

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$32,745	\$34,163	\$27,564	-\$6,599	-19.3%
Contingent & Back of Bill Reductions	0	0	-109	-109	
Adjusted Special Fund	\$32,745	\$34,163	\$27,455	-\$6,708	-19.6%
Adjusted Grand Total	\$32,745	\$34,163	\$27,455	-\$6,708	-19.6%

- The fiscal 2010 allowance for the Maryland Insurance Administration (MIA) decreases by \$6.7 million, or 20%. A significant portion (\$5.0 million) of this decrease is related to the end of the medical malpractice subsidies funded with the Rate Stabilization Fund. Also, MIA's fiscal 2010 allowance is decreasing by \$1.6 million due to one-time office relocation expenses in the fiscal 2009 working appropriation.
- The contingent reduction shown in the chart above is due to across-the-board language eliminating funding for deferred compensation in fiscal 2010.

Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	282.00	282.00	282.00	0.00
Contractual FTEs	<u>8.70</u>	<u>8.20</u>	<u>8.20</u>	<u>0.00</u>
Total Personnel	290.70	290.20	290.20	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	16.92	6.00%
Positions and Percentage Vacant as of 12/31/08	28.00	9.93%

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

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- The fiscal 2010 allowance keeps both regular and contractual positions at the same level as the fiscal 2009 working appropriation.
- As of December 31, 2008, MIA had a vacancy rate of 9.9%, which is almost four percentage points higher than the budgeted turnover allocated in the fiscal 2010 allowance. There were a total of 28 vacant positions, and 1 of those positions had been vacant for more than a year.

Analysis in Brief

Major Trends

Backlog of Financial Examinations: MIA is responsible for ensuring the financial solvency of insurance companies by conducting routine financial examinations. Over the past three years, there has been a staffing shortage at MIA that has caused a backlog of financial examinations.

Fraud Division More Efficient with Referrals: Over the past five years, the Fraud Division has significantly increased the number of referrals closed within the targeted time frame of 120 days.

Issues

End of Medical Malpractice Subsidies: Fiscal 2009 will be the last year that medical malpractice subsidies are provided to physicians through the Rate Stabilization Fund. The goal of the medical malpractice subsidies was to make professional liability insurance affordable for physicians so that physicians would continue to practice in the State. Since calendar 2004, medical malpractice insurance rates have moderated although the trend varies by company and by practice.

Premium Tax Revenue: MIA is responsible for collecting the premium tax revenues from insurance companies. However, MIA is not able to provide sufficient information, such as the reasons behind the monthly variations in the revenue to support the work of the Bureau of Revenue Estimates.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language restricting \$100,000 of special funds.		
2. Delete one vacant position that has been vacant for over a year.	\$ 51,066	1.0
Total Reductions	\$ 51,066	1.0

D80Z01
Maryland Insurance Administration

Operating Budget Analysis

Program Description

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations and implements laws that affect Maryland's insurance industry. The agency performs actuarial valuations, rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations; resolves consumer complaints; and issues producer licenses (formerly agents and brokers) and company licenses. The Maryland insurance law, in conformity with national standards, no longer makes a distinction between agents and brokers, which are now known as producers.

MIA's key goals are:

- to ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- to adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- to protect the public from unfair trade practices and other violations of the Insurance Code;
- to enforce solvency standards to ensure that insurers have the financial ability to pay claims when due;
- to reduce the time for approving Producer License paper applications; and
- to protect Maryland citizens through enforcement of the Annotated Code of Maryland provisions relating to insurance fraud.

MIA also administers the Rate Stabilization Fund which is used to pay health care provider medical malpractice rate subsidies. The source of funds is a premium tax imposed upon Health Maintenance Organizations and Managed Care Organizations.

The Health Insurance Safety Net Program used to be organizationally part of the Maryland Insurance Administration but managed independently. As of October 1, 2008, the Health Insurance Safety Net Program, which includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program, became an independent State agency.

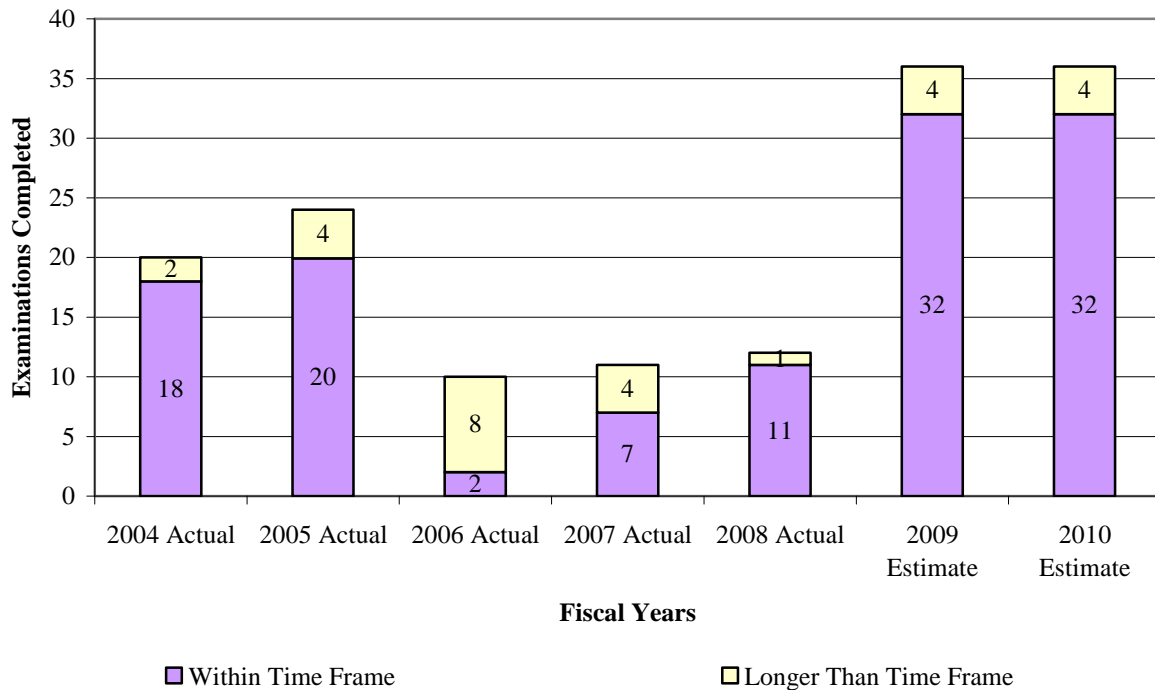
Performance Analysis: Managing for Results

Backlog of Financial Examinations

MIA conducts financial examinations of domestic insurance companies, which includes the companies formed under Maryland laws but not all the insurance companies operating in Maryland. There are approximately 75 domestic companies in the State that MIA is required to examine every five years, which means MIA is responsible for conducting 15 financial examinations a year.

The administration has a goal of completing 90% of the financial examinations with no more than a 15% variance of budgeted time because timely completion of the examinations results in earlier detection of insurers exhibiting financial distress. **Exhibit 1** shows the number of financial examinations conducted each year and the number of the examinations that was conducted within the statutory timeframe. The number of financial examinations conducted in fiscal 2006 through 2008 is low due to a shortage of supervisory staff, which has been partially remedied by the use of outside contractors. The staff shortage has also created a backlog that has caused the number of financial examinations projected for fiscal 2009 and 2010 to be higher.

Exhibit 1
Financial Examinations on Domestic Companies
Relative to the Statutory Time Frame
Fiscal 2004-2010



Source: Maryland Insurance Administration

Fiscal 2009 Actions

Impact of Cost Containment

MIA experienced some cost containment in fiscal 2009. Through the Board of Public Works' reductions, MIA's appropriation for salaries and fringe benefits was reduced by \$0.1 million.

One provision of the Budget Reconciliation and Financing Act of 2009 transfers \$0.6 million from the Insurance Regulation Fund balance to the general fund in fiscal 2009. This amount is the value of the savings due to Other Post Employment Benefits (\$0.4 million) and the furloughs (\$0.3 million). The purpose of the Insurance Regulation Fund is to pay all the costs and expenses incurred by MIA that are related to its responsibilities to regulate the insurance activities of all insurers conducting business in the State.

The fund balance of the Insurance Regulation Fund is expected to be \$3.1 million by the end of fiscal 2009. In both fiscal 2009 and 2010, the income from the Insurance Regulation Fund is expected to be less than the expenditures, but MIA is directed by statute to set the assessment fee to correspond with the administration's appropriation. Specifically, the assessment should be adjusted to maintain the fund at a level that does not exceed 105% of MIA's approved annual budget. However, in recent years, MIA has built up a balance in the Insurance Regulation Fund.

MIA is required to keep a reserve of 5% in the fund balance, which amounts to \$1.3 million in fiscal 2010. Also, MIA is keeping \$1.0 million in the fund balance for any unforeseen expenses relating to the office relocation. Accounting for these two requirements on the fund balance and the savings accrued in fiscal 2009 due to the furloughs and Other Post Employment Benefits, the Insurance Regulation Fund balance is expected to have a fund balance at the end of fiscal 2010 that is \$0.2 million more than necessary to cover MIA's liabilities.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2010 allowance for the Maryland Insurance Administration decreases by \$6.7 million, or 20%. A significant portion (\$5.0 million) of this decrease is related to the end of the medical malpractice subsidies funded with the Rate Stabilization Fund. Also, MIA's fiscal 2010 allowance is decreasing by \$1.6 million due to one-time office relocation expenses in the fiscal 2009 working appropriation.

The contingent reduction shown in the chart is due to across-the-board language eliminating funding for deferred compensation in fiscal 2010.

Exhibit 3
Proposed Budget
Maryland Insurance Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Total
2009 Working Appropriation	\$34,163	\$34,163
2010 Allowance	<u>27,564</u>	<u>27,564</u>
Amount Change	-\$6,599	-\$6,599
Percent Change	-19.3%	-19.3%
Contingent Reductions	-\$109	-\$109
Adjusted Change	-\$6,707	-\$6,707
Adjusted Percent Change	-19.6%	-19.6%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance pay-as-you-go costs (after reducing fiscal 2010 for contingent reductions)	\$607
Retirement contribution	188
Workers' compensation premium assessment	128
Other fringe benefit adjustments.....	1
Deferred compensation (after reducing fiscal 2010 for contingent reductions).....	-109
Turnover adjustments.....	-233
Reduced cost of salaries	-338
Delete funds reducing Other Post Employment Benefits' unfunded liability.....	-442

Other Changes

Annualized cost of purchasing equipment for a disaster recovery site	254
Higher cost of rent at the new office location	378
New garage rent costs due to new office location.....	193
Increased cost of consumer informational material	75
Reduction in purchasing of equipment	-138
Administrative cost related to the Rate Stabilization Fund.....	-150
Cost of programming Paradocs (a paperless document management system)	-220
One-time costs in fiscal 2009 related to the relocation of the Maryland Insurance Administration's office.....	-2,125
Last year of the malpractice insurance subsidies	-4,800
Other	23

Total **-\$6,708**

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

Personnel

The fiscal 2010 allowance keeps both regular and contractual positions at the same level as the fiscal 2009 working appropriation.

As of December 31, 2008, MIA had a vacancy rate of 9.9%, which is almost four percentage points higher than the budgeted turnover allocated in the fiscal 2010 allowance. There were a total of 28.0 vacant positions, and one of those positions had been vacant for more than a year. **The Department of Legislative Services recommends deleting this vacant position.**

End of the Medical Malpractice Subsidies

The Maryland Health Care Provider Rate Stabilization Fund, created by Chapter 5 of the 2004 special session as the Maryland Medical Professional Liability Insurance Rate Stabilization Fund and subsequently renamed by Chapter 1 of 2005, was established for the purpose of retaining health care providers in the State by allowing insurers to charge lower premium rates for medical malpractice insurance and increasing Maryland Medical Assistance Program payment rates for physicians. Each year from fiscal 2006 through 2009, the payments for medical malpractice subsidies decreased as the payments to the Medical Assistance Program increased.

Fiscal 2009 is the last year medical malpractice subsidies will be provided. By statute, the fiscal 2009 medical malpractice subsidy payment was supposed to be \$25.0 million. However, Medical Mutual, the largest medical malpractice insurance carrier in the State, has decided not to participate in the subsidy program in fiscal 2009. As a result, the subsidy payment in fiscal 2009 is expected to be \$4.8 million. As of the beginning of February 2009, MIA had paid out a little over \$2.9 million in fiscal 2009 for the medical malpractice subsidy payments. However, MIA indicates additional payments will need to be paid to the insurance companies in the amount of \$6.1 million.

MIA should explain to the budget committees the purpose and duration of these payments and why the need for ongoing or out-year payments has not been brought to the attention of the budget committees prior to now. Also, MIA should explain how these additional payments will be funded with all the remaining Rate Stabilization Funds appropriated to the Medicaid program.

In fiscal 2010, the remaining fund balance and the revenue from the Rate Stabilization Fund will be transferred to the Medical Assistance Program. MIA will continue administering the Rate Stabilization Fund, which is expected to cost \$0.2 million in fiscal 2010. The allowance also provides funding for a contract to audit the medical malpractice subsidy payments made to insurers because it takes about two years to get a final settlement for each subsidy year.

MIA Relocated

The fiscal 2008 working appropriation contained one-time funding to relocate and consolidate MIA into a single location. However, due to timing issues, MIA was not able to encumber the relocation funds in fiscal 2008. As a result, the funds were cancelled and re-appropriated through a budget amendment in the fiscal 2009 working appropriation. MIA is expected to relocate to the new office within the next three months.

Moving expenses are expected to cost \$2.1 million of one-time fiscal 2009 expenditures for office renovations (\$0.6 million); telephone move and upgrade (\$0.4 million); network infrastructure (\$0.4 million); office and conference room furniture (\$0.3 million); electrical and heating, ventilation, and air conditioning upgrades (\$0.2 million); and telephone and network cabling (\$0.2 million). The new MIA office also has higher rent (\$0.4 million) and garage rent costs (\$0.2 million).

Issues

1. End of Medical Malpractice Subsidies

The Maryland Health Care Provider Rate Stabilization Fund, created by Chapter 5 of the 2004 special session as the Maryland Medical Professional Liability Insurance Rate Stabilization Fund and subsequently renamed by Chapter 1 of 2005, was established for the purpose of retaining health care providers in the State by allowing insurers to charge lower premium rates for medical malpractice insurance and increasing Maryland Medical Assistance Program payment rates for physicians.

The fund receives revenues from a premium tax on Health Maintenance Organizations and Medicaid Managed Care Organizations. Monies in the fund are then transferred to one of two accounts: the Rate Stabilization Account or the Medical Assistance Program Account. Monies in the Rate Stabilization Account are appropriated in the MIA budget and are used to pay subsidies to medical malpractice insurers. Monies in the Medical Assistance Program Account are appropriated in the budget of the Department of Health and Mental Hygiene.

The Statutory Plan

The payments to each account as required by statute are shown in **Exhibit 4**. Under the legislation, the Rate Stabilization Account (or medical malpractice insurance subsidy payments) receives decreasing annual payments from fiscal 2006 to 2009, while the Medical Assistance Program Account (or transfers to Medicaid) receives increasing annual payment. In addition, MIA receives an annual administrative allowance of \$350,000.

Exhibit 4
Rate Stabilization Fund Payments
Required by Statute
Fiscal 2005-2010
(\$ in Millions)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Medical Malpractice Insurance Subsidy Payments	\$0.0	\$52.0	\$45.0	\$35.0	\$25.0	
Transfer to Medicaid	3.5	30.0	45.0	65.0	Remaining Revenue	Revenue and Remaining Balance
MIA Administrative Costs	0.4	0.4	0.4	0.4	0.4	

MIA: Maryland Insurance Administration

Source: Maryland Statute, Insurance 19-803

The fund is non-lapsing, and any balance must remain in the fund until otherwise directed by law. Any funds remaining in the Rate Stabilization Account after fiscal 2009 are directed by statute to be transferred to the Medical Assistance Program Account.

Medical Mutual

The Rate Stabilization Fund was administered according to the statutory plan until September 12, 2007, when the Board of Directors of the Medical Mutual Liability Insurance Society of Maryland declared a dividend in the amount of \$68.6 million. In Medical Mutual's view, the dividend was to be split with two-thirds going to the State and one-third to Medical Mutual's policyholders. Also, Medical Mutual announced that it would no longer participate in the medical malpractice subsidy program. On September 13, 2007, the Insurance Commissioner barred Medical Mutual from distributing the dividend until there was a MIA hearing on the issue.

Then, on December 12, 2007, Medical Mutual rescinded the \$68.6 million dividend and declared a \$97.8 million dividend. MIA and Medical Mutual agreed that the State would receive a payment of \$84.1 million, which consists of two components: \$72.4 million in a cash refund to repay the State for medical malpractice subsidies paid to Medical Mutual policyholders and \$11.7 million in subsidy payments that Medical Mutual agreed not to request in calendar 2007.

The remaining \$13.8 million of the declared dividend went to renewing Medical Mutual policyholders as a credit toward their calendar 2008 premiums. Additionally, Medical Mutual reduced the base rates for all policyholders by 8% for calendar 2008, which taken together kept premiums flat. For the calendar 2009 rates, Medical Mutual will decrease premiums by 2%.

After Medical Mutual

Without Medical Mutual's participation, the fiscal 2009 appropriation for medical malpractice subsidies dropped from \$25.0 million to \$4.8 million. The Medicaid program has benefited from the lower than anticipated need for medical malpractice subsidies. In fiscal 2009, the Medicaid program received \$43.6 million from the Rate Stabilization Fund in excess of the statutory amount of the "remaining revenue," which in fiscal 2009 was \$73.0 million. The fiscal 2010 allowance allocates the Rate Stabilization Fund balance and revenue to the Medicaid program.

However, the Medicaid program is not using the additional Rate Stabilization Fund revenue to increase physician rates. The additional funding provided in fiscal 2009 went toward reducing the general fund burden (\$22.3 million), funding the Medicaid expansion to parents (\$14.3 million), and increasing dental rates (\$7.0 million). Also, in fiscal 2009, Medicaid physician rates were reduced by 1% in the October Board of Public Works' cost containment action. Previous to that action, physician rates had been increased from 36 to 87% of Medicare rates, primarily due to the Rate Stabilization Fund revenue.

In fiscal 2010, the Medicaid program is using the Rate Stabilization Funds to maintain physician rates, but again the additional funding is going to purposes other than physician rates. Most of the Rate Stabilization Fund additional revenue and fund balance is going toward reducing the general fund burden.

Were the Subsidies Beneficial?

In the beginning of the 1990s, the cost of medical malpractice insurance began to rise after a period of essentially flat prices. Multiple factors contributed to the increases in medical malpractice premiums, such as falling investment income and rising reinsurance costs. However, many attribute the rise in premiums to losses on medical malpractice claims and large awards. Since the market was no longer profitable, insurance companies pulled out of the market, which reduced competition. More recently, research suggests that premium increases may be moderating.

From fiscal 2005 to 2009, the State has spent \$107.6 million to subsidize medical malpractice insurance for physicians, as shown in **Exhibit 5**. Medical Mutual paid the State back for \$72.4 million in arguably unnecessary subsidy payments, which means the State subsidized \$35.2 million of medical malpractice premiums. In the September 2008 annual report to the General Assembly on the Affordability of Health Care Medical Professional Liability Insurance in Maryland, MIA showed that trends in medical malpractice insurance rates have varied by specialty and by company from calendar 2004 through 2008.

Exhibit 5 Rate Stabilization Fund Revenues, Transfers, and Payments Calendar 2004-2010

	<u>2005</u> <u>Actual</u>	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Working</u> <u>Appropriation</u>	<u>2010</u> <u>Allowance</u>	<u>Total</u>
Revenue	\$30.2	\$82.1	\$88.0	\$173.6	\$101.4	\$106.5	\$581.7
Medical Malpractice Subsidy Payments	20.8	28.4	45.2	8.4	4.8	0.0	107.6
Transferred to Medicaid Administration	3.5	30.0	45.0	65.0	179.3	145.8	468.6
	0.0	0.1	0.1	0.3	0.4	0.2	1.1
Fund Balance	1.7	25.3	23.0	122.9	39.8	0.3	

Source: Maryland Insurance Administration

For Medical Mutual, which had 61% of the market share in calendar 2007, rates decreased 15% for emergency medicine, family practice, and obstetrics/gynecology over this four-year period. Doctors Company, which had 12% of the market share, held rates steady over the period with the exception of obstetrics/gynecology where rates decreased 6%. The trend in rates for Medical Protective, which had about 6% of the market share, over the four-year period, was a bit different with the rates increasing 16 to 28%.

MIA's report underscores the continued volatility of the medical malpractice insurance business because from the time period of calendar 2004 through 2007, the number of closed medical malpractice cases increased 12% while the number of medical malpractice suits filed increased by 229%. **The Maryland Insurance Administration should share with the budget committees how the administration will continue to work to ensure medical malpractice insurance continues to remain affordable in the State.**

2. Premium Tax Revenue

MIA's Examination and Auditing Section is responsible for collecting the premium tax revenue from insurance companies. In Maryland, insurance companies are subject to a 2% tax on all new and renewal gross direct premiums that are derived from or reasonably attributable to insurance business in the State. The premium tax on insurance companies accounts for a little more than 2% of the State's general fund revenue.

In accordance with Section 6-101 of the Insurance Article of the Annotated Code of Maryland, persons engaged in the business of writing insurance contracts, surety contracts, guaranty contracts and annuity contracts in the State of Maryland are subject to premium taxes and must file the appropriate returns with MIA. However, non-profit health service plan corporations, fraternal benefit societies, and health maintenance organizations are not subject to the 2% premium tax.

The Comptroller's Bureau of Revenue Estimates is responsible for projecting State revenues, including the premium tax, and the bureau seeks input from MIA regarding significant changes in the revenue patterns when formulating the premium tax estimate. However, in the past, MIA has not been able to provide sufficient information to the bureau. For instance, MIA has not been able to explain monthly variations in the revenue.

The Department of Legislative Services recommends that budget bill language be added requiring the Maryland Insurance Administration and the Bureau of Revenue Estimates to establish an agreed upon practice for forecasting and tracking the premium tax revenue and report back to the budget committees.

Recommended Actions

1. Add the following language to the special fund appropriation:

. provided that \$100,000 of this appropriation made for the purpose of general operations of the Maryland Insurance Administration’s Examination and Auditing Section may not be expended until the Maryland Insurance Administration in coordination with the Bureau of Revenue Estimates submits a report to the budget committees on an agreed upon practice for forecasting and tracking the premium tax. The report shall be submitted by October 1, 2009, and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any purpose, and shall be cancelled if the report is not submitted to the budget committees.

Explanation: The Comptroller’s Bureau of Revenue Estimates seeks input from the Maryland Insurance Administration (MIA) regarding significant changes in the revenue patterns when formulating the premium tax estimate. However, in the past, MIA has not been able to provide sufficient information to the bureau. For instance, MIA has not been able to explain monthly variations in the revenue. This budget bill language restricts special funds in the Maryland Insurance Administration until a report is submitted by the Maryland Insurance Administration and the Bureau of Revenue Estimates explaining an agreed upon practice for forecasting and tracking the premium tax.

Information Request	Authors	Due Date
Report explaining practice for forecasting the premium tax.	MIA Bureau of Revenue Estimates	October 1, 2009

	<u>Amount Reduction</u>		<u>Position Reduction</u>
2. Delete one position that has been vacant for more than a year consistent with the significant position and general fund reductions included in Section 18 of the budget bill.	\$ 51,066	SF	1.0
Total Special Fund Reductions	\$ 51,066		1.0

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Insurance Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$0	\$61,726	\$0	\$0	\$61,726
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	346	0	0	346
Cost Containment	0	-54	0	0	-54
Reversions and Cancellations	0	-29,273	0	0	-29,273
Actual Expenditures	\$0	\$32,745	\$0	\$0	\$32,745
Fiscal 2009					
Legislative Appropriation	\$0	\$31,694	\$0	\$0	\$31,694
Cost Containment	0	-122	0	0	-122
Budget Amendments	0	2,591	0	0	2,591
Working Appropriation	\$0	\$34,163	\$0	\$0	\$34,163

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

Chapter 259 of 2008 removed the Maryland Health Insurance Plan from the Maryland Insurance Administration beginning October 1, 2008. For this analysis of the current and prior year budgets, MHIP budget data has been pulled out of the Maryland Insurance Administration fiscal 2008 budget data to provide an accurate year-over-year comparison.

Fiscal 2008

MIA received a fiscal 2008 legislative appropriation of \$61.7 million, but the actual fiscal 2008 expenditures were \$32.7 million. Throughout the year, the special fund appropriation increased by \$0.3 million due to cost-of-living adjustments, which was offset by a cost containment reduction to positions (\$53,656).

At the end of fiscal 2008, MIA canceled \$29.3 million in special funds. Most of the canceled funds (\$26.6 million) were caused by lower than anticipated need for medical malpractice subsidy payments because Medical Mutual terminated participation in the subsidy program. The remainder of the cancellations was caused by a delay in the relocation of the MIA office (\$2.0 million), higher than anticipated turnover (\$0.4 million), and lower than anticipated health insurance costs (\$0.3 million).

Fiscal 2009

The fiscal 2009 legislative appropriation for MIA was \$31.7 million in special funds, and the working appropriation has increased by \$2.5 million in special funds due to a re-appropriation of funds for MIA to relocate (\$2.2 million) and cost-of-living adjustments (\$0.4 million). These increases were offset by cost containment reductions to salaries and fringe benefits (\$0.1 million).

Audit Findings

Audit Period for Last Audit:	December 21, 2004 to December 31, 2007
Issue Date:	December 2008
Number of Findings:	15
Number of Repeat Findings:	6
% of Repeat Findings:	40%
Rating: (if applicable)	

During the audit period, MHIP was a unit of MIA. Effective October 1, 2008, MHIP was separated from MIA and operates as an independent agency.

- Finding 1:** The third party administrator did not implement a pharmacy benefits exclusion as dictated by MHIP. Consequently, MHIP did not achieve cost savings which it estimated could have totaled as much as \$300,000.
- Finding 2:** MHIP did not verify that certain performance standards required by its contract with the third party administrator were met.
- Finding 3:** A claim totaling approximately \$1.4 million made by MHIP against its former third party administrator is in dispute.
- Finding 4:** Controls over insurance producer licensing were not sufficient.
- Finding 5:** **MIA did not adequately monitor certain critical provisions of its contract for the administration of insurance agent and broker testing.**
- Finding 6:** **Controls over the processing of non-cash credit adjustments to accounts receivable were not sufficient, and Office of Legislative Audits' testing disclosed credits totaling approximately \$154,000 that were processed in error.**
- Finding 7:** Interest and penalties on unpaid premium taxes were not correctly calculated by MIA's automated tax system.
- Finding 8:** **MIA's records of premium tax revenues were not reconciled with the State's accounting records in a timely or comprehensive manner.**
- Finding 9:** **Controls over cash receipts received in the mail were not sufficient.**
- Finding 10:** MIA's computer network was not adequately secured.

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Finding 11: Security controls over the company and producer licensing applications' payment component were inadequate.

Finding 12: **Administrative rights, account controls, and password controls on several critical servers were not properly established.**

Finding 13: Password, account, and monitoring controls over a critical database were inadequate.

Finding 14: MIA did not have an adequate disaster recovery plan.

Finding 15: **MIA was not in compliance with several requirements established by the Department of General Services relating to accountability and control over equipment.**

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

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	282.00	282.00	282.00	0	0%
02 Contractual	8.70	8.20	8.20	0	0%
Total Positions	290.70	290.20	290.20	0	0%
Objects					
01 Salaries and Wages	\$ 18,880,823	\$ 21,086,779	\$ 20,997,803	-\$ 88,976	-0.4%
02 Technical and Spec. Fees	467,752	526,738	542,018	15,280	2.9%
03 Communication	367,305	751,511	413,696	-337,815	-45.0%
04 Travel	430,188	383,450	394,000	10,550	2.8%
07 Motor Vehicles	57,293	50,757	227,696	176,939	348.6%
08 Contractual Services	10,421,646	7,918,310	1,649,201	-6,269,109	-79.2%
09 Supplies and Materials	381,793	265,338	365,338	100,000	37.7%
10 Equipment – Replacement	149,932	428,156	0	-428,156	-100.0%
11 Equipment – Additional	119,335	879,961	735,477	-144,484	-16.4%
12 Grants, Subsidies, and Contributions	420,714	466,198	484,846	18,648	4.0%
13 Fixed Charges	1,048,187	1,405,482	1,754,018	348,536	24.8%
Total Objects	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%
Funds					
03 Special Fund	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%
Total Funds	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Administration and Operations	\$ 24,032,186	\$ 29,012,680	\$ 27,364,093	-\$ 1,648,587	-5.7%
05 Rate Stabilization Fund	8,712,782	5,150,000	200,000	-4,950,000	-96.1%
Total Expenditures	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%
Special Fund	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%
Total Appropriations	\$ 32,744,968	\$ 34,162,680	\$ 27,564,093	-\$ 6,598,587	-19.3%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.