

**State of Delaware
Office of Auditor of Accounts**

Working Hard to Protect YOUR Tax Dollars

**Department of Insurance
Improper Activities of Controller
Investigation**

May 7, 2020

**Auditor of Accounts
Kathleen K. McGuiness, RPh, CFE
State Auditor**



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Abbreviations:

DOI	Department of Insurance
DTI	Department of Technology & Information
FSF	First State Financials
State	State of Delaware
PCard	Purchase Card

The mission of the Delaware Office of Auditor of Accounts

The Delaware Auditor of Accounts (OAOA) serves Delawareans by ensuring accountability in the use of taxpayer dollars through independent assessments of financial operations, performance management and statutory compliance of state government.

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Background

The State of Delaware Department of Insurance (DOI) receives, researches, investigates, and resolves individual consumer complaints against insurance companies, agents and brokers. The Department provides educational materials and assistance for consumers regarding insurance questions and coverage provisions. DOI's mission is to protect Delawareans through regulation and education while providing oversight of the insurance industry. DOI best serves the public through the following:

- Protect insurance consumers
- Regulate companies to ensure ability to pay claims
- Review, approve, and/or disapprove rates submitted by insurance companies
- Prosecute insurance fraud
- License agents and brokers
- Save businesses money on premium costs
- Assist Medicare eligible seniors
- Advocate for residents through arbitration and legislation

The DOI consists of six major divisions: Bureau of Captive and Financial Insurance Products; Bureau of Company Examination, Rehabilitation and Guaranty; Consumer Services & Investigations Divisions; Fraud Prevention Bureau; Producer Licensing & Continuing Education Division; and Rates and Forms Division. In addition to these Divisions there are several other departments that the Chief of Staff manages such as Finance, Human Resources, Marketing, and Information Technology. The Chief of Staff reports directly to the Insurance Commissioner. The Insurance Commissioner is an elected official and oversees the Department of Insurance.

Our office received a request from the Chief of Staff at DOI to perform an investigation on the Controller of the Finance Division. The Controller is the top-ranking fiscal position at DOI that provides total fiscal control of the Department's financial resources. The Controller was in place for about six years prior to the current Insurance Commissioner's term.

Based on the request, we identified the following six categories of allegations:

- Violations of State of Delaware Department of Technology & Information's Acceptable Use and Information Security policies
- Withholding deposits
- Purchase card misuse
- Improper issuance of refunds
- Failing to properly submit internal control forms
- Failing to submit travel receipts for reimbursement from third parties

Our investigation primarily focused on relevant transactions and activity between July 1, 2017 and October 31, 2019.



Allegations and Results

Allegation 1: Violations of State of Delaware Department of Technology & Information Acceptable Use and Information Security Policies

We received allegations that the Controller was sharing her First State Financials (FSF) credentials with other employees within the Finance Department, which is a violation of the State of Delaware Department of Technology & Information (DTI) Information Security Policy.

In order to assess the validity of the allegation, we interviewed finance department personnel, reviewed the audio tape interview with the Controller, and requested records showing log-in date and times. We compared those records to the DTI policies. Our findings are listed below.

Finding 1: *Violation of information security policy*

We found that the Controller shared her credentials with a Casual/Seasonal employee to approve transactions under the Controller's credentials. During her interview with the Chief of Staff on January 30, 2020, the Controller admitted to sharing her credentials, but was unaware of the exact amount of times it occurred. From July 1, 2017 to October 12, 2018, we identified 24 occasions from the log of the Casual/Seasonal employee's computer where the employee was logged in under one credential, logged out, and then re-logged in under the Controller's credential. Then, out of the 24 occasions, 5 showed that the Casual/Seasonal employee's computer was logged into the FSF system under two separate accounts at the same time on the same date. We also noted from the data received from the Division of Accounting, that from July 1, 2017 to October 3, 2018, at least 474 vouchers and 7 purchase orders were approved under the Controller's credentials from the Casual/Seasonal employee's computer totaling \$1,689,475 and \$19,257, respectively.

The State of Delaware DTI Information Security Policy states, "All Data Users must have unique user access credentials. Access to computing resources via a shared username, shared passwords, shared access credentials and anonymous logins is strictly prohibited."¹

DOI cannot ensure that all transactions were reviewed and approved by the appropriate levels of authority.

Summary of Allegation 1

The allegation is substantiated.

Allegation 2: Withholding Deposits

We received allegations that the Controller mandated employees to hold check deposits received by the DOI prior to the end of one fiscal year until after the beginning of the next fiscal year.

In order to assess the validity of the allegation, we interviewed finance department personnel, reviewed the audio tape interview with the Controller, requested a schedule of revenue and corresponding deposits, and examined DOI's controls over its deposits. Our findings are listed below.

¹ State of Delaware DTI Information Security Policy, Doc Ref ES-ESP-001



Finding 2: Withheld check deposits

We found deposits of checks received by the DOI prior to the end of one fiscal year were held and deposited in the account at the beginning of the following fiscal year. We also observed that the mailroom stamped the date received on the checks, but the checks were not being logged into DOI's internal system until a few days prior to deposit.

We selected 63 check deposits for testing. Of the 63 deposits tested, we found that from March 23, 2019 to July 26, 2019, 45 checks that totaled \$824,017 were deposited anywhere from 7 days to 45 days after receipt in which some of those crossed fiscal years.

The *State of Delaware Budget and Accounting Manual* states, "All monies that belong to the State must be deposited on the day of receipt except funds received after the close of normal banking hours or daily receipts totaling less than \$100. Funds must be deposited to the credit of the State Treasurer into the designated bank for the State's funds."²

DOI cannot ensure that checks received are recorded in the proper period in the Department's accounting records, then consequently deposited in State funds.

Summary of Allegation 2

While we were unable to substantiate the allegation that the Controller "mandated" the holding of these deposits, based on the evidence found during our testing, we noted that DOI was not in compliance with the *State of Delaware Budget and Accounting Manual* in regards to depositing the funds within one day while the Controller was in office.

Allegation 3: Purchase Card Misuse

We received allegations that the Controller failed to maintain Purchase Card (PCard) receipts for her PCard purchases, that the Controller's personal vendor file did not have proper supporting documentation for all transactions, and that the Controller was making purchases on her personal credit card and submitting the purchases for reimbursement.

In response to this allegation, we interviewed finance department personnel, reviewed the audio tape interview with the Controller, and requested the Controller's vendor files and expense reports. Our findings are listed below.

Finding 3: Lack of Segregation of Duties

We noted the Controller held "Business Manager" approval authority which is the final approval authority within the First State Financials (FSF) accounting system. This allowed the Controller final approval over her own Purchase Card (PCard) transactions executed as a cardholder. Out of 45 PCard transactions we reviewed, 44 transactions held initial and final approval by the Controller.

² *State of Delaware Budget and Accounting Manual* section 9.2



The State of Delaware Budget and Accounting Manual states, “Segregation of duties for PCard usage and administration must be strictly enforced when assigning job roles.”³

Without proper segregation of duties, the Department of Insurance cannot verify the transactions are in compliance with State procurement rules or properly reviewed for mistakes/errors and misstatements.

Finding 4: Missing Support Documentation

We found that supporting documentation was lacking for PCard transactions. We selected 45 transactions from the Controller’s PCard. Of these, 21 transactions did not have any form of supporting documentation.

The State of Delaware Budget and Accounting Manual states, “At the time a PCard purchase is made, either over the counter, by telephone or Internet, an itemized receipt for all transactions over \$10.00 unless exempted under the Travel Per Diem exceptions. The receipt must be legible, itemized (reflecting the good or service purchased), and contain the vendor name, date of purchase, and price of each item. A receipt description which only states “Miscellaneous” or “Merchandise”, or only includes a vendor’s stock or item number, is not acceptable. Receipt documentation may be paper or electronic.”⁴

Without supporting documentation, DOI is unable to identify unauthorized use of employee PCards.

Finding 5: Allowing employees to use PCard credentials

We found that the Controller allowed other employees access to her issued PCard for the purpose of making State purchases (such as registering for events) using the Controller’s credentials without the appropriate proxy form as required by the *State of Delaware Budget and Accounting Manual*.

The State of Delaware Budget and Accounting Manual states, “The PCard is embossed with the cardholder’s name and must only be used by the cardholder or authorized proxy (for travel only). If a traveler needs another individual to make travel arrangements on their behalf utilizing the State’s credit card, the delegation of responsibility must be memorialized through the proxy process in JPMC’s PaymentNet system via DOA. All proxies must meet the same policy requirements established for becoming a cardholder and must adhere to the same policies and procedures as a cardholder. Only one proxy may be assigned to a cardholder. To assign a proxy, the PCard Proxy Request Form (PO004) must be completed and submitted to DOA.”⁵

The State of Delaware Budget and Accounting Manual also states, “Ensure the card is only used for legitimate State of Delaware business purposes and is not used by anyone other than the PCard holder whether or not a State employee.”⁶

Allowing other individuals to make purchases on PCards that are not assigned to them, creates the possibility of unauthorized purchases being made is not in compliance with the *State of Delaware Budget and Accounting Manual*.

³ *State of Delaware Budget and Accounting Manual* section 12.2.1

⁴ *State of Delaware Budget and Accounting Manual* section 12.5.1

⁵ *State of Delaware Budget and Accounting Manual* section 12.4.1

⁶ *State of Delaware Budget and Accounting Manual* section 12.6.1.2



Finding 6: *Lack of approval for purchases over \$1,000*

We also noted on May 3, 2018, the Controller registered an employee for a TeamMate User Forum event costing \$1,590. There was no documentation showing the necessary approval of the Chief of Staff for the purchase since it was over the \$1,000 limit.

The Department of Insurance's Standard Operating Procedures states, "Purchases must be pre-approved by Controller and items more than \$1,000 require review by the Chief of Staff. Items over \$5,000 require a Purchase Order in place prior to purchase."⁷

Without obtaining the proper levels of approvals, DOI may be unable to identify or prevent unauthorized purchases.

Finding 7: *Purchases not in accordance with mandatory use contracts*

The Controller was making purchases for administrative supplies from Target using her PCard, without utilizing the vendors set in place by the contract under Government Support Services (GSS) or obtaining supervisor or head of agency approval.

If you find an item that is cheaper than what is on the State Contract, GSS offers the "I Found it Cheaper" Suggestion Form to accompany the purchase. However, for the purchases the Controller made, there was not a form that accompanied these items purchased. Per the State contract, approved vendors for office/administrative supplies included Office Basics, Office Depot, Staples Business Advantage, and W.B. Mason Co., Inc.

The State of Delaware Budget and Accounting Manual states, "The Contracting unit within GSS manages all Statewide contracts for goods and services and administers Organization contracts as requested. This team is the State's central contracting unit and it acts on behalf of State Organizations, local government units, and authorized volunteer fire companies. GSS may negotiate with various manufacturers and distributors and award contracts that will enable State agencies, local governments, schools and school districts to purchase materiel at prices approved by the General Services Administration (GSA) of the United States."⁸

The Controller violated the procurement rules of the State by not utilizing the contract set forth between GSS and their list of approved vendors and by not documenting on the required GSS form that the items were purchased due to the lower cost.

Finding 8: *Misappropriation of funds - improper reimbursements*

The Controller submitted and obtained personal expense reimbursements for purchases which appear to have been for personal benefit. Two handheld games totaling \$10.00 were included in the reimbursement for a purchase of a heavy-duty expandable file folder which was identified as "Supplies for Financial Srvs" in a handwritten note on the receipt. DOI asserted there was no valid business purpose for the games and DOI does not have possession of them.

⁷ Department of Insurance Standard Operating Procedures #A15001

⁸ *State of Delaware Budget and Accounting Manual* section 5.2.1



The State of Delaware Budget and Accounting Manual states, “Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning.”⁹

Providing reimbursements to employees for personal purchases without a proper internal policy, causes the State to incur costs that it should not.

Summary of Allegation 3

The allegation is substantiated.

Allegation 4: Improper Issuance of Refunds

We received allegations that the Controller issued internal refunds of fees without obtaining the approval of the Office of Management and Budget and the Office of the State Treasurer.

In order to assess the validity of the allegations, we interviewed finance department personnel, reviewed the audio tape interview with the Controller, and requested records of past internal refunds issued. See findings below.

Finding 9: Issuance of Refunds of Fees

We found refunds of fees were being issued by DOI to payees without the proper approvals of the Director of Office of Management and Budget and the Office of the State Treasurer. Out of our total expenditure sample, there were two associated with refunds of fees. They were for \$50 each, dated October 22, 2018 and June 3, 2019. We noted that DOI was issuing refunds from their own special fund appropriation by using single pay vendors within the FSF accounting system.

According to 18 Del C., c. 7, “If the amount of taxes, charges or fees found due are less than the amount paid, either by examination of the return by the Commissioner or by allowance of a claim for overpayment filed by the payer with the Commissioner, the State Treasurer shall refund the excess out of the General Fund of this State upon certification by the Commissioner and approval by the Director of the Office of Management and Budget.”¹⁰

Without following protocol as stated in the Delaware Code, the refunds were not in compliance and paid from the improper fund.

Summary of Allegation 4

The allegation is substantiated.

Allegation 5: Failing to Properly Submit Internal Control Forms

⁹ *State of Delaware Budget and Accounting Manual* section 10.1

¹⁰ 18 Del C. 7 § 711.b



We received allegations that the Controller failed to properly submit and implement the State Internal Control Forms.

In response to the allegations, we interviewed finance department personnel, reviewed the audio tape interview with the Controller, and requested copies of the last two State Internal Control Forms submitted to the Division of Accounting. See findings below.

Finding 10: Purchase Card Roles and Internal Control Form

We noted on the last two PCard Roles and Internal Control Forms submitted to the Division of Accounting there was a lack of segregation of duties for the Controller and there was a delay in the submission of the form.

We observed that the Controller was assigned as both the FSF PCard Approver and the FSF Business Manager, meaning she was able to make a purchase and then approve the same purchase without any other employees reviewing the transaction.

Additionally, on multiple occasions, the Division of Accounting had to inquire the Department of Insurance about the submission of the form, because it was not submitted prior to the deadline. Based on the evidence reviewed, we observed that on January 8, 2018, an employee with the Division of Accounting emailed the Casual /Seasonal employee at DOI requesting the FY 2019 Internal Controls Form because they had not yet received it, and requested the form by January 11, 2018. On January 11, 2018, the form was submitted but was not signed by the Commissioner. It was not until January 14, 2018, the Division of Accounting received a signed completed FY 2019 PCard Roles and Internal Control Form.

The State of Delaware Budget and Accounting Manual states, “Segregation of duties for PCard usage and administration must be strictly enforced when assigning jobs roles.”¹¹

The State of Delaware Budget and Accounting Manual also states, “PCard Roles and Internal Control Form (PO012) are required to be updated as changes occur and submitted to Division of Accounting annually. Changes made between annual reporting periods must adhere to Internal Control guidelines to ensure segregation of duties.”¹²

Without proper segregation of duties, the Department of Insurance cannot verify the transactions are being properly reviewed for mistakes/errors and misstatements.

Summary of Allegation 5

The allegation is substantiated. The Controller did not file forms or assign roles as required by the Division of Accounting, and, therefore, DOI was not in compliance with the *State of Delaware Budget and Accounting Manual*.

Allegation 6: Failing to Submit Travel Receipts for Reimbursement from Third Parties

We received allegations that the Controller failed to submit travel receipts for third party reimbursements.

¹¹ *State of Delaware Budget and Accounting Manual* section 12.2.1

¹² *State of Delaware Budget and Accounting Manual* section 12.3.3



In response to the allegations, we reviewed DOI travel vouchers, reviewed the audio tape interview with the Controller, requested support documentation from the third party vendor, and interviewed finance department personnel.

Summary of Allegation 6

The allegation is substantiated. Per the National Association of Insurance Commissioners, from 2017 to 2019, \$10,591 of travel reimbursements were left unclaimed by DOI.

Conclusion

Although we were unable to substantiate all of the allegations, we noted an overall lack of controls in the Department. The Controller violated a number of provisions of the *State of Delaware Budget and Accounting Manual* which significantly increased the Department's risk of misuse and misappropriation. The Department of Insurance should implement or establish controls and processes to ensure compliance with State regulations.



Recommendations

Credential Sharing

- Develop procedures to ensure that credentials are kept exclusively to its respective user.
- Develop procedures and corresponding internal controls to ensure that all transactions meet the appropriate levels of authority and review.

Deposits of Checks

- Improve procedures for receiving deposits to ensure proper segregation of duties with the oversight of the deposits. This may include having an independent personnel review and monitor the check log to ensure when checks are received they are deposited the same day or the very next business day.

PCard Purchases

- Develop procedures and corresponding internal controls to ensure that all purchases have a business need.
- Implement procedures to track record retention of receipts and support documentation for all purchases and reimbursements.
- Acquire equipment/supplies only when there is a specific need and ensure purchases are being made with vendors set forth in the State contract with GSS.
- Purchases made over the limit set forth in the DOI policies should obtain the proper level of approval to ensure the validity of the purchase.
- Develop procedures to ensure that PCard purchases are made exclusively by its respective user and not fellow employees.

Refunds of Fees

- Refunds of fees issued should receive the proper approvals from the Director of Office of Management and Budget and the Office of the State Treasurer to ensure that refunds are paid appropriately. Or, if this practice is no longer standard, work with the Office of Management and Budget and the Office of the State Treasurer to make adjustments in the Delaware Code.

Internal Control Forms

- Develop policies to ensure segregation of duties exist when assigning job roles.
- Develop policies to ensure deadlines are met in regards to submitting required documentation to the requesting agency.

Objective, Scope, and Methodology

Objective

The objective of the investigation is to substantiate or refute the allegations.

This investigation was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Investigations*.

Scope

The scope of the investigation encompasses credential sharing, unauthorized use, check deposits, purchases, refunds, internal controls and travel made by the Department of Insurance Controller from July 1, 2017 through October 31, 2019.

Methodology

Our procedures consisted of the following:

- Interviews with employees, agency representatives, and other relevant organizations or individuals.
- Site visits to the Department of Insurance.
- Document reviews, including applicable laws and regulations, agency policies and procedures pertaining to objectives, and published reports or audits.
- Data analysis, which includes data collected by agencies and/or data compiled by our staff.
- Consultation with experts when warranted. Our staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

Department of Insurance Response

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

The Honorable Kathleen McGuiness, Auditor
401 Federal Street
Townsend Building, Suite 1
Dover, DE 19901

22 May 2020

Dear Auditor McGuiness;

Thank you for allowing your professional staff to examine the issues we found in our Finance Section. Your staff was most helpful and informative. They showed diligence in their work and provided us with a draft report as well as several recommendations for improvement.

Below are our comments as they relate to specific sections of their draft report.

Allegation 2, Withholding Deposits:

DOI Comment: Our internal investigation included interviews with current and past employees who all stated that over the past 3 years, they were instructed by the Controller to withhold larger amount checks late in each current fiscal year (a couple of weeks to a month) and deposit them piecemeal into the following fiscal year. In [REDACTED] taped interview, she admitted between minutes 22-25 of the taped interview, that with her knowledge and instruction, staff withheld deposit checks late in the fiscal year, in order to deposit them the following fiscal year. There was no written policy directing this practice, or supporting emails that we found.

Allegation 3, Finding 8: Misappropriation of funds - improper reimbursements:

DOI COMMENT: The purchase mentioned above was for \$27.99, but the two handheld games were valued at \$10. The remainder of the purchase was for special stationery folders for \$17.99.

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Summary of Allegation 6: Failure to Submit Travel Receipts for Reimbursement From Third Parties:

DOI COMMENT: Documents from the National Association of Insurance Commissioners (NAIC) were on hand that demonstrated that travel for NAIC conferences would be reimbursed by the NAIC up to allowable amounts. Statements from the NAIC indicated that the allowance for funds in 2017, 2018, and 2019 were not fully invoiced in those respective years by the DOI for the allowable expenses for conferences. The un-invoiced reimbursements for 2017 and 2018 totaled approximately \$10,000, and due to time limits to request those reimbursements, we were unable to request the reimbursements. The reimbursable travel for the NAIC Conference in April, 2019 had not been requested of the NAIC as of the time [REDACTED] was placed on paid leave on 8/13/19. [REDACTED] admitted to the lack of reimbursement requests for 2018 in her recorded statement, but said she was unaware of the lack of reimbursement for 2017. She further acknowledged her conversation with Chief of Staff [REDACTED] in March, 2019 when he brought up the fact that the 2018 reimbursement was incomplete and the reimbursement couldn't be recovered. He had only learned of that when the Deputy Commissioner had received a report from NAIC that approximately \$5,000 hadn't been requested for reimbursement for conferences in 2018. She admitted that [REDACTED] was the staff person under her supervision that failed to request the 2018 reimbursement. [REDACTED] had never relayed this information to the Chief of Staff prior to being asked about it in March, 2019. Relevant documents were forwarded to the Auditor's Office on 5/18/20.

Conclusion:

DOI COMMENT: Prior to the Auditor's draft report being issued, but following the examination by the Auditor's staff, a new Internal Control Policy was implemented on 4/1/20, that addresses several of the recommendations issued in this report. A copy was forwarded to the Auditor's Office on 4/1/20 for review. On 5/13/20, several more policy statements have been added to further address the recommendations in this report.

We will continue to work diligently with guidance from this report to implement all recommendations from the Auditor's office, along with guidance from the Division of Accounting, and Office of Management and Budget. We look forward to the complete resolution of all of the concerns raised in the draft report and will work quickly to accomplish the recommendations.

Sincerely,



Stuart Snyder, Chief of Staff



Auditor's Response

We would like to thank your staff for their cooperation during this investigation. We encourage you to implement our recommendations by strengthening internal controls and aligning procedures with State law.

State Auditor Response Allegation 2 Finding 2: There was no evidence of written policy or emails supporting the allegation that the Controller mandated the withholding of check of larger amounts towards the end of one fiscal year for deposit in the next fiscal year. In the Controller's taped interview, she stated that it was past practice from the previous Controller, that was carried on within the department. The finding remains as written.

State Auditor Response Allegation 3 Finding 8: The total amount of the two handheld games purchased by the Controller was changed from \$27.99 to \$10.00. The finding remains as written.

State Auditor Response Allegation 6 Summary: We reviewed the email correspondence from the National Association of Insurance Commissioners regarding the amount of travel reimbursements left unclaimed by DOI by failing to submit travel receipts. Per the National Association of Insurance Commissioners, for 2017, 2018, and 2019 approximately \$10,591.46 was not claimed for reimbursement. We included the new information into the report. With that being said, there is not a law that the Controller violated by not submitting the travel receipts. The summary remains as written.

We are committed to performing follow up procedures for all of our office's findings. We will be happy to work with you to schedule an appropriate time to return to ensure findings have been remediated. We look forward to working with you and providing assistance.

