u> <u>Estimated</u>	<u>FY 2006</u> <u>Estimated</u>
Combined Beginning Balance	26,819,696	28,997,624	19,884,565	11,358,447	5,248,591	5,832,538
Blanket Real & Personal Property						
Beginning Balance	5,789,436	7,065,007	4,727,980	(733,672)	(5,972,242)	(5,872,242)
Transfers & Recoveries	107,546	97,695	61,660	37,450	100,000	100,000
Agency Premiums	3,990,819	3,540,242	3,221,043	3,474,268	10,000,000	10,000,000
Excess Policy Coverages	(914,218)	(1,139,483)	(5,049,427)	(4,786,872)	(6,000,000)	(6,008,120)
Real Property Losses	(1,908,577)	(4,835,482)	(3,694,928)	(3,963,415)	(4,000,000)	(4,200,000)
Insurance Administration						
GAAP Adjustment						
Ending Balance	7,065,006	4,727,980	(733,672)	(5,972,242)	(5,872,242)	(5,980,362)
Officers and Employees Liability						
Beginning Balance	3,276,468	4,105,695	4,047,733	1,920,366	1,624,939	2,124,939
Transfers & Recoveries						
Agency Premiums	1,300,000	999,972	1,457,909	1,391,088	3,000,000	3,000,000
Liability Losses	(470,774)	(1,057,934)	(3,585,276)	(1,686,515)	(2,500,000)	(2,500,000)
Ending Balance	4,105,694	4,047,733	1,920,366	1,624,939	2,124,939	2,624,939
Tort Claims Act						
Beginning Balance	7,070,791	4,913,350	7,076,086	6,281,063	6,296,992	5,996,992
Transfers & Recoveries	(127)	14,233	100	94	0	0
Agency Premiums	2,000,001	1,470,038	2,000,003	3,984,223	4,000,000	4,500,000
Tort Losses	(4,157,315)	(3,321,535)	(2,795,126)	(3,968,388)	(4,300,000)	(4,500,000)
Transfer from Auto		4,000,000				
Ending Balance	4,913,350	7,076,086	6,281,063	6,296,992	5,996,992	5,996,992
Motor Vehicle Comprehensive and Liability						
Beginning Balance	10,683,000	12,913,574	4,032,765	3,890,688	3,298,901	3,582,848
Transfers and Recoveries	812,054	439,624	372,942	594,678	500,000	500,000
Agency Premiums	4,411,848	2,002,464	2,000,005	1,994,236	3,000,000	3,500,000
Motor Vehicle Losses	(1,732,739)	(738,049)	(1,010,809)	(1,696,766)	(1,500,000)	(1,700,000)
Insurance Administration	(1,260,589)	(1,584,848)	(1,504,215)	(1,483,935)	(1,716,053)	(2,122,936)
Transfer to Tort		(4,000,000)				
Transfer to GF – Budget Rec. Act		(5,000,000)				
Ending Balance	12,913,574	4,032,765	3,890,688	3,298,901	3,582,848	3,759,912
Combined Cash Fund Balance	28,997,624	19,884,565	11,358,447	5,248,591	5,832,538	6,401,482
Recommended Actuary Balance	19,442,000	27,505,000	23,827,000	30,393,000	30,393,000	30,393,000
Difference	9,555,624	(7,620,435)	(12,468,553)	(25,144,409)	(24,560,462)	(23,991,518)

**Fiscal 2006 Cost Containment Actions
As Submitted by the Agency
Estimated Fiscal 2006 Savings
Compared to Fiscal 2005**

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Sub-Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Impact of Action</u>
Deletion of Staff Training	E20	B0101	\$10,000	\$10,000	Cost will be covered by vendor
Cut Computer Maintenance	E20	B0101	33,000	33,000	No impact to operations
Delete Consultant Studies	E20	B0101	20,000	20,000	No impact to operations
Last of 5-year lease for laser ck printer	E20	B0101	110,000	30,000	No impact to operations
Reduce number of printed Annual Reports	E20	B0101	9,000	9,000	No impact – available via web or CD