

STATE OF CONNECTICUT



**AUDITORS' REPORT
DEPARTMENT OF INSURANCE
AND
OFFICE OF THE HEALTHCARE ADVOCATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013**

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

Table Of Contents

INTRODUCTION	1
COMMENTS	2
FOREWORD	2
Significant New Legislation.....	3
RÉSUMÉ OF OPERATIONS	4
General Fund Receipts	4
Insurance Fund – Department of Insurance	5
Special Revenue Fund – Federal and Other Restricted Account	6
Special Revenue Fund - Brokered Transactions Guaranty Fund	6
Trust Deposits and Escrow Accounts Held by the State Treasurer	7
STATE AUDITORS’ FINDINGS AND RECOMMENDATIONS	8
Monitoring of Sick Time Usage and Work Schedules.....	8
Disaster Recovery Planning	9
Software Inventory.....	10
Brokered Transactions Guaranty Fund	11
Internal Controls over Receipts, Revenue and Write-offs	12
Assessment Calculation Accuracy	13
Surety Bond Agent Legislation.....	14
GAAP Reporting	15
Commission Information	15
RECOMMENDATIONS	17
CONCLUSION	19

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

October 9, 2014

AUDITORS' REPORT DEPARTMENT OF INSURANCE AND OFFICE OF THE HEALTHCARE ADVOCATE FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

We have audited certain operations of the State of Connecticut – Department of Insurance and the Office of the Healthcare Advocate in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2012 and 2013. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions.
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings and other pertinent documents; interviewing various personnel of the department; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient,

appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department.

For the areas audited, we identified (1) deficiencies in internal controls, (2) apparent noncompliance with legal provisions, and (3) need for improvement in management practices and procedures that we deemed to be reportable. The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Department of Insurance and the Office of the Healthcare Advocate.

COMMENTS

FOREWORD

The duties, powers and responsibilities of the Department of Insurance (DOI) are set forth primarily by Title 38a of the General Statutes. The responsibilities of DOI include the licensing and oversight of insurance business within the state and the collection of certain taxes and fees arising from such activities. Included within the scope of the term insurance business are the insurance activities related to fraternal benefit societies, certain coverage incident to credit transactions, public adjusters, casualty adjusters, motor vehicle physical damage adjusters, certified insurance consultants and healthcare centers.

In accordance with Section 36a-285 of the General Statutes, DOI, in conjunction with the Department of Banking, is also responsible in certain instances for the oversight of mutual savings banks of the state, which engage in the marketing of savings bank life insurance. DOI also has oversight responsibilities for workers' compensation under Sections 31-328 through 31-339 for mutual associations of employers formed for the purposes of insuring their liabilities to compensate employees for injuries sustained, and under Sections 31-345 through 31-348a for policies of insurance issued by either insurers or self-insured, purporting to cover an employer's liabilities for workers' compensation. Thomas B. Leonardi was appointed commissioner on February 14, 2011 and served in that capacity throughout the audited period.

The duties, powers and responsibilities of the Office of the Healthcare Advocate (OHA) are set forth primarily by Title 38, Chapter 706b of the General Statutes and, pursuant to these provisions, the office is placed within DOI for administrative purposes only. OHA acts to assist consumers with healthcare issues through the establishment of outreach programs related to consumer rights and responsibilities as members of managed care plans. OHA is under the direction of a Healthcare Advocate, who is appointed by the Governor with the approval of the General Assembly. Victoria Veltri served as the Healthcare Advocate throughout the audited period.

Commission on Health Equity

The duties, powers and responsibilities of the Commission on Health Equity are set forth in Title 38a, Chapter 706b, Section 38a-1051 of the General Statutes and, pursuant to these provisions, is placed within OHA for administrative purposes only. The mission of the 32-member commission is to eliminate disparities in health status based on race, ethnicity and linguistic ability and to improve the quality of health for all of the state's residents. Membership consists of commissioners or their designees and appointed public members. The commission appoints a Health Equity Director to assist in its operations. Dr. Raja Staggers-Hakim served in this capacity until June 3, 2013, and the position was vacant as of June 30, 2013. The chairperson of the commission as of June 30, 2013 was Dr. Marie Spivey.

Advisory Committee to the Office of the Healthcare Advocate

Section 38a-1049 of the General Statutes established the Advisory Committee to OHA. The advisory committee meets to review and assess the performance of OHA and makes an annual evaluation of OHA. This committee completed its annual evaluations during the fiscal years ended June 30, 2012 and 2013.

Significant New Legislation

Public Act 11-1 Sections 56 through 73, enacted in the October 2011 Special Session and effective July 1, 2012, created additional options and incentives for establishing captive insurance companies in Connecticut. A captive insurance company is regulated by DOI and is a wholly-owned subsidiary of another company whose primary function is to insure all or part of its controlling company's risks. Certain tax credits for these companies are tied to economic development.

Public Act 11-45, effective October 1, 2011, made changes to and adds new requirements for surety bail bond agents and professional bail bond agents. A surety bail bond agent, through a contract with an insurer, sells bail bonds in criminal cases and is regulated by DOI. The surety bond agents must register with DOI and pay licensing fees set by statute. Licenses expire on January 31st in even-numbered years.

Public Act 11-58 Sections 20 through 36, effective October 1, 2011, required third-party administrators to be licensed by DOI. Third-party administrators are those who underwrite and collect premiums from, or adjust or settle claims, for residents of Connecticut in connection with life, annuity or health coverage offered or provided by an insurer to Connecticut residents. Section 32 requires annual reports to be submitted to DOI and to be reviewed by September 1st of each year. Sections 62 and 89 of this act established certain license fee requirements and revoked the previous requirements, respectively, effective July 1, 2011.

Public Act 11-61 Sections 33 to 36, effective June 21, 2011, applied to nonadmitted (not purchased through a broker) insurance and required a premium tax for insurance coverage procured, continued or renewed on or after July 1, 2011. This act made changes in accordance with the federal Nonadmitted and Reinsurance Reform Act of 2010 to limit the policies subject

to the tax and modified how tax must be paid and collected. It also exempted certain commercial purchasers from filing requirements.

Public Act 12-1 Sections 213 to 216, of the June 12, 2012 Special Session effective July 1, 2012, changed certain assessment methodology, added a late filing fee and removed life insurance companies from the health and welfare fee requirement, which is used to fund the childhood immunization program operated by the Department of Public Health. It also made changes to the assessments related to captive insurance companies and premium taxes.

Public Act 12-1 Section 19, enacted in the December 2012 Special Session, effective December 21, 2012, transferred the sum of \$500,000 from the Insurance Fund to the General Fund for the fiscal year ended June 30, 2013.

RÉSUMÉ OF OPERATIONS

General Fund Receipts

Receipts for the General Fund are summarized below for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

General Fund Receipts by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Fees	\$13,642,502	\$13,495,728	\$22,693,619
Licenses	20,807,912	50,277,955	21,731,720
Surplus Line Tax	11,438,554	13,189,614	18,422,014
Fines and Costs	3,205,708	4,548,592	4,330,447
Other Receipts	5,304	(31,511)	(34,743)
Total Receipts	<u>\$49,099,980</u>	<u>\$81,480,378</u>	<u>\$67,143,057</u>

Fees include receipts from each domestic insurer or health care center doing life or health insurance business in the state. The fees are calculated on the basis of life and health insurance premiums and subscriber charges in the same manner as calculations under Section 38a-48 of the General Statutes for the Insurance Fund assessments, which are described later in this report. A portion of the fees above totaling \$9,044,950 and \$18,448,623 for the fiscal years ended June 30, 2012 and 2013, respectively, is used to fund the purchase of routine vaccines to immunize children in accordance with Section 19a-7j subsection (a) of the General Statutes. Revenue generated from licenses increased then decreased because insurance agent and producer licenses are renewed in even-numbered years. Receipts from the Surplus Line Tax represent amounts assessed under Section 38a-743 of the General Statutes and are equal to four percent of the gross premiums on insurance provided by surplus line brokers. These revenues increased 15 and 40 percent during the fiscal years ended June 30, 2012 and 2013, respectively because of the increased premium costs and the increased demand in the nonadmitted market. Changes within the Fines and Costs during the audited period were due to changes of assessed fines by the Market Conduct Division. There were no expenditures charged to the General Fund by DOI.

Insurance Fund – Department of Insurance

Section 38a-52a of the General Statutes established the Insurance Fund. It is used to account for the recovery of operating expenses of DOI from insurance companies. Sections 38a-47 and 38a-48 of the General Statutes provide for the manner in which the assessments are calculated. Generally, domestic insurance companies and other domestic entities subject to taxation under Chapter 207 are assessed on an annual basis using certain estimated expenses of DOI and shared expenses of the Department of Social Services and the Office of Policy and Management. Included within the assessment calculation is an adjustment for actual expenditures in the previous fiscal year. Receipts for the Insurance Fund are summarized below for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

Insurance Fund Receipts by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expenses Recovered from Insurance Cos.	\$22,658,051	\$25,448,932	\$25,461,204
Interest Income Credited	18,357	16,688	18,040
Other	<u>160,346</u>	<u>(501,820)</u>	<u>(345,559)</u>
Total Receipts	<u>\$22,836,754</u>	<u>\$24,963,800</u>	<u>\$25,133,685</u>

Expenditures for the Insurance Fund are summarized below for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

Insurance Fund Expenditures by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Personal Services & Employee Benefits	\$19,153,579	\$19,939,177	\$21,291,034
Premises and Property Expenses	1,550,727	1,396,634	1,365,798
Purchases & Contracted Services	512,860	350,753	498,975
Information Technology	170,388	126,911	157,252
Employee Expenses, Allowances & Fees	178,413	324,337	204,311
Purchased Commodities	789,105	165,500	574,052
Capital Outlays – Equipment	23,556	35,355	130,087
Motor Vehicle Costs	<u>5,642</u>	<u>5,834</u>	<u>3,859</u>
Total Expenditures	<u>\$22,384,270</u>	<u>\$22,344,501</u>	<u>\$24,225,368</u>

Total expenditures decreased by a total of \$39,769, or 0.18 percent, and increased \$1,880,867, or 8.4 percent, during the fiscal years ended June 30, 2012 and 2013, respectively. The increase during the fiscal year ended June 30, 2013 was due mostly to an increase in personal services for merit raises, cost of living increases, medical insurance costs and changes in the fringe benefit contributions to the State Employees' Retirement System as established by the State Comptroller. Purchased Commodities decreased then increased due to the charges allocated by the State Comptroller to account for the Statewide Cost Allocation Program. Also during the audited period and included within Premises and Property Expenses, the state became responsible for its portion of the real estate taxes for 960 Main Street under the lease agreement. Taxes in the amount of \$102,871 and \$84,772 were paid during the fiscal years ended June 30, 2012 and 2013, respectively.

The available cash balance in the Insurance Fund was \$9,748,552, \$10,124,701 and \$7,670,585 as of June 30, 2011, 2012 and 2013, respectively.

OHA is a separately budgeted agency that is under DOI for administrative purposes only. The Insurance Fund is charged for the expenditures of OHA, which were \$1,061,378, \$1,427,211 and \$2,045,115 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. These expenditures were mainly attributed to payroll and the increases were due to expanding position counts.

Special Revenue Fund – Federal and Other Restricted Account

Federal and Other Restricted Account receipts for DOI totaled \$552,614, \$848,572 and \$501,275 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. Receipts consisted of license fees from insurance companies and are dedicated to the regulation of utilization review, which is the use of a set of formal techniques designed to monitor or evaluate the medical necessity of health care services. Expenditures from this fund for utilization reviews totaled \$408,266, \$712,567 and \$437,223 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. The changes were due to a software license rental prepayment in the amount of \$375,942 for actuarial software associated with a grant to establish an effective rate review process for the Affordable Care Act. The cash balance in the utilization review account was \$949,591, \$907,872 and \$909,842 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively.

Federal and Other Restricted Account receipts for OHA totaled \$135,262, \$260,962 and \$2,063,361 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. These receipts consisted of a consumer assistance grant from the U.S. Department of Health and Human Services under the Affordable Care Act and were designated for outreach to consumers to assist with plan selection and grievance appeals. Federal and Other Restricted Accounts expenditures totaled \$135,262, \$260,962 and \$214,570 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. The majority of expenditures were for personal services, fringe benefits, consulting services, office supplies and printing supplies.

Special Revenue Fund - Brokered Transactions Guaranty Fund

The Brokered Transactions Guaranty Fund operates under Sections 38a-880 through 38a-889 of the General Statutes. This fund was established to compensate state residents aggrieved by various actions of insurance agents or brokers, including embezzlement and fraud. Newly-licensed insurance agents and brokers are required to pay a \$10 fee to the fund. Generally, Section 38a-882 of the General Statutes requires the fund balance be maintained in the amount of \$500,000 and receipts in excess of that amount are to be deposited to the General Fund. There have been no disbursements from this fund for at least 17 years; the fund balance has been maintained in the amount of \$500,000, and during the fiscal years ended June 30, 2011, 2012 and 2013, receipts totaling \$183,240, \$157,570 and \$115,090, respectively, were deposited into the General Fund. We provide further disclosure about this fund within the State Auditors' Findings and Recommendations section of this report.

Trust Deposits and Escrow Accounts Held by the State Treasurer

Under various statutory provisions, certain insurance companies are required to deposit securities with the State Treasurer for the benefit of their policyholders. The par value of these deposits totaled \$340,812,000 as of June 30, 2013. These amounts include (1) retaliatory deposits made under the provisions of Section 38a-83 of the General Statutes, which require companies domiciled in states that require deposits of Connecticut companies, to make equivalent deposits in Connecticut, (2) deposits made under Section 38a-371 of the General Statutes for companies desiring to be self-insured for their automobile coverage, and (3) other deposits required by the commissioner and determined to be necessary for the protection of Connecticut policyholders.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the financial records of the Department of Insurance and the Office of the Healthcare Advocate disclosed areas of concern that are discussed below.

Monitoring of Sick Time Usage and Work Schedules

Criteria: Section 5-247-3 of the Regulations of State Agencies states that employees may be granted paid sick leave if they are incapacitated for duty, and Section 5-247-11 requires medical certificates for a leave of any duration if absence from duty recurs frequently or habitually. DOI's Employee Handbook states that management and supervisory staff will monitor an employee's occasions of absence and determine the action to be taken if the employee has a clearly identifiable pattern of usage, for example using sick time on Mondays, Fridays, before or after a holiday or excessively before the employee's retirement. According to Section 5-247 subsection (a) of the General Statutes, upon retirement, employees receive a payout equal to 25 percent of their accrued sick time. In addition, employees are required to complete a work schedule form and should be working the hours exhibited on the form.

Condition: DOI did not appear to monitor sick leave adequately for employees whose patterns of usage suggest excessive absenteeism. We note that, although excessive use of sick time may not necessarily indicate abuse, management should take appropriate action to ensure that any potential abuse is detected.

- Three employees charged a total of 62 sick days during the six months before their retirement, receiving \$14,325 of sick pay when, at retirement, the payout would have only amounted to \$3,581.
- One employee took 10 of 10 sick days on Wednesdays during the fiscal year ended June 30, 2013.
- One employee had 12 of 12 sick days attached to weekends or holidays.
- In total, 18 of 25 employees, or 72 percent of our sample, showed usage that appeared questionable.

We reviewed whether employees were adhering to their established schedules.

- Four out of 13 employees were not following their established work schedule forms. One employee was arriving late and leaving early, according to the garage key access information that we reviewed for the month of February 2014. Over 16 work days, the employee was paid for

14 hours of time that the employee was not at work. Restitution was made by the employee in the amount of \$388 on May 1, 2014.

Cause: There was inadequate monitoring of employee sick time use and scheduled hours.

Effect: Failure to adequately monitor employee use of sick time and scheduled hours could result in the abuse of such time going undetected.

Recommendation: The Department of Insurance should improve the monitoring of employee sick time usage and scheduled hours and take appropriate action when necessary. (See Recommendation 1.)

Agency Response: “The department will incorporate the use of random sampling garage key access data on a quarterly basis as another management tool. This is in addition to routine reminders from human resources to managers and staff regarding policies for work hours, vacation, personal time, sick leave and other personnel issues. The department has zero tolerance of abuse of state resources. We are extremely mindful of striking the appropriate balance between effective oversight of employees and not unfairly imposing on the rights employees have under the collectively bargained labor agreements with the State of Connecticut.”

Disaster Recovery Planning

Criteria: Good business practices require organizations to have a sufficient disaster recovery plan with a functional offsite location, to enable the organization to resume operations as quickly as possible following a disaster.

Condition: The DOI backup server was located in the same room as the main server throughout the audited period and as of April 20, 2014.

Cause: There was a delay in establishing a network connection for the offsite location.

Effect: In the event of a disaster, the location may limit DOI’s ability to resume critical operations.

Recommendation: The Department of Insurance should establish a network connection and move its server to its offsite location to fully implement its disaster recovery plan. (See Recommendation 2.)

Agency Response: “The department’s backup server was installed at our alternate site on April 22, 2014. The installation resulted in a successful synchronization between the servers. From now on, any update made to data (files, databases, etc.) is instantly sent to the backup server because the disk units are mirror copies.

The backup server installation was one of the final stages of the department's comprehensive business continuity plan that we have been updating and implementing for nearly 18 months. Our business continuity plan has allowed us to leverage the resources and expertise of another state entity. We have also shared details of our plans with other agencies, who have expressed interest in our model. The plan includes a comprehensive memorandum of understanding with our alternate location, should the department lose the use of our current building. In fact, during Superstorm Sandy in 2013, a department staffer worked from the alternate location to update public and internal communications and web-based functions. The department is also using the services of a vendor for emergency communications. (The vendor is the state's vendor for the reverse 911 system.)”

Software Inventory

Criteria: The State Property Control Manual requires agencies to maintain a software inventory, conduct a physical inventory annually and maintain records of installations and purchase documents in a comprehensive manner. Chapter 7 of the manual requires that internally-generated software systems be reported within the annual report of inventory to the Office of the State Comptroller.

Condition: DOI did not conduct a physical inventory of its software and the software is not readily traceable due to the lack of information maintained by the agency. We were unable to compare the listing of installations to the software library as the locations of software were not updated appropriately. The database of software included obsolete items and incorrect amounts of licenses in use. Internally-generated software representing DOI's Connecticut Regulatory Information System (CRIS) valued at \$5,000,000 was not included on the report to the Office of the State Comptroller.

Cause: Procedures were not established to ensure that software was accounted for in accordance with the State Property Control Manual.

Effect: Inaccurate information was reported to the State Comptroller and the risk of loss is increased.

Recommendation: The Department of Insurance should have procedures in place to ensure that software is accounted for in accordance with the State Property Control Manual. (See Recommendation 3.)

Agency Response: “The CRIS system identified in this audit is an application developed in-house between the Department's IT staff and graduate students at the University of Connecticut, specific to the department's processes. The department's management of this in-house system has been reviewed in

prior audits and has resulted in no prior recommendations. However, the department will be happy to comply with the current recommendation and include our CRIS among our software inventory going forward. In addition, we will work with our Computer Support Unit to update the department's software library."

Brokered Transactions Guaranty Fund

Criteria: Section 38a-884 of the General Statutes authorizes DOI to compensate state residents who have been aggrieved by various actions of insurance agents or brokers, including embezzlement and fraud, from the Brokered Transactions Guaranty Fund, subject to certain limitations. Section 38a-882 of the General Statutes requires the fund to be maintained at a level not to exceed \$500,000.

Condition: There have been no claims against this fund for at least 17 years, according to management; nevertheless, the General Statutes require that \$500,000 be reserved in this fund for future claims.

Cause: Other remedies are apparently available to compensate state residents who have been aggrieved by insurance agents or brokers, and the statutory requirement does not appear to reflect the current regulatory environment.

Effect: The fund has not been utilized as intended, and the amount of \$500,000 is reserved for future claims that are unlikely.

Conclusion: The General Statutes requires the Brokered Transactions Guaranty Fund to be maintained and any changes would require legislative action.

Agency Response: "As the auditors correctly noted, the department, by statute, must maintain \$500,000 in the Brokered Transactions Guaranty Fund. That the fund has not been drawn upon for 17 years is not an indication that it is not operating as intended. In fact, aggrieved parties have been compensated through settlements negotiated between the department and insurance companies. Consequently, there has been no need to tap into the fund. Because the fund has been levelly maintained, monies from license fees that are to be used to replenish the fund if it falls below the statutory \$500,000, have been diverted directly to the state General Fund for the benefit of Connecticut taxpayers. In the past five years, \$777,000 has been deposited into the General Fund. Additionally, the department's robust Agent/Broker licensing oversight and enforcement is another tool to help protect consumers from unscrupulous individuals. Our enforcement and sanctions are transparent. The public can access our enforcement activity of brokers and producers from the "Enforcement Actions" tab on our web site. The department also regularly encourages consumers to "Verify Before You Buy" by using the license verification tool, also on our web site."

Internal Controls over Receipts, Revenue and Write-offs

- Criteria:* The State Accounting Manual requires that checks received in the mail be listed immediately on a receipt log with the date of receipt, by the person opening the mail. The manual also requires that accountability reports be prepared for certain revenues and reconciled to the cash amounts received. Section 4-32 of the General Statutes requires that checks be deposited within 24 hours of receipt. Written procedures should be designed and followed to administer effectively the write-off of certain uncollectible accounts in a consistent manner.
- Condition:* Checks received in the mail were not listed with receipt dates on a receipt log by the person opening the mail. We could not verify compliance with Section 4-32 of the General Statutes, as the listing was not made for such checks and remittances were not retained with the deposit information; however, we did note one check that appeared to have been deposited five days late. Accountability reports were not prepared to verify the revenue amounts expected to the cash amounts received. Written procedures were not in place during the audited period to consistently administer receivable accounts for possible write-offs that were valued at less than \$1,000 each.
- Cause:* Proper internal controls were not designed or followed.
- Effect:* The risk of loss increased and there appears to be a lack of compliance with the General Statutes.
- Recommendation:* The Department of Insurance should establish internal controls that are designed and followed to ensure that receipts, revenues and write-offs are documented and accounted for properly. (See Recommendation 4.)
- Agency Response:* “This has been a prior APA recommendation. The department had been in contact with the Office of the State Comptroller regarding this issue and had requested an exemption from the State Accounting Manual regarding the checks receipt log due to compensating factors at the department – current internal controls, as well as the department primarily receiving payments for invoices electronically – via credit card payments (Master Card, Visa and American Express) and the National Association of Insurance Commissioners’ central payment systems – National Insurance Producer Registry “NIPR,” System for Electronic Rate and Form Filing “SERFF” and Online Premium Tax for Insurance “OPTins.” Toward the end of Fiscal Year 13, we were notified by OSC that the requested waiver was denied. During the current Fiscal Year – FY 14 – we have started the process of implementing a check receipts log as well as divisional accountability reports. Regarding the write-off recommendation – the department annually deposits approximately \$100 million in revenues in the Insurance, General and Restricted Funds and we have very little to no bad debt. In the last two

fiscal years, the department has written off just two invoices for a total of \$480.79. Written procedures are now in place, and a log of written off invoices will be maintained by the department.”

Assessment Calculation Accuracy

Criteria: Section 38a-48 subsection (g) of the General Statutes requires that at the end of each fiscal year, DOI recalculate the assessment amount for domestic insurance companies and other entities using actual expenditures and show the difference between the recalculated amount and the amount previously paid.

Condition: The assessment calculation formula understated the actual expenditures and overstated the amounts previously paid during the fiscal years included within the audited period. The formula also included a contingency amount for those fiscal years reviewed.

Cause: Management’s calculation was not technically accurate, did not include the appropriate adjustment period for expenditures and accounted for potential shortfalls with a contingency fee.

Effect: Assessment amounts billed were less than the statutorily-required amounts due, totaling \$256,665 and \$2,863,926 for the fiscal years ended June 30, 2012 and 2013, respectively. Except for the contingency fee, other amounts would self-correct in the subsequent year’s billing.

Recommendation: The Department of Insurance should calculate the assessments in accordance with Section 38a-48 of the General Statutes. (See Recommendation 5.)

Agency Response: “The department’s current assessment process, which has historically been conducted in accordance with Section 38a-48 of the General Statutes, has been reviewed by many APA audit cycles without comment or recommendations. In addition, the process was also the subject of a comprehensive review in 2013 by the Legislature’s Program Review and Investigations Office. Therefore, the department respectfully disagrees with the recommendation but will work to satisfy any concerns and clarify assessment statutes in the next Legislative session. Our interpretation of the statute with regards to the contingency amount allows for this adjustment as a prudent, cash flow analysis adjustment. However, going forward – with recent changes to the Insurance Fund – adding additional Assessments like the large Vaccine Assessment – makes the need for a contingent amount unnecessary. The auditors concerns that ‘amounts billed were less than statutorily required amounts,’ is in large part a result of the state’s Core-CT modified accrual system such that when invoices / receivables are created in Core-CT they are “booked as billed” when created. During the fiscal year,

the department bills out its annual assessment in four quarterly billings, with the last billing being June 1, right before the fiscal year end of June 30. Any outstanding invoices at the end of the fiscal year “roll” into the next fiscal year and beginning balances for the next fiscal are adjusted from the prior year ending balance to reflect the collection of these receivables in the new fiscal year. As stated in the comments – these adjustments self-correct. The department will look into using post year-end “roll” figures during the calculation of the next annual assessment – which are contingent upon when the state processes/completes its fiscal year end close. The timing is such that the assessment must be calculated and sent out to the affected companies at the end of July. Again, as the auditors stated, these Core-CT adjustments self-correct.”

Surety Bond Agent Legislation

- Criteria:* Public Act 11-45 subsection (k)(1), effective October 1, 2011, requires surety bond agents to pay an annual fee in the amount of \$450 on or before January 31st. Subsection (k)(3) states that there shall be a separate, non-lapsing account within the Insurance Fund to account for surety bail bond agent examinations, but also requires that the funds be transferred to the General Fund at the end of the fiscal year.
- Condition:* Public Act 11-45 allows DOI only six months to expend amounts supporting this program. The act also appears to describe the fund as both non-lapsing and lapsing to the General Fund at the end of the fiscal year.
- Cause:* The statute exists with conflicting provisions.
- Effect:* DOI is unable to implement the surety bond agent examination program effectively and the legislative plan for the unspent amounts remaining at the end of the fiscal year appears unclear.
- Conclusion:* The Department of Insurance has sought legislative changes to improve the effectiveness of this program; therefore, we have no recommendation for any other corrective action at this time.
- Agency Response:* “The department appreciates the auditors’ recognition of the department’s efforts to amend legislation that would remove the current challenges of implementing surety bail bond examination. The department will continue to seek legislative change to improve the effectiveness of this program.”

GAAP Reporting

- Criteria:* The Office of the State Comptroller requires each state agency to submit the Generally Accepted Accounting Principles (GAAP) Closing Package to enable the State Comptroller to prepare the Comprehensive Annual Financial Report (CAFR) on an annual basis. Proper internal controls require that the person reviewing and approving the form is independent of the person who prepared the form. Amounts reported should be accurate, as the financial information is not readily available on the state's accounting system.
- Condition:* The GAAP Closing Package forms were prepared and reviewed by the same person. The total reported as uncollectible was understated in the amount of \$85,000 due to an error on the form for the fiscal year ended June 30, 2012.
- Cause:* The lack of segregation of duties may have contributed to this condition.
- Effect:* The risk that errors could occur is increased and understated amounts were reported to the State Comptroller.
- Recommendation:* The Department of Insurance should segregate the duties of preparing and approving the Generally Accepted Accounting Principles Closing Package to ensure accurate reporting to the Office of the State Comptroller. (See Recommendation 6.)
- Agency Response:* "Agreed. The Business Office has taken on a significant amount of new responsibilities (federal grants, assessments...) during the past two years and has just recently been adding to its staff."

Commission Information

- Criteria:* Section 38a-1051 subsection (a) established the 32-member Commission on Health Equity; subsection (b) requires that any member absent from three consecutive meetings, or fifty percent of such meetings, during any calendar year shall be deemed to have resigned from the commission; and subsection (h) requires the commission to be under the Office of the Healthcare Advocate for administrative purposes only. Section 1-225 subsection (b) requires a schedule of regular meetings to be sent to the Office of the Secretary of the State and Section 4-60 requires annual reporting to the Governor on activities during the fiscal year ended June 30th. The annual reports are published in the Digest of Administrative Reports by the Department of Administrative Services.
- Condition:* The commission did not maintain attendance and appointment records appropriately and it was difficult to determine whether certain members

were deemed to have resigned in accordance with the attendance provisions of Section 38a-1051 subsection (b) of the General Statutes. Other required reporting did not appear to occur. It is noted that Section 38a-1051 subsection (h) requires the commission to be under OHA for administrative purposes only in accordance with Section 4-38f; however, OHA is not defined as a department in accordance with Section 4-38c and, in fact, is already assigned to DOI for administrative purposes only.

Cause: There was a lack of administrative oversight.

Effect: There was a lack of compliance with provisions of the General Statutes.

Recommendation: The Commission on Health Equity should comply with Section 38a-1051 of the General Statutes and work with the Office of the Healthcare Advocate to consider seeking a legislative change to clarify the assignment provision under subsection (h). (See Recommendation 7.)

Agency Response: “OHA agrees with the findings and recommendation of the auditors concerning a legislative change to clarify the assignment provision under subsection (h). The Commission on Health Equity does not appear to be appropriately assigned to a “department” under section 4-38c of the general statutes. The citation to the requirements of section 4-38f of the general statutes creates a statutory conflict for the administration of the commission. OHA's status is that of an “office” and not a "department" with the size and scope of resources of the departments listed in section 4-38f. OHA’s budget resources are designed to address the increasing duties of the office to assist consumers with healthcare issues and to conduct health reform initiatives on behalf of the State of Connecticut and its residents. The office has taken on substantial volume of advocacy work associated with the rollout of the Affordable Care Act and increasing consumer awareness of our services. Because OHA firmly believes in the mission of the Commission on Health Equity, OHA will pursue in the next legislative session, the recommendations of the auditors to assign the commission to a department for administrative purposes only.”

RECOMMENDATIONS

Our prior report on the Department of Insurance contained five recommendations. Three were implemented or otherwise not repeated and two were repeated or restated.

Status of Prior Audit Recommendations:

- The Department of Insurance should follow the Leave in Lieu of Accrual job aid procedures, which monitors LILA time reporting, so the Department can identify and adjust the employee's leave balance after accruals have been posted. We did not find any exceptions related to this issue and will not repeat this recommendation.
- The Department of Insurance should develop a comprehensive business continuity plan using the template provided by the Department of Administrative Services, Bureau of Enterprise Systems and Technology. A business continuity plan was developed and we will not repeat this recommendation. However, we noticed that the plan was not implemented fully, which is considered a new recommendation.
- The Department of Insurance should revise its cash receipts procedures to conform to the requirements of the State Accounting Manual by recording receipt of checks in a bound journal. This recommendation was expanded to include other aspects related to cash receipts and revenues and is included in Recommendation 4.
- The Department of Insurance should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes. We found compliance improved and we will not repeat this recommendation.
- The Commission on Health Equity should prepare and submit an administrative report to the Governor in accordance with Section 4-60 of the General Statutes. This recommendation was not implemented and is included with Recommendation 8.

Current Audit Recommendations:

1. **The Department of Insurance should improve the monitoring of employee sick time usage and scheduled hours and take appropriate action when necessary.**

Comment:

Excessive absenteeism does not necessarily indicate abuse, but internal controls should minimize the risk that abuse of sick time would occur.

2. **The Department of Insurance should establish a network connection and move its server to its offsite location to fully implement its disaster recovery plan.**

Comment:

The agency formulated a plan; however, there were delays in obtaining a network connection to its offsite location.

3. **The Department of Insurance should have procedures in place to ensure that software is maintained in accordance with the State Property Control Manual.**

Comment:

State Property Control Manual guidance should be followed.

4. **The Department of Insurance should establish internal controls that are designed and followed to ensure that receipts, revenues and write-offs are documented and accounted for properly.**

Comment:

State Accounting Manual guidance should be followed.

5. **The Department of Insurance should calculate the assessments in accordance with Section 38a-48 of the General Statutes.**

Comment:

There are specific requirements as to what needs to be included within the assessment calculation. These are established by the General Statutes.

6. **The Department of Insurance should improve its internal controls by segregating the duties of preparing and approving the Generally Accepted Accounting Principles Closing Package to ensure accurate reporting to the Office of the State Comptroller.**

Comment:

Segregation of duties is necessary to reduce the risk that errors will occur.

7. **The Commission on Health Equity should comply with Section 38a-1051 of the General Statutes and work with the Office of the Healthcare Advocate to consider seeking a legislative change to clarify the assignment provision under subsection (h).**

Comment:

Information about the Commission on Health Equity is not being reported appropriately.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Insurance and the Office of the Healthcare Advocate during the course of our examination.

Maura F. Pardo

Maura F. Pardo
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts