STATE OF CONNECTICUT

Auditors' Report
State Insurance and Risk Management Board
For The Fiscal Years Ended June 30, 1999 and 2000

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON  ROBERT G. JAEKLE
# Table of Contents

INTRODUCTION ............................................................................................................. 1

COMMENTS .......................................................................................................................... 1
FOREWORD ........................................................................................................................... 1
MEMBERS OF THE BOARD ................................................................................................. 2
RÉSUMÉ OF OPERATIONS ................................................................................................. 3
  Department Operations .................................................................................................... 3
  Insurance Recoveries ...................................................................................................... 4
  Fire and Extended Coverage Insurance ........................................................................ 5
  General Liability ............................................................................................................ 6
  Fleet Insurance ............................................................................................................... 6
  Bus Insurance ............................................................................................................... 7
  All others ....................................................................................................................... 7

PROGRAM EVALUATION ..................................................................................................... 8
  Risk Management Information Systems ...................................................................... 9

CONDITION OF RECORDS ............................................................................................... 10
  Compliance with Statutory Reporting Requirements .............................................. 10
  Non-Compliance with Statutory Board Membership Requirements ..................... 11

RECOMMENDATIONS ....................................................................................................... 13

CERTIFICATION ............................................................................................................... 14

CONCLUSION .................................................................................................................. 16
September 7, 2001

AUDITORS' REPORT
STATE INSURANCE AND RISK MANAGEMENT BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

We have examined the financial records of the State Insurance and Risk Management Board (the Board) for the fiscal years ended June 30, 1999 and 2000. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statements pertaining to the operations and activities of the Board for the fiscal years ended June 30, 1999 and 2000, are presented and audited on a Statewide Single Audit basis to include all State agencies and funds. This audit has been limited to assessing the Board's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the Board's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Board operates under the provisions of Section 4-20 and Sections 4a-19 through 4a-21 of the General Statutes. Under Public Act 98-74, effective July 1, 1998, the former State Insurance Purchasing Board was renamed the State Insurance and Risk Management Board. The Act also authorized the Board to develop and implement risk management and loss prevention programs, and assigned the Board, for administrative purposes only, to the Office of the State Comptroller.

The Board's primary responsibility is to decide the method by which the State is to insure itself against losses through the purchase of insurance. The Board's principal duties include establishment of specifications for the purchase of such insurance, determination of deductible limits to be included in State insurance programs, determination of the feasibility, wherever appropriate, of the State's acting as a self-insurer, designation of the agent of record and
negotiation of the agent's compensation, selection of companies from which insurance coverage is to be obtained, and the solicitation of bids for each such contract for insurance coverage through the agent of record.

The Board has adopted procedures for requesting bids on insurance contracts. For insurance policies with premiums anticipated to be equal to or greater than $7,500, the agent of record must seek formal written bids from the available insurance carriers. For insurance policies with premiums anticipated to be less than $7,500, the agent of record must contact at least three insurance carriers and seek oral bids based on policy specifications. Bid and award sheets prepared by the agent are forwarded to the Board for its review. Insurance policies requiring written bids are awarded after formal vote by the Board. Insurance policies requiring oral bids are awarded by the agent to the low bidder unless other conditions are present. These latter awards are reviewed by the Board after payment.

All receipts concerning the State's insurance program, such as loss claims and returned premiums, are handled by the State Comptroller's Office as provided in Sections 4-20 and 4a-20 of the General Statutes.

MEMBERS OF THE BOARD:

Per Section 4a-19 of the General Statutes, the Board includes 11 members appointed by the Governor. Four of the appointees must be public members and seven must be qualified in the area of insurance by training and experience. The appointees' terms of office are coterminous with the term of the Governor, or until a successor is appointed, whichever is later. The State Comptroller, who may appoint a designee, serves as an ex-officio voting member of the Board. Except for reimbursements for necessary expenses, members of the Board serve without compensation for the performance of their duties. The members of the Board as of June 30, 2000, were as follows:

David M. Landsberg, Chairman
David W. Clark, Jr
Cynthia L. DiSano
Robert B. Gyle, III
Robert L. Hill
John H. Howard
Majorie F. B. Lemmon
Joseph G. Lynch
Robert J. McLucas
Leslie I. Olear
M. Alice Sherman
Nancy Wyman, State Comptroller, ex-officio

In addition, William S. Miko, Jr. and Richard S. Sarnowski served during the audited period.
RÉSUMÉ OF OPERATIONS:

Department Operations:

The Board’s General Fund receipts totaled $340,314 and $397,123 for the fiscal years ended June 30, 1999 and 2000, respectively, compared to $310,322 for the fiscal year ended June 30, 1998. These receipts consisted primarily of checks from colleges and universities (that are not on the State Comptroller’s accounting system) for the cost of insurance policy premiums. In addition reimbursements of current year insurance payments were recovered by expenditure transfers to other State agencies (that are on the State Comptroller’s accounting system) amounting to $1,419,964 and $1,430,467 for the fiscal years ended June 30, 1999 and 2000, respectively, compared to $1,414,654 for the fiscal year ended June 30, 1998. These reimbursements were mainly for Department of Administrative Services, Fleet Operations and Department of Transportation related insurance coverage.

The Board's General Fund budget provides for personnel costs and various general State insurance policies. Additionally, a Special Transportation Fund appropriation is used, primarily for highway liability insurance costs. Certain insurance costs are paid by the Board and reimbursed by the State agencies that benefit from the coverage. Such reimbursements are made by charging non-General Fund accounts of those State Agencies. A comparative summary of expenditures for the Board follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1999</th>
<th>June 30, 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services</td>
<td>$99,401</td>
<td>$166,626</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>5,244</td>
<td>4,864</td>
</tr>
<tr>
<td>Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>11,155,520</td>
<td>10,445,594</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>269,050</td>
<td>282,500</td>
</tr>
<tr>
<td>Claim Administrator Fees</td>
<td>331,353</td>
<td>541,901</td>
</tr>
<tr>
<td>Operating costs</td>
<td>26,747</td>
<td>14,356</td>
</tr>
<tr>
<td>Totals</td>
<td>11,887,315</td>
<td>11,455,841</td>
</tr>
</tbody>
</table>

Less Reimbursements-current year payments:
Expenditure transfers: 1,419,964
Receipts: 297,301
Totals: 1,717,265

Net Expenditures: $10,170,050

Fund Categories:
General Fund: $8,078,580
Special Transportation: $2,091,470
Capital Equipment/Purchase Fund: 4,864
Totals: $10,170,050

Insurance payments increased by $1,537,560 (approximately sixteen percent) in 1998-1999
and decreased by $709,926 (approximately six percent) in 1999-2000. These changes resulted primarily from significant changes in the deductible payments for the fleet insurance coverage. The majority of payments made fell into four major categories of insurance as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>1998-1999 Deductible</th>
<th>Payments</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and extended coverage</td>
<td>$1,085,028</td>
<td>$ -</td>
<td>$1,085,028</td>
</tr>
<tr>
<td>General Liability</td>
<td>1,199,099</td>
<td>1,552,859</td>
<td>2,751,958</td>
</tr>
<tr>
<td>Fleet</td>
<td>553,450</td>
<td>5,561,592</td>
<td>6,115,042</td>
</tr>
<tr>
<td>Buses</td>
<td>402,520</td>
<td>204,939</td>
<td>607,459</td>
</tr>
<tr>
<td>All Others</td>
<td>596,033</td>
<td></td>
<td>596,033</td>
</tr>
<tr>
<td><strong>Totals 1998-1999</strong></td>
<td><strong>$3,836,130</strong></td>
<td><strong>$7,319,390</strong></td>
<td><strong>$11,155,520</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>1999-2000 Deductible</th>
<th>Payments</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and extended coverage</td>
<td>$1,224,673</td>
<td>$ -</td>
<td>$1,224,673</td>
</tr>
<tr>
<td>General Liability</td>
<td>1,279,924</td>
<td>1,502,778</td>
<td>2,782,702</td>
</tr>
<tr>
<td>Fleet</td>
<td>564,820</td>
<td>4,840,544</td>
<td>5,405,364</td>
</tr>
<tr>
<td>Buses</td>
<td>403,086</td>
<td>76,146</td>
<td>479,232</td>
</tr>
<tr>
<td>All Others</td>
<td>553,623</td>
<td></td>
<td>553,623</td>
</tr>
<tr>
<td><strong>Totals 1999-2000</strong></td>
<td><strong>$4,023,218</strong></td>
<td><strong>$6,419,468</strong></td>
<td><strong>$10,445,594</strong></td>
</tr>
</tbody>
</table>

Deductible payments represent liability claims against the State within the deductible limits of the various policies. Two third-party administrators processed these payments and were remunerated on a fee per claim basis by the Board. In total the Board paid the two third-party administrators $331,353 and $541,901 for the fiscal years ended June 30, 1999 and 2000, respectively compared to $708,347 for the fiscal year ended June 30, 1998. This significant decrease reflects a number of factors including the lower per claim rate paid by the State under a new agreement with the major third party administrator, decreased claims activity due in part to milder weather, and an increase in the deductible level.

**Insurance Recoveries:**

As noted in the "Foreword" section of this report, State insurance claims are handled by the State Comptroller's Office. The processing of such claims is reviewed by our audit of that Office. The Comptroller’s records present the following recoveries:
Auditors of Public Accounts

June 30, 1999

<table>
<thead>
<tr>
<th>Coverage</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and extended coverage</td>
<td>$364,676</td>
<td>$30,256</td>
</tr>
<tr>
<td>All others</td>
<td>118,088</td>
<td>36,716</td>
</tr>
<tr>
<td><strong>Total Recoveries</strong></td>
<td><strong>$482,764</strong></td>
<td><strong>$66,972</strong></td>
</tr>
</tbody>
</table>

In addition, as noted above in "Department Operations" the Board collected receipts for various premium reimbursements. Total insurance program receipts, exclusive of the expenditure transfers to other State agencies of $1,419,964 in 1998-1999 and $1,430,467 in 1999-2000, were as follows.

June 30, 2000

<table>
<thead>
<tr>
<th>Coverage</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim recoveries</td>
<td>$482,764</td>
<td>$66,972</td>
</tr>
<tr>
<td>Other receipts</td>
<td>340,314</td>
<td>397,123</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>$823,078</strong></td>
<td><strong>$464,095</strong></td>
</tr>
</tbody>
</table>

Fire and Extended Coverage Insurance:

Fire and extended coverage insurance was provided for on a blanket property policy. A tabulation of premiums paid and damages recovered on blanket fire policies since June 30, 1994, together with total coverage as of the closing date of each fiscal year, follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Premiums Paid</th>
<th>Recoveries</th>
<th>at June 30, *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-1995</td>
<td>$1,053,192</td>
<td>$766,815</td>
<td>$4,370,089,881</td>
</tr>
<tr>
<td>1996-1997</td>
<td>900,000</td>
<td>356,856</td>
<td>4,837,644,489</td>
</tr>
<tr>
<td>1997-1998</td>
<td>1,055,000</td>
<td>266,977</td>
<td>5,607,178,248</td>
</tr>
<tr>
<td>1998-1999</td>
<td>1,085,028</td>
<td>364,676</td>
<td>6,027,931,121</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1,224,673</td>
<td>30,256</td>
<td>6,461,231,119</td>
</tr>
</tbody>
</table>

*The level of coverage is equal to the estimated replacement cost of the State’s inventory of personal and real property.

Prior to 1997-1998 the University of Connecticut Health Center purchased coverage under a separate policy.

As of June 30, 2000, the blanket fire policy provides replacement coverage of $6,461,231,119 (over the deductible provisions) on all State-owned buildings and contents. The premiums paid on the blanket fire policy purchased during the 1999-2000 fiscal year were at the rate of $.0189 per hundred dollars of coverage.

During the period under review the provisions of the blanket fire policy required the State to bear the first $100,000 per occurrence, with an annual aggregate deductible of $300,000. When the annual aggregate deductible of $300,000 is reached, the policy provides for all approved...
claims to be paid (subject to a $25,000 deductible.)

Flood, earthquake, loss of rents and business income, valuable paper and records coverage was also provided. Insurance on flood and earthquake risks provides coverage of $100,000,000 for each peril per insured location with a $1,000,000 per occurrence deductible and a policy period limit of $100,000,000. Rental value insurance on dormitories at State schools and universities provides coverage of $1,000,000 per occurrence subject to the appropriate deductible for the peril that causes the loss. Loss-of-income insurance on business income at Bradley International Airport provides a policy period limit of $65,000,000 in coverage subject to a 30 day deductible. Valuable paper and record coverage of $10,000,000 and coverage of $1,000,000 on property in transit was provided. The policy includes physical damage to motor vehicles, effective December 31, 1999; coverage was previously purchased under a separate policy.

**General Liability:**

General liability insurance costs were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>Premiums</td>
<td>$1,199,099</td>
</tr>
<tr>
<td>Deductible payments</td>
<td>1,552,859</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$2,751,958</strong></td>
</tr>
</tbody>
</table>

Major insurance policies in this category include highway liability coverage and the excess combined coverage for fleet, highway and buses. Other policies included, insurance for lawyers' professional liability for public defenders and coverage for law enforcement professional liability for the State Police and employees of the Department of Revenue Services.

As noted in "Department Operations," deductible payments represent liability claims against the State within the deductible limits of the various policies.

**Fleet Insurance:**

Fleet (automobile) insurance costs were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>Premiums</td>
<td>$553,450</td>
</tr>
<tr>
<td>Deductible payments</td>
<td>5,561,592</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$6,115,042</strong></td>
</tr>
</tbody>
</table>

Total fleet insurance decreased by $709,678 during the 1999-2000 fiscal year when compared with the previous fiscal year. This reflects a lower level of claims settled.

The fleet insurance policy also provided coverage that included excess insurance for
privately owned vehicles used on State business. Primary coverage for such vehicles was provided by policies carried by their owners in accordance with State travel regulations. As noted in the "General Liability" section, additional liability coverage was provided by the excess policies covering fleet, highway and buses.

**Bus Insurance:**

Bus insurance costs were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1999</th>
<th>June 30, 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>$402,520</td>
<td>$403,086</td>
</tr>
<tr>
<td>Deductible payments</td>
<td>$204,939</td>
<td>$76,146</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$607,459</strong></td>
<td><strong>$479,232</strong></td>
</tr>
</tbody>
</table>

Property and Liability insurance was provided for Connecticut Transit, a State-owned bus system. Payments were also made for coverage on buses leased by the State to various transit districts and contractual operators providing public bus service. As noted in the "General Liability" section, additional liability coverage was provided by the excess combined policies covering fleet, highway and buses.

**All Others:**

Other insurance coverage included surety bonds of various State officers pursuant to Section 4-20 of the General Statutes, comprehensive crime policies covering State employees, work-related accident and medical coverage for volunteer workers at State institutions, members of the State's armed forces, instructors of applicants of hunting licenses and various types of coverage on State property such as aircraft and watercraft.

The comprehensive crime policies in effect during the audited period covered public employee dishonesty up to $1,000,000 per loss with a $100,000 deductible. Other limits and deductibles applied to such defined areas of coverage as forgery or alteration, and robbery and safe burglary. By the terms of the policy, employees include students at State schools handling State property or funds, persons serving without pay on Boards and commissions and persons employed by an employment contractor (temporary help services) while subject to and performing services for the State. By the terms of an endorsement to the policy, non-compensated persons (such as the Board members) are covered as employees.
In summary the Board has complied with the requirements of Public Act 98-74 and there has been a noticeable shift in focus to a more proactive risk management approach. The Risk Manager has worked closely with the State’s Agent of Record and Third Party Administrator to analyze premiums, deductibles and loss history as an aid to better quantifying risk-related data. However, progress in this direction has been limited because the State Insurance and Risk Management Board does not have a Statewide Risk Management Information System (RMIS.) Such an information system would facilitate the collection and analysis of historical risk data and
provide a customized report generating facility.

In conclusion, we present the following Recommendation:

Need for a Risk Management Information System:

Criteria: Sound risk management practices include the use of automated risk management systems. The most common type is the Risk Management Information System or RMIS. Such a system allows at minimum the systematic collection and analysis of claims data and the generation of user defined reports designed to better manage risk. More sophisticated systems have the ability to track policies, premiums and litigation.

Condition: The State Insurance and Risk Management Board does not have an RMIS system and relies upon claims data and reports prepared by its service providers (an Agent of Record and a Third Party Administrator) and its own records that are kept on spreadsheets. These three data sources have different time horizons and formats and can only be consolidated manually.

Cause: Until the recent change of the Board’s focus from that of being an Insurance Purchasing Board to that of being an Insurance Risk Management Board there was neither the need for an RMIS nor a qualified insurance professional on staff to utilize such a facility.

Effect: Currently the Board is dependent upon its vendors to provide critical risk management data concerning the State’s claims experience.

Recommendation: A cost-benefit analysis of the use of a risk management information system (RMIS) should be undertaken to support efforts to better manage the State’s risk exposure. (See Recommendation 1.)

Agency Response: “The Board agrees with the recommendation in principle and will prepare a cost benefit analysis to determine the usefulness of this system.”
CONDITION OF RECORDS

In general, it appears that, during the audited period, reliance could be placed on Board policies, procedures and related records to safeguard State assets and to fulfill Board responsibilities to comply with State fiscal and reporting requirements. However, we did note two areas requiring comment. Those areas are discussed below.

Compliance with Statutory Reporting Requirements:

Criteria: In accordance with Section 4a-21 of the Connecticut General Statutes, the Board is required to report on or before September first, annually, to the Governor on its activities during the year ending the preceding June 30th. The Statute details six specific areas that should be addressed in the report. In addition there is a seventh general requirement for the report to address “such other matters as the board determines to be appropriate and necessary.”

Condition: The Board did not submit a specific report to address the Statute but includes a section entitled “Information Reported as Required by State Statute” in a report submitted annually for inclusion in the State’s “Digest of Administrative Reports.”

Our review of those submissions noted that only four of the six areas detailed in the statute were reported on and the general requirement for the report to address “such other matters as the board determines to be appropriate and necessary” was not addressed. The two areas not reported on are “(3) an evaluation of the effectiveness of each portion of the program involving deductibles or partial self-insurance” and, “(5) an evaluation of the agent or agents of record, or consultants, if any”.

Effect: Required data is not being made available to the Governor in the reporting format required by statute.

Cause: The Board had thought that its reporting practice met the statutory requirements.

Recommendation: Controls should be put in place to ensure detailed compliance with statutory reporting requirements. (See Recommendation 2.)

Agency Response: “The Board agrees with the recommendation and in future reports will ensure compliance with all specified areas of chapter 4a-21 of the statutes.”
Non-compliance with Statutory Board Membership Requirements:

Criteria: Section 4a-19 of the Connecticut General Statutes, describes the make up of the State Insurance and Risk Management Board. Said Board consists of twelve members, eleven of whom are appointed by the Governor and the twelfth is, ex officio, the State Comptroller. The statute states in part that “Any member who fails to attend three consecutive meetings or who fails to attend fifty percent of all meetings held during any calendar year shall be deemed to have resigned from office.”

Condition: Our review of the Board’s attendance records noted that one individual failed to attend four consecutive Board meetings (April 11, June 13, September 12, and December 14, 2000) but attended and voted as a member at the March 27, 2001 Board meeting. Under the statutes it appears that the member should have been deemed to have resigned from the Board as of September 13th. The individual also attended and voted at six subsequent Board committee meetings. This represents a significant use of personal time in an unpaid capacity on behalf of the State but from a statutory perspective it appears that on those dates the individual was not a Board member and was not qualified to attend or to vote at the meetings in question.

Cause: The Board needed the individual’s particular expertise for its specialized committees and apparently thought that the individual had satisfied Board attendance requirements by virtue of his attendance at the meetings of its specialized committees.

Effect: We determined that the individual’s votes cast after September 12, 2000, were never deciding votes. However, the condition noted is a case of non-compliance with statutory requirements.

Recommendation: The Board should establish procedures to ensure better monitoring and follow up of attendance at Board meetings, and better liaison with the Governor’s Office to ensure the prompt reporting of “deemed resignations” and resignations.” (See Recommendation 3.)

Agency Response: “The Board agrees with the recommendation and will improve monitoring procedures as recommended. However, in the case cited by the Auditor, the individual in question had attended several Board committee meetings and therefore his expertise had been made available to the Board. The current statutory requirement with its emphasis on attendance at Board meetings does not recognize the importance of Board committee meetings. We will seek a change in the current statute to better reflect the operational needs of the Board.”
RECOMMENDATIONS

Status of Prior Audit Recommendations:

- There were no recommendations presented as a result of our prior audit examination.

Current Audit Recommendations:

1. A cost-benefit analysis of the use of a risk management information system (RMIS) should be undertaken to support efforts to better manage the State’s risk exposure.

   Comment:
   The State Insurance and Risk Management Board does not have an RMIS system and relies upon claims data and reports prepared by its two service providers and its own records. These three data sources have different time horizons and formats and can only be consolidated manually.

2. Controls should be put in place to ensure detailed compliance with statutory reporting requirements

   Comment:
   Our review of the “Information Reported as Required by State Statute” noted that only four of the six areas detailed in the statute were reported on and the general requirement for the report to address “such other matters as the board determines to be appropriate and necessary” was not addressed.

3. The Board should establish procedures to ensure better monitoring and follow up of attendance at Board meetings, and better liaison with the Governor’s office to ensure the prompt reporting of “deemed resignations” and “resignations”

   Comment:
   Our review of the Board’s attendance noted that one individual failed to attend four consecutive Board meetings but attended and voted as a member at a later Board meeting and at several Board committee meetings. Under the statutes it appears that the member should be deemed to have resigned from the Board once he had failed to attend three consecutive Board meetings.
INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Insurance and Risk Management Board for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Board’s compliance with certain provisions of laws, regulations and contracts, and to understanding and evaluating the effectiveness of the Board’s internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations and contracts applicable to the Board are complied with, (2) the financial transactions of the Board are properly recorded, processed, summarized and reported on consistent with management’s authorization, and (3) the assets of the Board are safeguarded against loss or unauthorized use. The financial statement audits of the Board for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Board complied in all material or significant respects with the provisions of certain laws, regulations and contracts, and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations and contracts, applicable to the Board is the responsibility of the Board’s management.

As part of obtaining reasonable assurance about whether the Board complied with laws, regulations and contracts, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Board’s financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations and contracts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of noncompliance which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.
Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Insurance and Risk Management Board is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts applicable to the Board. In planning and performing our audit, we considered the Board’s internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Board’s financial operations in order to determine our auditing procedures for the purpose of evaluating the State Insurance and Risk Management Board’s financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts, and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Board’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations and contracts, or failure to safeguard assets that would be material in relation to the Board’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Board being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we noted certain matters involving the internal control over the Board’s financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.
CONCLUSION

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the State Insurance and Risk Management Board during the course of this examination.

Michael Hamilton
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts