

# OTHER ELECTIVE

## 12-00-00

### Other Elective

Lieutenant Governor

Auditor of Accounts

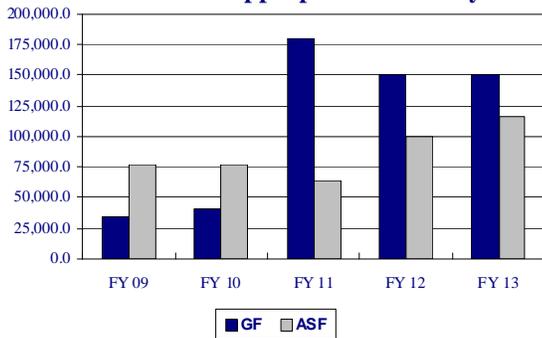
Insurance Commissioner

State Treasurer

- Regulatory Activities  
- Bureau of Examination, Rehabilitation and Guaranty

- Administration  
- Debt Management  
- Refunds and Grants\*  
\* Not a Unit for Budgeting Purposes

**Five-Year Appropriation History**



#### FUNDING

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 148,100.2         | 150,851.0         | 170,773.4            |
| ASF          | 90,417.9          | 115,570.5         | 105,953.8            |
| <b>TOTAL</b> | <b>238,518.1</b>  | <b>266,421.5</b>  | <b>276,727.2</b>     |

#### POSITIONS

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 38.5              | 38.5              | 38.5                 |
| ASF          | 93.5              | 94.5              | 96.5                 |
| NSF          | 3.0               | 4.0               | 2.0                  |
| <b>TOTAL</b> | <b>135.0</b>      | <b>137.0</b>      | <b>137.0</b>         |

## LIEUTENANT GOVERNOR

### 12-01-01

#### MISSION

To fulfill the constitutional duties of the office by effectively presiding over the State Senate, fairly and equitably chairing the Board of Pardons, assisting the Governor when asked and providing complete and efficient services to constituents. The Lieutenant Governor's Office is focused on children's issues, including education, parental involvement and mentoring, healthy children and healthy communities.

#### KEY OBJECTIVES

- Improve Delaware schools by working with districts to direct more funding into the classroom, encourage parental involvement, reward school performance for student achievement and help students with disabilities have a fair and equitable education.
- Develop a mentoring partnership program that matches schools with at-risk youth to Delaware businesses that have provided adult mentors, helping to build better academic success and strong social skills for Delaware's children.
- Improve the health of children by increasing access to healthcare and reducing exposure to environmental hazards.
- Improve the services the State offers to children with disabilities.
- Improve the services the State offers to children who are abused, neglected or in foster care, including the "Faith, Family and Foster Care" initiative launched in May 2012.
- Build better relationships between nonprofit, faith-based and community organizations that share the same interest in making families, individuals and communities stronger. Serve as a state resource and point of information for these organizations and help

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them find federal and foundation funding opportunities.

- Make the operations of the Criminal Justice Council (CJC) more transparent and allow more organizations access to CJC funds.
- Serve residents by having an open door policy for constituents to voice their concerns about issues related to state government and helping them find the answers to their questions and solutions to their problems.

### BACKGROUND AND ACCOMPLISHMENTS

The constitutional duties of the Lieutenant Governor are President of the Senate and President of the Board of Pardons. The office also handles constituent work and other initiatives to serve the residents of Delaware.

The office has developed a legislative Kids Agenda each legislative session, which focuses on improving the lives of Delaware's children. These legislative packages have passed in the General Assembly and have been signed into law by Governor Markell. Included in the Kids Agenda are laws that:

- Expanded the number of children who are screened for lead paint exposure at their age of maximum vulnerability;
- Banished the serviceable Chevrolet educational standard for children with disabilities from Delaware's schools and required those students receive educational services to help fulfill their potential (including Senate Bill 22 and House Bill 365);
- Set up the first state-run program where schools are evaluated on progress in educating at-risk kids, and 16 winning schools receive \$50,000 each in funds;
- Established a system to inform taxpayers about which school districts were directing public dollars into the classroom rather than administrative overhead;
- Required insurance carriers to cover developmental screening for infants and toddlers, which improves early detection of developmental problems in small children and allows more effective treatment; and
- Combat bullying in and out of schools.

The Lieutenant Governor's office created a Parental Involvement Award that is given out annually to two schools that demonstrate innovation and success at increasing parental involvement in their schools.

The Lieutenant Governor's office also hosts an annual art contest for students K-12.

### FUNDING

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 556.8             | 591.5             | 603.6                |
| ASF          | --                | --                | --                   |
| <b>TOTAL</b> | <b>556.8</b>      | <b>591.5</b>      | <b>603.6</b>         |

### POSITIONS

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 6.0               | 6.0               | 6.0                  |
| ASF          | --                | --                | --                   |
| NSF          | --                | --                | --                   |
| <b>TOTAL</b> | <b>6.0</b>        | <b>6.0</b>        | <b>6.0</b>           |

### ACTIVITIES

The duties and activities of the Lieutenant Governor and staff include the following:

- President, Delaware State Senate;
- President, Board of Pardons;
- Chair, CJC;
- Chair, Early Teacher Hiring Task Force;
- Chair, Interagency Council on Adult Literacy;
- Co-Chair, Delaware Early Childhood Policy Matters Commission;
- Honorary Chair, Delaware Safe Kids;
- Honorary Chair, State Employees Charitable Campaign;
- Member, National Lieutenant Governor's Association;
- Chair, Delaware Justice Reinvestment Task Force;
- Chair, House Joint Resolution 7; and
- Chair, Community Partnership Board, Delaware Youth Opportunity Initiative.

# OTHER ELECTIVE

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### AUDITOR OF ACCOUNTS

#### 12-02-01

#### MISSION

As the independent auditor, the Office of Auditor of Accounts (AOA) is charged with responsibility for various audits of state and federal funds that include the State's annual financial and federal single audits. AOA also helps to assure accountability of taxpayer dollars by ensuring high quality audits and investigations. In addition to identifying fraud, waste and abuse, AOA reviews government operations and programs for economy, efficiency and effectiveness.

#### KEY OBJECTIVES

- Issue timely reports that enhance public accountability and the stewardship of state and federal programs.
- Identify and reduce fraud, waste and abuse in organizations receiving state and federal funds.
- Ensure quality non-partisan audits and investigations that comport to professional standards.
- Ensure appropriate levels of audit coverage throughout the State including the State's Comprehensive Annual Financial Report and the Office of Management and Budget A-133 Single Audit.
- Facilitate ongoing discussions and dialog regarding audit recommendations and risk mitigation relative to internal control weaknesses identified throughout state government.

#### BACKGROUND AND ACCOMPLISHMENTS

During Fiscal Year 2012, AOA undertook significant changes in its operating procedures that were identified by performing internal audits and reviews. This introspective evaluation allowed AOA to reduce its administrative staff by 60 percent, converting these resources to audit professional staff.

Key areas of improvements included a reduction in duplication of efforts, improvements in bid processes and contracting and increased utilization of online services and technology. AOA plans to continue evaluating and implementing changes while ensuring appropriate levels of internal controls.

To the professional staff's credit, in addition to the internal process review and reorganization, AOA has managed to issue 73 audits and investigations in Fiscal

Year 2012. Further, AOA has developed an audit engagement contracting process that is based on guidance published by the National Intergovernmental Audit Forum, United States Government Accountability Office and Association of Government Accountants. This will help ensure high quality contracted audits at a reasonable cost.

#### FUNDING

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 1,773.1           | 2,721.7           | 2,750.3              |
| ASF          | 877.9             | 1,228.6           | 1,233.4              |
| <b>TOTAL</b> | <b>2,651.0</b>    | <b>3,950.3</b>    | <b>3,983.7</b>       |

#### POSITIONS

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 20.0              | 20.0              | 20.0                 |
| ASF          | 7.0               | 7.0               | 7.0                  |
| NSF          | --                | --                | --                   |
| <b>TOTAL</b> | <b>27.0</b>       | <b>27.0</b>       | <b>27.0</b>          |

#### ACTIVITIES

AOA's professional staff is highly credentialed, holding 20 certifications for 11 professional positions. Over the past year, AOA professional staff continued participating in professional committees, conferences and the National State Auditor's Peer Review program. AOA and staff are also members of the following professional organizations:

- National Association of State Auditors, Comptrollers and Treasurers;
- National State Auditors Association (NSAA);
- NSAA Auditor Training Committee;
- NSAA Human Resource Committee;
- NSAA Performance Audit Committee;
- NSAA Peer Review Committee;
- Board of Pardons;
- Insurance Determination Committee;
- Association of Government Accountants;
- Dover Chapter of Association of Government Accountants;
- Association of Certified Fraud Examiners;
- Information Systems Audit Control Association;
- National Audit Forum;
- Mid-Atlantic Intergovernmental Audit Forum;
- State Representative and Program Committee Chair, Mid-Atlantic Intergovernmental Audit Forum;
- American Institute of Certified Public Accountants;
- Delaware Society of Certified Public Accountants;
- Institute for Internal Control;
- Delaware League of Local Governments;

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- Government Finance Officers Association; and
- Association of Local Government Auditors.

**PERFORMANCE MEASURES**

|   | <b>FY 2012<br/>Actual</b> | <b>FY 2013<br/>Budget</b> | <b>FY 2014<br/>Gov. Rec.</b> |
|---|---------------------------|---------------------------|------------------------------|
| % of AOA audit reports issued within 45 business days of report date  | 100                       | 100                       | 100                          |
| % of non-criminal investigation reports issued to the organization within 45 days after completion of investigation | 100                       | 100                       | 100                          |
| % of Certified Professional Education compliance  | 100                       | 100                       | 100                          |

**INSURANCE COMMISSIONER**  
**12-03-00**

**MISSION**

In accordance with Title 18 of the Delaware Code, the Insurance Commissioner of the State of Delaware will:

- Investigate consumer complaints and inquiries and advocate for Delawareans;
- Ensure Delaware companies are in good financial health;
- Communicate timely and relevant insurance related information to Delawareans;
- Prosecute insurance fraud;
- License agents and brokers;
- Fund volunteer fire departments and other first responders;
- Police the conduct of carriers, agents and brokers doing business in Delaware;
- Save money for small businesses while increasing safety at work sites; and
- Foster economic development in Delaware as more companies domicile here.

**KEY OBJECTIVES**

- Responding to consumer inquiries.
- Increasing the information given to consumers on insurance topics through publications, online, public consumer altars and community outreach.
- Meeting the needs of the next generation of insurance consumers by establishing an enhanced online presence with quarterly newsletters on the department's website and on Facebook.
- Requiring insurance companies to respond to inquiries made on behalf of Delaware consumers.
- Introducing legislation designed to protect the health and welfare of Delawareans, ensure the solvency of Delaware companies and maintain Delaware's advantage as a preferred domicile for insurance companies.

**BACKGROUND AND ACCOMPLISHMENTS**

With a continued focus on consumers, the Commissioner and the department achieved the following during Fiscal Year 2012:

- Cited insurance companies for practices that hurt consumers, with fines ranging from \$15,000 to \$500,000;

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- Decreased average workers' compensation insurance premiums more than 30 percent since 2005, through combination of workers' compensation reform legislation and increased department scrutiny of rate applications;
- Protected military service members from unscrupulous practices by life insurance agents through regulation;
- Held auto insurance rates from major companies nearly even since 2005, rejecting some proposed increases;
- Worked with the General Assembly to pass one of the toughest laws in the country regarding homeowner insurance cancellations;
- Created or updated publications for consumers on Medicare, credit scoring, insurance issues for members of the military and insurance issues for civic and homeowner associations; and
- Conducted outreach sessions to provide insurance information and complaint services in community centers, senior centers and churches.

### FUNDING

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | --                | --                | --                   |
| ASF          | 19,724.9          | 24,049.6          | 24,129.1             |
| <b>TOTAL</b> | <b>19,724.9</b>   | <b>24,049.6</b>   | <b>24,129.1</b>      |

### POSITIONS

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | --                | --                | --                   |
| ASF          | 76.0              | 77.0              | 79.0                 |
| NSF          | 3.0               | 4.0               | 2.0                  |
| <b>TOTAL</b> | <b>79.0</b>       | <b>81.0</b>       | <b>81.0</b>          |

### ACTIVITIES

- Member, Delaware Health Care Commission.
- Member, State Employee Benefits and Insurance Coverage committees.
- Member, National Association of Insurance Commissioners (NAIC).

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### **REGULATORY ACTIVITIES 12-03-01**

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### ACTIVITIES

#### **Fraud Prevention Bureau**

In Fiscal Year 2012, the Fraud Prevention Bureau investigated 490 cases of alleged insurance fraud. Approximately 60 percent of the cases were resolved by consent agreements or arrest, deemed to be unfounded or

had dispositions that were suspended. Approximately \$30,135 in civil penalties were assessed in substantiated fraud cases during Fiscal Year 2012 with a collection rate of approximately 89 percent.

During Fiscal Year 2012, Senate Bill 80 was introduced and passed in the General Assembly allowing for the first fraud assessment increase since 1995. The Fraud Prevention Bureau has continued to experience a reduction in the number of consumer complaints regarding medical discount plans marketed and sold within Delaware. This is attributable to the review and licensing process implemented by the department as the result of legislation supported by the department.

The Fraud Prevention Bureau has joined with entities such as the U.S. Department of Justice, the Delaware Department of Justice, the National Insurance Crime Bureau (NICB) and the NAIC in a combined effort to reduce insurance fraud particularly within the healthcare industry.

Several current members of the Fraud Prevention Bureau hold certifications in professional associations such as the Association of Certified Fraud Specialists and Association of Accredited Health Care Fraud Investigators.

Fraud investigators also maintain the following activities:

- Member, Delaware Valley Chapter of International Association of Special Investigative Units;
- Member, NAIC Anti-Fraud Task Force;
- Member, NICB;
- Member, International Association of Special Investigation Units;
- Member, National Health Care Anti-Fraud Association;
- Member, U.S. Attorney General Healthcare Fraud Taskforce; and
- Special training on healthcare fraud detection and investigation and claims.

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### **BUREAU OF EXAMINATION, REHABILITATION AND GUARANTY 12-03-02**

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### ACTIVITIES

#### **Examinations/Financial Analysis**

This section provides financial solvency oversight for the approximately 130 Delaware domesticated companies through quarterly financial analysis and the performance of financial examinations as required by statute or as deemed necessary for the protection of Delaware

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policyholders. The department received re-accreditation from the NAIC in 2009 for five years and participates on numerous financial committees at the NAIC level.

The staff is also responsible for the ongoing licensing, registration and regulation of numerous insurance operating entities which include admitted insurers such as: property/casualty insurers, life/health insurers, domestic surplus lines companies, fraternal, health maintenance organizations, Medicare prescription drug plans, title insurers, etc. and insurance-related entities such as: accredited reinsurers, premium finance companies, risk retention groups, reinsurance intermediaries, third party administrators, etc.

#### Market Conduct

This section is comprised of company market conduct, agency market conduct and market analysis, rates and forms, producer licensing and continuing education. This section conducts examinations of companies to ensure they are in compliance with the Delaware Insurance Code and Regulations with respect to rating, underwriting and claim handling practices. Exams are scheduled based on complaint activity, special requests or on a regular schedule.

This section exceeded goals set by the NAIC in respect to market analysis by completing 63 Market Analysis Level 1 reviews and 25 Level 2 reviews, and six interrogatories were completed during the fiscal year.

The Company Market Conduct unit is responsible for the oversight of Company Market Regulation activities. The pre-authorization review continued throughout the year.

#### Agency Market Conduct

This section receives referrals from the public, as well as from the Consumer Services and Fraud Prevention Bureau sections regarding alleged misconduct of insurance agents and agencies. It conducts examinations of agents and agencies to ensure they are in compliance with the Delaware Insurance Code and Regulations. The Agency Market Conduct section also reviews producer/adjuster applications regarding prior criminal or civil actions. Some of these have resulted in fines being assessed.

This section implemented the State Based Systems (SBS) to provide efficient and accurate processing of enforcement cases through a fully integrated system that is linked to the Company and Producer Licensing systems.

Agency Market Conduct staff investigated 161 cases. Approximately 73 cases were resolved by consent.

Approximately \$250,000 were collected in civil penalties and restitution.

The examiners in this section are pursuing Accredited Insurance Examiner, Certified Insurance Examiner and Certified Professional Insurance Woman designations. Agency Market Conduct employees also maintain membership and participate in the following activities:

- Member, NAIC;
- Member, Securities Insurance Licensing Association;
- Member, System for Electronic Rate and Form Filing (SERFF);
- Member, SBS;
- Member, Insurance Regulatory Examiners Society, including Board of Directors; and
- Member, National Association of Insurance Women.

#### Producer Licensing

This section is responsible for the licensing and administration of the following license types: Producer, Adjuster, Appraiser, Public Adjuster, Fraternal Producer, Apprentice Adjuster, Apprentice Appraiser, Surplus Lines Broker, Limited Lines Producer and Business Entities. The section is also responsible for insurance company appointments, continuing education, investigations and insurer licensing market conduct issues.

Staff provided presentations to consumer advocate groups, the public, professional insurance organizations including agent associations and business entities, industry trade groups and insurance companies on current insurance industry trends and regulatory changes, enforcement issues and ethics.

This section continues to work with National Insurance Producer Registry (NIPR) to enhance the electronic processes for licensing. The following license types will be implemented in NIPR beginning January 2013: Viatical Settlement provider, Portable Electronic Insurance, Discount Medical Plans and Car Rentals. The electronic application process will eliminate paper applications for these license types.

Delaware has worked closely with SBS to implement the following electronic processes: email updates, report generator and continuing education transcript lookup and provider updates. These electronic processes have streamlined the section and allowed for records to be updated efficiently and accurately.

#### Rates and Forms

This section enhances the tracking and monitoring of rate and form filings with SERFF, which is designed to enable companies to send and receive, comment on and approve or reject insurance industry rate and form filings electronically. SERFF continues to implement changes to comply with Patient Protection and Affordable Care Act

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(PPACA) for reporting. Nearly 100 percent of all filings are received electronically.

The Rates and Forms section maintains the following activities:

- Participates in committees and work groups of the NAIC;
- Working on the Health Exchange implementation as a subset of the Health Reform Steering Committee;
- Participates in E-Reg;
- Participates in SERFF working groups; and
- Member, Association of Insurance Compliance Professionals - two staff members have completed courses for professional designation as Associate Compliance Professional.

### Consumer Services

The Consumer Services unit investigates and attempts to resolve complaints by Delaware consumers against insurance companies and agents and acts as the frontline in the department's interaction with, and service to, Delaware insurance consumers. Its professional staff is comprised of 10 investigators, half of whom are responsible for life and health and half of whom are responsible for property and casualty. They investigate complaints lodged by Delaware policyholders against carriers, brokers and agents who are subject to regulation under Title 18.

The Consumer Services unit performs many additional functions. Even in cases where the department lacks jurisdiction, the investigators will locate the appropriate contact in another state or agency and put the consumer in direct contact with them. Since the passage of the federal Pre-Existing Condition Insurance Plan legislation, the unit has been increasingly called upon to assist Delawareans without health insurance to enroll in this program. Additionally, Consumer Services investigators participate in outreach in all three counties, providing information and real-time guidance to those who are either unaware of the department's services or are unable to contact the department during business hours.

Once again this year, the Consumer Services division received approximately 5,500 consumer complaints and inquiries. As in prior years, the most frequent issues regard what perils are covered under a policy, disputes about claims payment and increases in premiums.

In accordance with PPACA, the Department of Health and Social Services will manage a health benefits exchange in conjunction with the Insurance Commissioner's Office. The departments are deeply involved in planning for the exchange, and Consumer Services will play a crucial role in its operation with

regard to handling complaints, assisting consumers with enrollment and promoting the exchange out in the community.

### Workplace Safety Program

This program, available to employers doing business in Delaware, offers participants the opportunity to earn up to a 19 percent discount on workers' compensation premiums. Employers who have been in operation three years or more and whose annual workers' compensation premium is \$3,161 or more are eligible to participate. The program works with the Delaware Compensation Rating Bureau, qualified inspectors, insurance industry and employers to ensure accuracy of information and expeditious processing of each employer's safety credit. Since its inception in 1988, the program has yielded a savings of approximately \$103 million for Delaware employers. In Fiscal Year 2012, 1,487 employers participated.

### PERFORMANCE MEASURES

|   | FY 2012<br>Actual | FY 2013<br>Budget | FY 2014<br>Gov. Rec. |
|---|-------------------|-------------------|----------------------|
| # of new licenses:                            |                   |                   |                      |
| producers                                     | 13,370            | 14,000            | 14,500               |
| adjusters                                     | 7,917             | 8,000             | 8,200                |
| appraisers                                    | 64                | 50                | 55                   |
| public adjusters                              | 29                | 27                | 25                   |
| fraternal producers                           | 34                | 50                | 50                   |
| apprentice adjusters                          | 17                | 30                | 30                   |
| apprentice appraisers                         | 0                 | 5                 | 3                    |
| surplus lines brokers                         | 122               | 150               | 155                  |
| limited lines producers                       | 490               | 400               | 450                  |
| business entities                             | 728               | 700               | 710                  |
| # of producers appointed                      | 62,392            | 65,000            | 70,000               |
| # of consumer complaints/inquiries            | 6,905             | 8,000             | 8,000                |
| # of arbitration cases heard                  | 155               | 160               | 160                  |
| # of arbitration cases closed without hearing | 129               | 120               | 120                  |
| # of participants in Workplace Safety program | 1,487             | 1,550             | 1,600                |

### ELDERinfo

ELDERinfo is the State Health Insurance program for Delaware's Medicare population of approximately 160,000. The program is a public service of the Insurance Commissioner's Office and is funded through a grant from the Centers for Medicare and Medicaid Services.

The program is designed to assist, educate and empower people with Medicare and their caregivers with complex and often confusing matters of the Medicare Prescription Drug Improvement and Modernization Act of 2003, Medigap and other supplemental insurance, medical bills, enrollment issues, non-renewals, Medicare Advantage options, guaranteed issue rights, financial assistance with prescriptions, Medicare Savings

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programs, long-term care insurance and other health insurance matters.

Staffing consists of three employees and 17 volunteer counselors conducting one-on-one counseling. From April 2011 through March 2012, the unit assisted 7,102 beneficiaries with one-on-one counseling and reached more than 11,631 individuals through interactive public presentations, health fairs and direct mailings. The unit mailed 933 Delaware Prescription Assistance program applications and 560 Medicaid applications, resulting in potential savings of more than \$2,854,944 with prescription drug benefits and savings for the Medicare premium reimbursement.

ELDERinfo continues to focus on one-on-one counseling for Delaware seniors. The unit will continue to educate the Medicare population through direct mailers, health fairs, outreach programs and senior forums.

In 2011, Medicare changed the Part D open enrollment period. Enrollment began October 15th and ended December 7th. During this time period, ELDERinfo provided one-on-one counseling to 2,380 Medicare beneficiaries, an increase of 55 percent compared to 2010.

### Bureau of Captive and Financial Insurance Products

The Bureau of Captive and Financial Insurance Products was formed in 2009 to provide increased flexibility to businesses needing customized insurance, foster the growth of Delaware as a domicile for captive insurance entities and create additional revenue-generating insurance products and services. Since the enactment of the current enabling legislation in 2005, the number of captive insurance companies domiciled in Delaware has increased from 59 to 156. Delaware is the 6th largest domicile in the country for captive insurance entities.

### PERFORMANCE MEASURES

|                                       | FY 2012<br>Actual | FY 2013<br>Budget | FY 2014<br>Gov. Rec. |
|---------------------------------------|-------------------|-------------------|----------------------|
| # of rates received                   | 2,975             | 3,000             | 2,604                |
| # of forms received                   | 30,360            | 31,000            | 33,612               |
| # of advertisements received          | 328               | 500               | 456                  |
| # of rules received                   | 2,601             | 2,600             | 2,604                |
| # of companies regulated:             |                   |                   |                      |
| domestic                              | 130               | 136               | 142                  |
| foreign                               | 1,261             | 1,300             | 1,340                |
| # of financial exam reports published | 29                | 32                | 28                   |
| # of captive insurance companies      | 156               | 179               | 206                  |

## STATE TREASURER 12-05-00

### MISSION

The mission of the Office of the State Treasurer (OST), the cornerstone of the State's financial system, is to restore economic prosperity to the First State by providing critical financial services for the people of Delaware.

### FUNDING

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 145,770.3         | 147,537.8         | 167,419.5            |
| ASF          | 69,815.1          | 90,292.3          | 80,591.3             |
| <b>TOTAL</b> | <b>215,585.4</b>  | <b>237,830.1</b>  | <b>248,010.8</b>     |

### POSITIONS

|              | FY 2012<br>ACTUAL | FY 2013<br>BUDGET | FY 2014<br>GOV. REC. |
|--------------|-------------------|-------------------|----------------------|
| GF           | 12.5              | 12.5              | 12.5                 |
| ASF          | 10.5              | 10.5              | 10.5                 |
| NSF          | --                | --                | --                   |
| <b>TOTAL</b> | <b>23.0</b>       | <b>23.0</b>       | <b>23.0</b>          |

### ADMINISTRATION 12-05-01

OST is divided into four offices: Executive Office of the State Treasurer, Office of Finance and Treasury Services, Office of Disbursements and Reconciliations and Office of Economic Policy. The respective offices have independent objectives and work in unison to accomplish the mission of OST.

### KEY OBJECTIVES

- Provide accurate daily reconciliation of the State's bank accounts, set the State's daily cash position and maintain up-to-the-minute data on the State's investment portfolio.
- Manage the State's \$2.1 billion investment portfolio pursuant to the investment guidelines set forth in the Delaware Code and the Cash Management Policy Guidelines in accordance with best practices.
- Develop strategic programs and innovative initiatives designed to meet OST's mission and statutory mandates.
- Ensure optimal investment opportunities and benefits for eligible employees in the Deferred Compensation 457(b) and 403(b) plans and increase

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participation through effective marketing and educational resources.

- Work with state agencies and vendors to provide treasury services, including Automated Clearing House (ACH) and credit card processing services designed to further reduce the number of checks issued, maximize savings and optimize service.
- Continually provide timely and pertinent economic information and resources to policymakers and Delaware residents to assist them in their financial decisions.
- Ensure the State and applicable parties maintain compliance with Social Security regulations.
- Provide estimates of dividend and interest income for the Delaware Economic and Financial Advisory Council (DEFAC) and the General Assembly.
- Manage the Delaware Local Government Investment Pool (DELGIP) on behalf of participating local governments.
- Serve as an idea center for investment and financial management within the contours of state government.

### BACKGROUND AND ACCOMPLISHMENTS

Focused on meeting the economic challenges of a 21st century global economy, OST has undertaken new reforms and initiatives designed to use the State's financial resources to meet its statutory mandates while assisting in the collective effort to restore economic prosperity to Delaware. During the past fiscal year, OST implemented the following reforms and initiatives and achieved the following accomplishments:

- Implemented a 21st century vision and mission;
- Implemented an effective and transparent organizational structure;
- Issued the second report on the Delaware State Treasury;
- Implemented the Delaware Economic Index and Delaware Economic Early Warning System;
- Modernized OST with advanced technology critical to managing the State's investment portfolio;
- Developed the Prosperity Portal: Your Pathway to Financial Education, an online tool aimed at assisting Delawareans to realize their financial goals;
- Created and successfully launched the "Earn. Save. Invest. PROSPER" financial savings marketing outreach campaign;

- Revamped the National Save for Retirement Week Program, later recognized with a national award by the National Association of Government Defined Contributions Administrators;
- Managed the State's \$2.1 billion investment portfolio;
- Supported Delaware small businesses through a variety of innovative programs;
- Proposed changes to the State's Cash Management Policy;
- Selected a new Delaware-based merchant and credit card processing vendor;
- Signed an agreement with American Express® that provides individuals and corporations an additional payment option to satisfy outstanding state invoices;
- Expanded the remote check deposit program;
- Received White House recognition as an innovator in financial education programs with the Delaware Economic Index and the Prosperity Portal;
- Hired an independent financial advisor to assist in the management of the State's investment portfolio; and
- Initiated a stored value card program and awarded the vendor contract.

In sum, OST has built upon the achievements of the past year while continuing to redefine its critical role within the constitutional framework of state government.

### ABOUT THE OFFICES

#### Executive Office of the State Treasurer

The Executive Office of the State Treasurer is responsible for proposing strategic initiatives, serving as the legislative liaison and providing the necessary budgetary and financial resources for OST to meet its statutory mandates in accordance with the mandate set forth by the people of the State. With a focused mission, the office works to establish sound policies and procedures that will ensure the overall health of the State's financial system. Key duties include strategic initiatives, budget, legislative communications, social security administration and information technology.

#### *Social Security Administration*

The administration of the State's Section 218 Social Security agreements is under the purview of the Executive Office. OST is working to build relationships with the related entities to ensure compliance with Section 218 agreements and work with all applicable parties.

#### Office of Finance and Treasury Services

The Office of Finance and Treasury Services manages a variety of very important statewide functions for the

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agencies and institutions of the State. These include deferred compensation programs, investment management, banking and cash management services and debt management.

#### *Deferred Compensation Programs*

Participation in the State of Delaware Deferred Compensation 457(b) Plan has grown from 3,400 in July 1999 to over 13,865 in July 2012. State employees contribute more than \$1.2 million per pay cycle and have over \$400 million saved toward their retirement. Although currently suspended, the State Match program resulted in more than \$19 million in state employee match accounts prior to its suspension.

Participation in the 403(b) plan for employees working for a school district, charter school, Delaware Technical and Community College, Delaware State University and Department of Education has grown from 4,328 in 2009 to 4,593 in July 2012. Assets in the 403(b) plan currently total over \$206 million.

#### *Investment Management*

The Investment Management section monitors external investment managers who invest the State's money on behalf of OST pursuant to the investment guidelines set forth in the Delaware Code and the Cash Management Policy Guidelines and in accordance with best practices. This section is responsible for periodic reporting related to investments. All interest earnings on investments accrue to the General Fund unless state law or legislation requires otherwise. This section also provides estimates of dividend and interest income for DEFAC and the General Assembly.

#### *Banking and Cash Management Services*

This section of the office manages the State's major banking relationships and the State's credit card acceptance program. The unit is responsible for the daily investment of the State's cash pool of over \$2.1 billion, setting the daily cash position and moving money as directed. It is also responsible for assisting state agencies with banking and vendor payment needs, interest calculations for all school and special funds and monitoring DELGIP.

#### **Office of Disbursements and Reconciliations**

The Office of Disbursements and Reconciliations is responsible for reconciling the State's general collection and disbursement accounts, which includes performing internal audits and payment distribution for ACH and check services. Specifically, the payments processed through this office include payroll, pension, vendor, foster care, personal income tax refunds, escheat payments and corporate tax refunds. The office also provides a variety of payment services including reissuance or cancellation of checks, maintaining the

state-dated check register and providing deposit information for incoming funds.

OST maintains a continual improvement policy for fraud prevention, including the use of the positive pay system, which verifies certain information on all state issued checks prior to payment by a financial institution. The office also works with other state agencies on internal processes and increasing professional education to keep current on strategies relating to fraud prevention.

#### **Office of Economic Policy**

The Office of Economic Policy is responsible for producing the Delaware Economic Index, the Delaware Economic Early Warning System, community outreach and financial literacy initiatives for OST. The Delaware Economic Index is issued every 60 days by the office and provides independent financial and economic research about the state of the economy.

Incorporating a unique partnership among OST, federal agencies and nonprofits, this office has launched the Prosperity Portal, a resource for Delaware families, individuals and businesses. The portal serves as a resource for Delawareans of all ages by providing financial information, articles, services and other economic data.

### ACTIVITIES

- Settle the cash position daily to ensure state funds are recorded in appropriate accounts while maximizing dollars available for investment.
- Administer and promote the State Deferred Compensation programs.
- Record and deposit receipts daily including tracking ACH activity.
- Reconcile major state bank accounts and lockboxes.
- Disburse funds to meet financial obligations, including ACHs, wire transfers and daily processing of vendor checks.
- Provide service to agencies and schools by issuing stop payment/reissues and other check requests.
- Ensure the State and applicable parties maintain compliance with Social Security regulations.
- Process payroll, pension, vendor, foster care and personal income tax refunds.
- Facilitate cash management projects statewide that improve efficiency by reducing float, eliminating paper and streamlining processes.
- Reconcile state payroll and payment of federal taxes.
- Provide a central resource for Delaware residents to obtain financial information.
- Approve, monitor and reconcile the acceptance of credit card payments by any state agency.

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### PERFORMANCE MEASURES

|  | FY 2012<br>Actual | FY 2013<br>Budget | FY 2014<br>Gov. Rec. |
|--|-------------------|-------------------|----------------------|
| # of 457(b) Deferred Compensation accounts | 13,865            | 14,500            | 13,750               |
| # of 403(b) Deferred Compensation accounts | 4,593             | 4,459             | 4,500                |
| # of days to reconcile major accounts      | 5                 | 5                 | 5                    |
| \$ ACH vendor payments (billions)          | 3.8               | 3.9               | 3.9                  |

### **DEBT MANAGEMENT** **12-05-03**

#### MISSION

The mission of the debt management section of OST is to manage the State's debt, including legal and accounting records; process and account for all local school debt and interest; process and account for all special fund balances and interest; and provide overall guidance and accounting in an effort to maximize taxpayer value in the area of debt issuance and its management.

#### KEY OBJECTIVES

- Provide guidance to state and school district officials regarding debt issuance and capital financing, which maximizes taxpayer value and protects the interests of investors.
- Maintain an accounting and data retrieval system in OST for bond authorizations, bond sales, amortizations, debt budgeting and debt payments with less reliance on manual calculations and operations for state bonds as well as for school district bonds.
- Work with the First State Financials (FSF) team to improve electronic reporting of special and school funds and interest payments on these funds.
- Coordinate and process the payment of principal and interest on behalf of all state agencies, school districts, banks and other financial institutions.

#### BACKGROUND AND ACCOMPLISHMENTS

During Fiscal Year 2012, all debt service payments to the Depository Trust Company were met on the bond due dates, which entailed:

- Disbursement of \$212.0 million for 23 General Obligation issues on \$1,696.5 million outstanding on June 30, 2012; and

- Collection of \$62.2 million from schools for the repayment of their local share of school construction on \$545.3 million of outstanding local share bonds on June 30, 2012.

#### ACTIVITIES

- Maintain records required for bond projects as authorized by the annual Capital Improvements Act from authorization through bond sale and amortizations of the bond sales over a number of years.
- Provide the Office of Management and Budget, other state agencies and school districts with the principal and interest payments due by fund and fiscal year.
- Provide Bond Counsel with data relating to bond projects, including project identification, description, volume and chapter required to obtain a legal opinion for the bond issue.
- Establish and monitor special fund interest table in FSF to calculate and pay interest on special funds on deposit with OST. Interest in Fiscal Year 2012 totaled more than \$1.9 million.
- Advise and provide assistance to local school districts in acquiring an Attorney General's opinion in securing a Bond Anticipation Note or permanent bond financing of the local share.
- Establish, maintain and monitor the school fund interest table in FSF to calculate interest to schools for their operation, debt service and construction funds on deposit with OST. Interest paid to school districts on their funds on deposit with OST totaled \$3.0 million for Fiscal Year 2012.
- Assist the public with any inquiries concerning state bonds.

#### PERFORMANCE MEASURE

|   | FY 2012<br>Actual | FY 2013<br>Budget | FY 2014<br>Gov. Rec. |
|---|-------------------|-------------------|----------------------|
| % of accounting automation for debt issuances | 100               | 100               | 100                  |

### **REFUNDS AND GRANTS** **12-05-04**

#### MISSION

The mission of the Refunds and Grants section of OST is to process refunds for improperly collected fees or receipts, maintain an accurate accounting of fiscal year refunds and accurately and timely process Grants-In-Aid, municipal street aid and fire and ambulance organization

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and police pensions in accordance with statutory requirements.

**KEY OBJECTIVE**

- Timely distribution of refunds and grants.

**BACKGROUND AND ACCOMPLISHMENTS**

Per 29 Del. C. § 2713, the State Treasurer executes a payment voucher as a direct claim in the event any agency improperly collects fees or receipts that become revenue to the General Fund.

In accordance with the annual Grants-In-Aid legislation, OST makes quarterly disbursements to nonprofit organizations.

**ACTIVITY**

- Disburse municipal street aid and fire and ambulance organizations and police pensions.