

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF INSURANCE AND
THE OFFICE OF THE HEALTHCARE ADVOCATE
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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October 8, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Department of Insurance (DOI) and the Office of the Healthcare Advocate (OHA) for the fiscal years ended June 30, 2018 and 2019. Our audit identified internal control deficiencies and instances of noncompliance with laws, regulations, and policies. The significant findings and recommendations are presented below:

Page 8	DOI and OHA employees did not obtain prior approval in several instances in which they earned compensatory time. The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that compensatory time is properly documented and approved. (Recommendation 1.)
Page 9	DOI did not always have purchase requisitions on file. Also, purchase orders were dated after the receipt of goods and services. The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that funds are committed and approved prior to purchasing goods and services. (Recommendation 2.)
Page 10	Our review noted late deposits and revenue coding errors. The department's process for depositing checks resulted in significant delays and noncompliance with statutory requirements. The Department of Insurance should ensure that receipts are coded correctly and deposited in accordance with Section 4-32 of the General Statutes. The department should utilize the Funds Awaiting Distribution Fund for any receipts for which the disposition cannot be readily determined. (Recommendation 3.)
Page 11	DOI did not document its annual inventory of software, did not have software licenses on file, and did not support software costs. The Department of Insurance should strengthen internal controls over software inventory to ensure that software records are complete, accurate, and maintained in accordance with the State Property Control Manual. (Recommendation 4.)
Page 12	The Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate submitted required reports late or did not file them at all. The Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate should promptly submit all reports required and should seek legislation to clarify reporting requirements for reports that were not filed or were consistently filed late. (Recommendation 5.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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October 8, 2020

AUDITORS' REPORT

We have audited certain operations of the 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, 2018 and 2019. 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; and
3. Evaluate the effectiveness, 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. Our testing is not designed to project to a population unless specifically stated. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we reached the following conclusions:

1. Deficiencies in internal controls;
2. Apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. No need for improvements in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents 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, in conjunction with the Department of Banking, DOI is 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 oversees workers' compensation for mutual associations of employers formed for the purposes of insuring their liabilities to compensate employees for injuries sustained under Sections 31-328 through 31-339, and for insurance policies issued by either insurers or self-insured, purporting to cover an employer's liabilities for workers' compensation under Sections 31-345 through 31-348a. Katharine L. Wade was appointed commissioner on March 20, 2015 and served in that capacity through December 20, 2018. Governor Ned Lamont appointed Andrew N. Mais as commissioner on March 4, 2019. Paul Lombardo, Insurance Department Division Director, served as commissioner during the interim.

The duties, powers and responsibilities of the Office of the Healthcare Advocate (OHA) are set forth primarily by Title 38a, Chapter 706b of the General Statutes. Pursuant to these provisions, the office is within the Department of Insurance for administrative purposes only. OHA assists 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. Ted Doolittle was appointed as Healthcare Advocate on January 20, 2017 and continued to serve in that capacity throughout the audited period.

Advisory Committee to the Office of the Healthcare Advocate

Section 38a-1049 of the General Statutes established the Advisory Committee to the Office of the Healthcare Advocate. The advisory committee meets to review and assess OHA performance and conducts an annual evaluation of OHA. We disclose further information relating to the advisory committee within our State Auditors' Findings and Recommendations section of this report

Significant Legislation

Public Act 17-2 of the June Special Session (Section 164), effective January 1, 2018, established the Office of Health Strategy (OHS) within the Department of Public Health. As a result, the Office of the Healthcare Advocate transferred 5 positions and \$3,115,486 in associated Insurance Fund support to the OHS in fiscal year 2018-2019 for the State Innovation Model Initiative. In addition, DOI transferred one position and \$262,978 in associated Insurance Fund support to OHS in fiscal year 2019.

Public Act 18-91 (Sections 64 and 65), effective May 14, 2018, required the Connecticut insurance industry to pay an assessment to the insurance commissioner for the appropriation to cover the expenses of the Office of Health Strategy, which includes personal services, fringe benefits and capital equipment purchases.

Public Act 18-137 (Section 24), effective July 1, 2018, reduced the required amount in the Brokered Transaction Guaranty Fund from \$500,000 to \$100,000.

Public Act 18-160, effective January 1, 2019, imposed a \$12 surcharge on certain insurance policies and established the Healthy Homes Fund. Insurers must remit these funds to the Department of Insurance by April 30th of each following year. Revenues from the surcharge are to be deposited into the Healthy Homes Fund, 85% of which is then transferred to the Crumbling Foundations Assistance Fund. The remaining 15% of the surcharge must be used by the Department of Housing to provide grants to homeowners and to fund a program to reduce residential health and safety hazards. The act allows the department to retain a portion of the remittances to cover the cost of an insurance department employee to facilitate collection.

RÉSUMÉ OF OPERATIONS

General Fund Receipts

Receipts for the General Fund are summarized below for the fiscal years ended June 30, 2017, 2018, and 2019, respectively.

General Fund Receipts by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Fees	\$9,215,975	\$7,883,196	\$9,004,786
Licenses	20,282,610	48,820,089	27,362,294
Surplus Line Tax	21,239,943	21,584,108	21,463,133
Fines and Costs	2,299,824	2,168,247	1,838,034
Other Receipts/Refunds	(42,370)	(32,741)	(102,709)
Total Receipts	<u>\$52,995,982</u>	<u>\$80,422,899</u>	<u>\$59,565,538</u>

General Fund receipts consist primarily of fees collected from domestic and foreign insurance companies, and health care centers doing business in the state. The various fees are established by Section 38a-11 of the General Statutes and are collected primarily for licenses, applications, exams, and the filing of annual reports. In addition, DOI collects surplus line taxes in accordance with Section 38a-743 of the General Statutes that equate to 4% of the surplus line brokers' gross insurance premiums.

Licenses increased by \$28,537,479 for the 2017-2018 fiscal year and then decreased by \$21,457,795 for the 2018-2019 fiscal year. Every two years (even fiscal year), the department bills all appointed insurance agents, resulting in a large revenue fluctuation.

Fees decreased by \$1,332,779 for the 2017-2018 fiscal year and then increased by \$1,121,590 for the 2018-2019 fiscal year. Revenues received for fees are derived from applications for various licenses issued by the department. The volume is driven by economic conditions and changes in licensure laws.

Insurance Fund

The Insurance Fund, established by Section 38a-52a of the General Statutes, is used to account for the recovery of DOI operating expenses from insurance companies. Sections 38a-47 and 38a-48 of the General Statutes provide for the manner in which DOI calculates the assessments. 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, 2017, 2018 and 2019 respectively.

Insurance Fund Receipts by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Expenses Recovered from Insurance Cos.	\$30,306,091	\$26,288,352	\$2,147,566
Investment Interest	665,354	2,108,542	4,763,812
Fees	42,885,065	49,677,529	24,322
Assessments	-	-	99,879,035
Other Refunds	(1,068,086)	(205,133)	(36,769)
Refunds	<u>125,472</u>	<u>295,312</u>	<u>255,604</u>
Total Receipts	<u>\$72,913,896</u>	<u>\$78,164,602</u>	<u>\$107,033,570</u>

Fees and Expenses Recovered from Insurance Companies decreased by \$49,653,207 and \$24,140,786, respectively, while Assessments increased from \$0 to \$99,879,035 during the 2018-2019 fiscal year. The general assessment had been accounted for in the expenses recovered from insurance company category, while the vaccine and public health fee assessments had been accounted for under fees. Beginning in fiscal year 2018-2019 the assessments were coded to specific account codes for each type of assessment. The significant increase during the 2018-2019 fiscal year was primarily attributed to an increase in the vaccine assessment fee.

Expenditures for the Insurance Fund are summarized below for the fiscal years ended June 30, 2017, 2018 and 2019, respectively.

Insurance Fund Expenditures by Account	<u>Fiscal Year Ended June 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Personal Services & Employee Benefits	\$24,782,216	\$24,209,931	\$26,409,297
Premises and Property Expenses	1,354,021	1,396,489	1,322,821
Purchased & Contracted Services	439,705	252,204	175,466
Information Technology	68,098	100,237	70,832
Purchased Commodities	79,946	57,453	143,788
Capital Outlays – Equipment	21,565	-	-
Other Expenditures	<u>617,218</u>	<u>542,489</u>	<u>353,207</u>
Total Expenditures	<u>\$27,362,769</u>	<u>\$26,558,803</u>	<u>\$28,475,411</u>

Total expenditures decreased by \$803,966 during the 2017-2018 fiscal year, and then increased by \$1,916,608 during the 2018-2019 fiscal year. The fluctuations were mainly due to changes in personal services and fringe benefit contributions to the State Employees' Retirement System as established by the State Comptroller.

The available cash balance in the Insurance Fund was \$3,290,081 and \$17,734,468 as of June 30, 2018 and 2019, respectively.

The Office of the Healthcare Advocate is a separately budgeted agency that is under the Department of Insurance for administrative purposes only. The Insurance Fund is charged for OHA expenditures, which were \$5,465,296 and \$2,962,921 for the 2017-2018 and 2018-2019 fiscal years, respectively. These expenditures were mainly for personal services, employee fringe benefits, and management consulting fees to administer the federal State Innovation Model Initiative (SIM) test grant from the Center for Medicare & Medicaid Innovation (CMMI). As

mentioned previously, the State Innovation Model Initiative grant was transferred from the Office of the Healthcare Advocate to the Office of Health Strategy during fiscal year 2018-2019.

Special Revenue Fund – Federal and Other Restricted Account

Federal and Other Restricted Account receipts for DOI totaled \$404,800 and \$442,300 for the 2017-2018 and 2018-2019 fiscal years, respectively. Receipts consisted mainly of utilization review licensing fees and fees collected from the licensing of bail bond agents. The increase in the 2018-2019 fiscal year was due to non-federal grant receipts in the Preferred Provider Network account, which utilizes fees collected to regulate preferred provider networks.

Expenditures from this fund totaled \$466,394 and \$338,662 for the fiscal years ended June 30, 2018 and 2019, respectively. The majority of the expenditures were for personnel services, employee fringe benefits, and auditing services to conduct examinations of surety bail bondsmen.

Federal and Other Restricted Account receipts for OHA totaled \$8,176,929 and \$0 for the fiscal years ended June 30, 2018 and 2019, respectively. In FY 2014, the state was awarded a 4-year \$45 million federal State Innovation Model Initiative (SIM) grant. In the fiscal years ended June 30, 2017 and 2018, the SIM grant accounted for a significant portion of the OHA budget. Public Act 17-2 of the June Special Session of the General Assembly, effective January 1, 2018, created the Office of Health Strategy (OHS). Pursuant to this legislation, federal funds for the SIM grant were transferred to OHS during the 2018-2019 fiscal year, which explains the decrease in receipts to zero.

Federal and Other Restricted Accounts expenditures for OHA totaled \$6,079,407 and \$0 for the fiscal years ended June 30, 2018 and 2019, respectively. The majority of expenditures during the fiscal year ended June 30, 2018 were for consulting services and grant transfers to other state agencies. The decrease to zero during the 2018-2019 fiscal year was due to the transfer of the SIM grant and its associated staff to the Office of Health Strategy.

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 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. Section 38a-882 of the General Statutes requires that the fund maintain a \$100,000 balance. Any receipts in excess of that amount are deposited to the General Fund. During the 2017-2018 and 2018-2019 fiscal years, receipts totaling \$217,990 and \$316,440 were deposited into the General Fund, respectively.

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 \$321,870,904 as of June 30, 2019. 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 examination of the records of the Department of Insurance (DOI) and the Office of the Healthcare Advocate (OHA) disclosed the following 5 recommendations, of which 4 have been repeated from the previous audit:

Compensatory Time

Criteria: Department of Insurance and Office of the Healthcare Advocate policies require the authorization and advance approval of all compensatory time. Employees submit a compensatory time request form that documents the dates, approximate hours, and the reason for the request.

Condition: Our review of compensatory time identified the following conditions:

- DOI and OHA employees did not obtain prior approval in 30 instances in which 11 employees earned 89.5 hours of compensatory time. The employees obtained approval between one and 43 days after the date compensatory time was earned.
- DOI and OHA did not have approval forms on file to support 3 instances, totaling 23 hours, of compensatory time earned by 2 employees. As a result, we could not determine whether prior approval was granted.

Context: During the audited period, 39 DOI employees earned 1,035 hours and 10 OHA employees earned 402.25 hours of compensatory time. We reviewed 112 hours of compensatory time earned by 10 employees.

We also reviewed 116.5 hours of compensatory time earned by 7 OHA employees from July 1, 2019 through February 27, 2020.

Effect: There is an increased risk that compensatory time is not properly earned.

Cause: The lack of proper approvals appears to be the result of an oversight by management.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that compensatory time is properly documented and approved. (See Recommendation 1.)

Auditee Response: “The Insurance Department agrees with the Auditor’s finding and will strengthen its internal controls with respect to compensatory time being properly documented and approved before it is posted on the employee’s timesheet.”

Procurement

Criteria: Section 4-98 (a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order transmitted to the State Comptroller to commit the agency's appropriations to ensure that funds are available for the payment of such obligations.

The department's internal policy requires that a properly approved purchase requisition must be in place prior to the purchase of goods and services.

Condition: Our review of expenditure transactions processed during the audit period identified the following conditions:

- DOI did not have purchase requisitions on file for 5 transactions, totaling \$99,984.
- Purchase orders were dated 5 to 26 days after receipt of goods or services for 5 transactions, totaling \$97,844.

Context: During the audited period, the Department of Insurance and the Office of the Healthcare Advocate processed 944 expenditure transactions, totaling \$14,073,880. We selected 20 transactions, totaling \$221,267.

Effect: Failure to obtain prior approval for purchases increases the risk of improper use of state funds.

Incurring an obligation without a valid commitment circumvents budgetary controls and increases the risk that funding will not be available at the time of payment.

Cause: The identified conditions appear to be the result of an oversight by management.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 through 2017.

Recommendation: The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that funds are committed and approved prior to purchasing goods and services. (See Recommendation 2.)

Auditee Response: "The Insurance Department agrees with the Auditor's finding and will strengthen its internal controls with respect to completing purchase orders before making purchases of goods and/or services. Additional training will be provided to staff and notice of the agency purchasing

policy will be distributed on an annual basis to remind current staff and educate new employees.”

Deposits

Criteria:

Section 4-32 of the General Statutes requires that any state agency receiving any money or revenue for the state amounting to more than \$500 shall deposit such receipts in depositories designated by the Treasurer within 24 hours of receipt. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for more than 7 calendar days.

The State Accounting Manual defines “Funds Awaiting Distribution” as any money received by state agencies that has to be held in suspense until final disposition is determined. It further states that any receipt of money that cannot be posted to the correct funding source must be deposited to the Funding Awaiting Distribution fund. This fund was established to enable agencies to comply with statutory deposit requirements.

Revenue coding should enhance the accountability for receipts and provide for the compilation of the total receipts collected by category.

Condition:

Our review of receipts disclosed the following conditions:

- DOI did not deposit one \$3,848 receipt within the required 24 hours.
- DOI coded portions of 2 deposits, totaling \$27,210, to incorrect account classifications.
- An analysis of the department’s receipt log for the fiscal year ended June 30, 2019 revealed that DOI deposited 148 transactions, totaling \$785,631, between 8 and 40 calendar days after the date of receipt.

Context:

During the audited period, there were 6,686 deposits, totaling \$334,212,141. We selected 20 deposits, totaling \$864,071, for review.

The department recorded 9,103 transactions, totaling \$112,113,372, in its receipt log for the fiscal year ended June 30, 2019. We reviewed the entire log for the fiscal year ended June 30, 2019.

Effect:

The lack of prompt deposits increases the opportunity for loss and misappropriation of state funds. There is also an increased risk that checks are not properly safeguarded.

Inaccurate account coding errors could potentially impact the state’s annual financial reports.

Cause: The late deposit condition appears to be caused by the department's procedure for collecting certain receipts. The business office logs received checks and then distributes them to various divisions. The divisions perform investigations and determine the validity of the receipt. Upon completion of their reviews, the checks are returned to the business office for deposit. This process may result in checks being deposited significantly later than required by statute.

The coding errors appear to be caused by a lack of management oversight.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 and 2017.

Recommendation: The Department of Insurance should strengthen internal controls to ensure that receipts are coded correctly and deposited in accordance with Section 4-32 of the General Statutes. The department should utilize the Funds Awaiting Distribution Fund for any receipts for which the disposition cannot be readily determined. (See Recommendation 3.)

Auditee Response: "The Insurance Department will implement stricter controls around the coding of receipts by implementing a second layer of review to ensure accuracy. The agency will consider the recommendation of using the Funds Awaiting Distribution Fund; however, there are certain conditions where this process is not feasible due to the type of payments, minimal staff, and volume of receipts. The process that is in place now records all receipts and ensures that they are deposited or returned to the payee."

Software Inventory

Criteria: In accordance with Chapter 7 of the State Property Control Manual, each state agency must establish a software inventory to track and control all software media and license agreements. The agency must produce an annual software inventory report. In addition, the agency must conduct an annual physical inventory of the software library.

Condition: Our review of the department's software inventory identified the following conditions:

- DOI did not document an annual physical inventory of its entire software library for the fiscal years ended June 30, 2018 and 2019.
- DOI did not have software licenses on file for 3 items, totaling \$14,086.

- DOI could not support software costs for 3 items, totaling \$13,917.
- DOI recorded incorrect costs for 2 items. The department understated one by \$20 and overstated one by \$2,690.

Context: Software inventory consisted of 114 items with a value of \$5,700,001. We reviewed 10 items totaling \$23,845.

Effect: The department has not properly maintained software inventory records, increasing the risk that it is not properly accounting for and reporting software purchases.

Cause: It appears that the department lacks the staff and resources required to properly maintain inventory records.

Prior Audit Finding: This finding has been previously reported in the last 3 audit reports covering the fiscal years ended June 30, 2012 through June 30, 2017.

Recommendation: The Department of Insurance should strengthen internal controls over software inventory to ensure that software records are complete, accurate, and maintained in accordance with the State Property Control Manual. (See Recommendation 4.)

Auditee Response: “The Insurance Department is performing an annual physical inventory of our software library; the inventory results had not been clearly documented for all fiscal years mentioned. This oversight has been corrected. Some purchase information may have been delayed and not available when inventory records were created. The incomplete record would sometimes be overlooked and not updated when the information became available. This procedure will be corrected as they are identified.”

Reporting Requirements

Criteria: The Department of Insurance, Office of the Healthcare Advocate, and the advisory committee to the Office of the Healthcare Advocate are required to comply with numerous reporting requirements set forth by the General Statutes and the Office of the State Comptroller.

Condition: Our review of the reports required to be filed during the fiscal years ended June 30, 2018 and 2019 revealed that the Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate submitted required reports late or did not file them at all.

Department of Insurance:

1. DOI did not complete the annual report to the joint standing committee of the General Assembly having cognizance of matter related to insurance, required by Section 38a-12 (b) of the General Statutes, for the fiscal years ended June 30, 2018 and 2019.
2. DOI submitted the Annual Internal Control Questionnaire, required by the Office of the State Comptroller, 53 and 103 days late for the fiscal years ended June 30, 2018 and 2019, respectively.

Office of the Healthcare Advocate:

3. OHA submitted the annual report, required by Section 38a-1041(e) of the General Statutes, 59 days late for the fiscal years ended June 30, 2018 and 2019.
4. OHA submitted the annual report, required by Section 38a-1041(g) of the General Statutes, 28 days late for the fiscal years ended June 30, 2018 and 2019.

Advisory Committee to the Office of the Healthcare Advocate:

5. The advisory committee submitted the annual evaluation of the advisory committee to the Office of the Healthcare Advocate, required by Section 38a-1049 (b) of the General Statutes, 116 and 38 days late for the fiscal years ended June 30, 2018 and 2019, respectively.

Context: The Department of Insurance was required to file 18 reports during the fiscal years ended June 30, 2018 and 2019.

The Office of the Healthcare Advocate and the Advisory Committee to the Office of the Healthcare Advocate were required to file 10 reports during the fiscal years ended June 30, 2018 and 2019.

Effect: There is diminished executive and legislative oversight if the department submits required reports late or does not submit them at all. The Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate did not comply with the reporting requirements established by the General Statutes and the Office of the State Comptroller.

Cause: The lack of reporting compliance by the Department of Insurance appears to be the result of managerial oversight.

The Office of the Healthcare Advocate submitted annual reports required by Section 38a-1041 (e) and (g) of the General Statutes late, because OHA combines these reports with the annual report required by Section 38a-1050 of the General Statutes.

The untimely reporting of the annual evaluation of the Advisory Committee to the Office of the Healthcare Advocate appears to be the result of the advisory committee's administrative oversight.

Prior Audit Finding: This finding has been previously reported in the last 2 audits covering the fiscal years ended June 30, 2014 through 2017.

Recommendation: The Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate should promptly submit all reports required and should seek legislation to clarify reporting requirements for reports that were not filed or were consistently filed late. (See Recommendation 5.)

Auditee Response: "For Item 1: As noted in the FY16-17 audit, the Department has not received informational reports listed under CGS §38a-12(b) and it appeared to have been generally believed that §38a-12(b) related only to the Annual Report requirement of CGS §38a-12(a) and not its own separate reporting statute. CID will seek guidance as to whether the General Assembly desires to maintain the 38a-12(b) requirement currently in place or to repeal it. If kept in place, the Department will take steps to ensure future compliance.

For Item 2: The Annual Internal Control Questionnaire is a very detailed report and provides only a short window for which an agency is to respond. For FY19, the Commissioner had just recently been appointed to the Department and an appropriate amount of time was needed to go through the report with each departmental division. The Department will take necessary steps going forward to meet the deadline for this questionnaire.

For Items 3-5: OHA concurs, and OHA management and the Advisory Committee will continue to strive to meet these reporting deadlines. OHA agrees that due to the long-standing practice of combining certain reports, certain deadlines consistently are not met, and agrees that technical legislative changes to align the agency's report due dates to historical agency practices is advisable."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Department of Insurance and the Office of the Healthcare Advocate contained 7 recommendations. Three have been implemented or otherwise resolved and 4 have been repeated or restated with modifications during the current audit.

- The Department of Insurance and the Office of the Healthcare Advocate should strengthen their internal controls to ensure that funds are committed prior to purchasing goods and services. **We noted similar conditions during our current review; therefore, this recommendation will be repeated. (See Recommendation 2.)**
- The Department of Insurance should strengthen internal controls to ensure that GAAP reporting packages are prepared timely, accurately and in accordance with the State Comptroller's instructions. **The department has taken corrective action; therefore, this recommendation will not be repeated.**
- The Department of Insurance should strengthen internal controls to ensure that receipts are coded correctly and deposited in accordance with Section 4-32 of the General Statutes. The department should utilize the Funds Awaiting Distribution Fund for any monies received for which the disposition cannot be readily determined. **We noted similar conditions during the current audit; therefore, this recommendation will be repeated. (See Recommendation 3.)**
- The Department of Insurance should strengthen internal controls to ensure that it documents and performs monthly reconciliations of receipts to Core-CT in accordance with the State Accounting Manual. **The department has taken corrective action; therefore, the recommendation will not be repeated.**
- The Department of should strengthen internal controls to ensure that it maintains and reports its software inventory records in accordance with the State Property Control Manual. **We noted similar conditions during the current audit; therefore, this recommendation will be repeated. (See Recommendation 4.)**
- The Department of Insurance should strengthen internal controls to ensure assessments are calculated in accordance with Sections 38a-47 and 38a-48 of the General Statutes. **Our current audit noted significant improvements with assessment calculations; therefore, this recommendation will not be repeated.**
- The Department of Insurance should submit all reports required by the General Statutes and Office of the State Comptroller in a timely manner.

The Office of the Healthcare Advocate should submit all reports required by the General Statutes in a timely manner and strengthen internal controls to ensure it documents those submissions. OHA should also consider seeking legislation to clarify the reporting

requirements established by Sections 38a-1041 (e) and (g) and Section 38a-1050 of the General Statutes.

The Advisory Committee to the Office of the Healthcare Advocate should strengthen controls to ensure compliance with statutory reporting timeframes. **We noted similar issues relating to reporting requirements; therefore, the recommendation will be repeated and modified to reflect current conditions. (See Recommendation 5.)**

Current Audit Recommendations:

- 1. The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that compensatory time is properly documented and approved.**

Comment:

DOI and OHA employees did not obtain prior approval in several instances in which they earned compensatory time. In addition, DOI and OHA did not have some approval forms on file. As a result, we could not determine whether prior approval was granted.

- 2. The Department of Insurance and the Office of the Healthcare Advocate should strengthen internal controls to ensure that funds are committed and approved prior to purchasing good and services.**

Comment:

DOI did not have purchase requisitions on file and purchases orders were dated after receipt of goods or services.

- 3. The Department of Insurance should strengthen internal controls to ensure that receipts are coded correctly and deposited in accordance with Section 4-32 of the General Statutes. The department should utilize the Funds Awaiting Distribution Fund for any receipts for which the disposition cannot be readily determined.**

Comment:

Our review noted late deposits and revenue coding errors. The department's process for depositing checks resulted in significant delays and noncompliance with statutory requirements.

- 4. The Department of Insurance should strengthen internal controls over software inventory to ensure that software records are complete, accurate and in accordance with the State Property Control Manual.**

Comment:

DOI did not document its annual inventory of software, did not have software licenses on file, and did not support software costs.

5. **The Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate should promptly submit all reports required and should seek legislation to clarify reporting requirements for reports that were not filed or were consistently filed late.**

Comment:

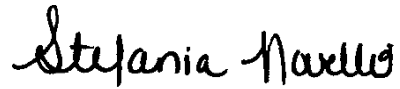
Our review of reports required to be filed during the fiscal years ended June 30, 2018 and 2019 by the Department of Insurance, Office of the Healthcare Advocate, and Advisory Committee to the Office of the Healthcare Advocate disclosed that several reports were not filed or were filed late.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Insurance and Office of the Healthcare Advocate during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Nancy Niedzwiecki
Stefania Novello



Stefania Novello
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor