

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
INSURANCE DEPARTMENT  
OFFICE OF THE HEALTHCARE ADVOCATE  
COMMISSION ON HEALTH EQUITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

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

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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June 27, 2012

**AUDITORS' REPORT  
INSURANCE DEPARTMENT  
OFFICE OF THE HEALTHCARE ADVOCATE  
COMMISSION ON HEALTH EQUITY  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011**

We have made an examination of the financial records of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity for the fiscal years ended June 30, 2010 and 2011. This report on that examination consists of the Comments, Recommendations and Certification that follow.

Financial statement presentation and auditing of the books and accounts of the state are done on a Statewide Single Audit basis to include all state agencies, including the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the agencies' internal control policies and procedures established to ensure such compliance.

**INSURANCE DEPARTMENT  
COMMENTS**

**FOREWORD:**

The duties, powers and responsibilities of the Insurance Department (Department) are set forth primarily by Title 38a of the General Statutes. The responsibilities of the Department 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.

Under Section 36a-285 of the General Statutes, the Department, in conjunction with the

## *Auditors of Public Accounts*

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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.

The Department also has oversight responsibilities for Workers' Compensation under the following sections of the General Statutes:

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.

Sections 31-345 through 31-348a – for policies of insurance issued by either insurers or self-insureds, purporting to cover an employer's liabilities for Workers' Compensation.

Thomas R. Sullivan was appointed Commissioner on April 21, 2007 and served in that capacity until his departure on November 19, 2010, when Barbara Spear began serving as Acting Commissioner. On February 14, 2011, Thomas B. Leonardi was appointed Commissioner and continues to serve in that capacity.

### **Significant New Legislation:**

Public Act 09-179, among other matters, establishes a health benefit review program in the Insurance Department to evaluate the social and financial impacts of mandated health benefits that exist in statute or are effective on July 1, 2009. The act requires the commissioner to report the findings to the Insurance and Real Estate Committee.

Public Act 10-7 codifies and amends the Insurance Department's guidelines on how insurers can use a person's credit history when underwriting or rating a personal risk insurance policy (e.g., homeowners or private passenger nonfleet automobile). It also makes numerous changes in laws relating to automobile insurance.

**RÉSUMÉ OF OPERATIONS – INSURANCE DEPARTMENT:**

**General Fund Revenues and Receipts:**

General Fund revenues for the past two fiscal years were as follows:

	<u>2009-2010</u>	<u>2010-2011</u>
Taxes	\$ 11,324,394	\$ 11,438,554
Licenses	47,343,873	20,807,912
Fees - Assessments	9,044,950	9,044,950
Fees	3,939,264	4,597,552
Fines and Costs	2,114,477	3,205,708
All Other Receipts	4,671	5,304
<b>Totals</b>	<b><u>\$ 73,771,629</u></b>	<b><u>\$ 49,099,980</u></b>

General Fund revenues for the fiscal year ended June 30, 2009, totaled \$36,811,534, for comparative purposes. Revenue from taxes represent amounts assessed under Section 38a-743 of the General Statutes, known as the Surplus Line Tax, and is equal to four percent of the gross premiums on insurance provided by surplus line brokers. Revenues from the Surplus Line Tax declined nearly three percent during the audited period from 2008-2009 levels of \$11,740,035, representing a reduction of over \$300,000, due to a decrease in the total amount of direct premiums written in the state. Revenues generated from licenses are substantially higher in even fiscal years because both insurance agent and producer licenses are renewed biennially. Revenue from Fees-Assessments of \$9,044,950 for both audited years represent receipts from each domestic insurer or health care center doing life or health insurance business in the state for the purchase of routine vaccines to immunize children from low-income families, in accordance with Section 19a-7j, subsection (b), of the General Statutes. Such 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 assessments, as described below. Increases in Fines and Costs revenue during the audited period were due to increases in both dollar value and the number of companies which were assessed fines by the Market Conduct Division.

**Insurance Fund:**

Section 38a-52a of the General Statutes established the Insurance Fund. This fund is used to account for the assessments of insurance companies for the recovery of operating expenses of the Insurance Department and the Office of the Healthcare Advocate.

Sections 38a-47 and 38a-48 of the General Statutes provide for the manner in which the assessments are calculated. Section 38a-47 of the General Statutes states in part: “All domestic insurance companies and other domestic entities subject to taxation under Chapter 207 shall, in accordance with Section 38a-48, annually pay to the Insurance Commissioner, for deposit in the Insurance Fund established under Section 38a-52a, an amount equal to the actual expenditures made by the Insurance Department during each fiscal year, and the actual expenditures made by the Office of the Healthcare Advocate, including the cost of fringe benefits for department and office personnel

as estimated by the Comptroller, plus the expenditures made on behalf of the department and the office from the Capital Equipment Purchase Fund pursuant to Section 4a-9 for such year....”

Section 38a-48 (b) of the General Statutes states in part: “On or before July thirty-first, annually, the Insurance Commissioner and the Office of the Healthcare Advocate shall render to each domestic insurance company or other domestic entity liable for payment under Section 38a-47, (1) a statement which includes the amount appropriated to the Insurance Department and the Office of the Healthcare Advocate for the fiscal year beginning July first of the same year, the cost of fringe benefits for department and office personnel for such year, as estimated by the Comptroller, and the estimated expenditures on behalf of the department and the office from the Capital Equipment Purchase Fund pursuant to Section 4a-9 for such year, (2) a statement of the total taxes imposed on all domestic insurance companies and domestic insurance entities under Chapter 207 on business done in this state during the preceding calendar year, and (3) the proposed assessment against that company or entity, calculated in accordance with the provisions of subsection (c) of this Section....”

Insurance Fund receipts for the fiscal years ended June 30, 2010 and 2011, were as follows:

	<u>2009-2010</u>	<u>2010-2011</u>
Expenses Recovered from Insurance Companies	\$27,638,779	\$22,658,051
Interest Income Credited	22,466	18,357
Other Receipts/Revenue	<u>1,522,689</u>	<u>160,346</u>
<b>Total Insurance Fund Receipts</b>	<b><u>\$29,183,934</u></b>	<b><u>\$22,836,754</u></b>

For comparison purposes, total Insurance Fund receipts totaled \$23,751,038 for the fiscal year ended June 30, 2009.

Comparative summaries of Insurance Department expenditures from the Insurance Fund for the audited period, as compared to the period ended June 30, 2009, are shown below:

	<b>Fiscal Year Ended June 30,</b>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personal Services	\$12,669,478	\$11,825,106	\$11,842,086
Other Expenses	2,521,750	2,470,943	2,374,232
Equipment	56,646	67,624	50,952
Fringe Benefits	6,928,727	7,278,069	7,415,508
Indirect Overhead	<u>524,348</u>	<u>352,903</u>	<u>701,492</u>
<b>Total Expenditures</b>	<b><u>\$22,700,949</u></b>	<b><u>\$21,994,645</u></b>	<b><u>\$22,384,270</u></b>

Total expenditures decreased by \$316,679, or 1.4 percent, during the audited period. Personal services and related fringe benefit costs accounted for the majority of expenditures during the audited period.

Decreases in personal services costs were primarily the result of a decrease of 18 filled positions from 152 to 134 during the audited period, representing an 11.8 percent decrease in filled positions,

which was due to a retirement incentive program offered in the 2008-2009 fiscal year. Increases in fringe benefit costs were due to increases in medical insurance payments and contributions to the State Employees Retirement System (SERS).

As of June 30, 2011, the available cash balance in the Insurance Fund was \$9,743,496. For comparison purposes, as of June 30, 2009, the available cash balance in the Insurance Fund was \$5,780,692.

**Special Revenue Fund – Federal and Other Restricted Accounts:**

Federal and Other Restricted Accounts receipts totaled \$414,425 and \$552,614 for the fiscal years ended June 30, 2010 and 2011, respectively. Most of these receipts consisted of Utilization Review Fees resulting from the collection of license and external appeal fees from insurance companies involved with health care utilization reviews in accordance with Section 38a-226a of the General Statutes. Each utilization review company conducting utilization reviews must be licensed by the commissioner and pay an annual license fee of \$2,500, which is dedicated to the regulation of utilization review.

Utilization review account expenditures totaled \$396,126 and \$408,266 for the fiscal years ended June 30, 2010 and 2011, respectively. The majority of expenditures were for personal services and outside professional services for arbitration and mediation services.

As of June 30, 2011, the cash balance in the Utilization Review account was \$949,591. For comparison purposes, as of June 30, 2009, the cash balance in the Utilization Review account was \$1,047,297.

**Brokered Transactions Guaranty Fund:**

The Brokered Transactions Guaranty Fund operates under Sections 38a-880 through 38a-889 of the General Statutes. This fund compensates 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. Pursuant to Section 38a-882 of the General Statutes, the fund is to be maintained at a level not to exceed \$500,000. Receipts are credited to the fund as long as the fund balance is below \$500,000. Any amounts in excess of this level are deposited to the General Fund. There have been no cash receipts or disbursements in this fund for the last several fiscal years, including the fiscal years audited. During fiscal years 2009-2010 and 2010-2011, receipts of \$150,145 and \$183,240, respectively, were deposited in the General Fund, representing fees received in excess of the maximum \$500,000 fund balance as of June 30, 2011.

**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. These deposits include:

1. Retaliatory deposits made under the provisions of Section 38a-83 of the General Statutes, which require companies that are 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.
3. Other deposits required by the commissioner determined to be necessary for the protection of Connecticut policyholders.

The par value of these deposits amounted to \$328,510,000 and \$343,533,000, as of June 30, 2010, and June 30, 2011, respectively.

## CONDITION OF RECORDS

Our review of the Insurance Department's records revealed the following areas that require improvement.

### **Use of the Leave in Lieu of Accrual Time Reporting Code:**

- Criteria:* The Leave in Lieu of Accrual (LILA) time reporting code is intended to be temporary, and the correct leave coding is eventually supposed to be entered after the month's accruals are posted. Core-CT has a job aid to assist agencies in monitoring the LILA time reporting code so they can identify and adjust the employee's leave balance after the accruals have been posted.
- Condition:* We noted three instances in which the LILA time reporting code was applied but not adjusted at month end when earned accruals were posted resulting in employee leave time not being charged for time taken.
- Effect:* Some employee leave balances were overstated due to not reconciling the LILA account at month end and properly charging leave time taken.
- Cause:* The cause appears to be staff oversight and possible misunderstanding of the LILA time reporting code job aid procedures.
- Recommendation:* The Insurance Department 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. (See Recommendation 1.)
- Agency Response:* "DOI will closely monitor the usage of the LILA code and properly follow the Leave in Lieu of Accrual job aid procedures."

### **Development of an Agency Business Continuity Plan:**

- Criteria:* Good business practices require organizations to develop plans resuming operations following a catastrophic event that disrupts normal operations. The objective of a plan, known as a disaster recovery, or a business continuity plan, enables an organization to resume operations as quickly as possible following such an event. To assist agencies in the development of a plan, the Department of Administrative Services, Bureau of Enterprise Systems and Technology (formerly the Department of Information Technology) has provided agencies with a business continuity plan template.

- Condition:* The Insurance Department does not currently have a comprehensive business continuity plan in place.
- Effect:* In the event of a business interruption, the lack of a comprehensive plan hampers the Department’s ability to resume critical operations in a timely fashion.
- Cause:* A lack of management oversight appears to have contributed to the condition.
- Recommendation:* The Insurance Department should develop a comprehensive business continuity plan using the template provided by the Department of Administrative Services, Bureau of Enterprise Systems and Technology. (See Recommendation 2.)
- Agency Response:* “The Department currently has a multi-pronged effort in progress to enhance its Business Continuity and Disaster Recovery capabilities. First: we have contacted the DAS Bureau of Enterprise Systems and Technology and plan to utilize their contract with IBM Recovery Services to provide us with a facility and equipment that will allow us to recover our automated systems in the event that our current data center is unavailable. Second: we are contacting state agencies, those with facilities outside of the greater Hartford area, to locate space that could be used as the agency’s Alternate Work Location in the event that the current work location becomes unusable. And third: the two capabilities described above, as well as additional business continuity considerations, will be part of a new agency Business Continuity Plan based on the template provided by DAS/BEST.”

**Internal Controls over Cash Receipts:**

- Criteria:* The State Accounting Manual (SAM) requires agencies to establish internal control procedures over cash receipts. The procedures will vary from one agency to another depending on factors unique to that agency, but certain factors are common to all agencies. According to SAM: “Mail received by an agency may contain cash, money orders and checks. Receipts of such moneys can be safeguarded by procedures which include controls of incoming mail and bank deposits. When feasible, each of the following duties should be assigned to a different employee: opening incoming mail, recording receipts in a receipts journal, depositing receipts, and issuing licenses, permits, etc. to the remitter.”
- “If duties are separated as above, the employee opening the mail should record the following information either on forms, in duplicate, to be

devised by the agency, or in a bound journal: date of receipt, name of remitter, or the person for whom the remittance was sent, amount of receipt, type of receipt: cash, money order, check, and purpose of the remittance. When the receipts are delivered the person authorized to receive them should verify the amounts entered on the forms or in the journal. If in agreement, he should acknowledge delivery of the receipts to him either by signing both copies of the forms, returning the original to the person making the delivery, or by signing the journal or issuing a receipt to cover the amounts entered in the journal.”

*Condition:* We found that no original listing in a bound journal of checks received was maintained as required by the SAM upon receipt in the Department’s mail room. Instead, checks are sorted and delivered to the appropriate unit for processing, then subsequently delivered to the Business Office, although some receipts, such as assessments on insurance companies, do go directly from the mail room to the Business Office. The checks from the various units are then sent to the Business Office for recording in the cash receipts journal and for deposit in the bank.

*Effect:* Internal control over cash receipts is potentially lessened.

*Cause:* There are multiple causes to this condition. The Department receives tens of millions of dollars of receipts each fiscal year from various sources, including licenses, fees, and taxes. In addition, the volume of checks received each fiscal year is very high. It would appear that sufficient resources are not available at the point of original receipt (the mail room) that would permit the Department to log each individual check at this point, and still be able to deposit these checks within the statutorily mandated timeframes required by Section 4-32 of the General Statutes.

*Recommendation:* The Insurance Department 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. (See Recommendation 3.)

*Agency Response:* “The CT Insurance Department acknowledges that it generates tens of millions dollars annually in licensing, tax collections and other fees for the General Fund with minimum Business Office staff. The Department has implemented numerous electronic fund transfers with the National Insurance Producer Registry (NIPR), System for Rate and Form filings (SERFF) and the use of On Line Credit Card Payments for Insurance Agent License applications and renewals. As a result, the actual volume of paper checks on a daily basis has been decreasing, and ... will continue to further decrease as the few remaining receipts will be paid for electronically in the future. It is our belief that the cash receipts function

within the business office is operating efficiently and deposits are made within statutorily mandated time periods. We feel at this time, that the volume of checks does not justify a lockbox arrangement. We have a request for a waiver from the State Accounting Manual regarding cash receipts pending with the State Comptroller's Office."

**Dual Employment:**

*Criteria:* Section 5-208a of the General Statutes requires that a state employee, holding multiple job assignments at different state agencies or within the same state agency, certify that the duties performed and hours worked are not in conflict with the employee's primary responsibilities to the agency, and no conflict of interest between or among the positions exists.

*Condition:* (1) We noted two instances for one employee in which the Dual Employment Request Form was submitted and approved after the dual employment activities began.

(2) The same employee's work schedule on the Dual Employment Request Form was not consistent with the timesheet and attendance report. For one period reviewed, the form showed that the employee worked only six hours of regular work on a certain day for six weeks due to performing her dual employment activities; however, the timesheet and attendance report showed eight hours of work. Therefore, a possible overpayment of \$477.72 was made, calculated based on 12 hours of non-work credited to the primary job at the employee's hourly rate of \$39.81.

*Effect:* There was less assurance that employees working multiple state positions had no conflicting duties or schedules between the positions.

*Cause:* Lack of management oversight appears to be the cause.

*Recommendation:* The Insurance Department should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes. (See Recommendation 4.)

*Agency Response:* "DOI will adhere to the requirements for dual employment."

**OFFICE OF THE HEALTHCARE ADVOCATE  
COMMENTS**

**FOREWORD:**

The duties, powers and responsibilities of the Office of the Healthcare Advocate (Office) are set forth primarily by Title 38a, Chapter 706b of the General Statutes and, pursuant to these provisions, is placed within the Insurance Department for administrative purposes only. The Office acts as an advocate to assist consumers with healthcare issues through the establishment of effective outreach programs and the development of communications related to consumer rights and responsibilities as members of managed care plans. An agency assigned to a department for administrative purposes only exercises its statutory authority independent of such department and without approval or control of the department as set forth under Section 4-38f of the General Statutes.

The Office is under the direction of a Healthcare Advocate, who is appointed by the Governor with the approval of the General Assembly. Kevin P. Lembo served as the Healthcare Advocate until his departure on January 5, 2011, when Victoria Veltri began serving as Acting Healthcare Advocate. She was appointed as Healthcare Advocate on March 7, 2011 and continues to serve in that capacity.

**Advisory Committee to the Office of Healthcare Advocate:**

Section 38a-1049 of the General Statutes established the Advisory Committee to the Office of the Healthcare Advocate (Advisory Committee). The Advisory Committee meets four times a year to review and assess the performance of the Office of the Healthcare Advocate, and also makes an annual evaluation of the Office of the Healthcare Advocate. As of June 30, 2011, the following were members of the Advisory Committee:

Mark Dewaele  
Steve Karp  
Keith Stover  
Gary Collins  
William Sweeney, Esq.  
One vacancy

Ms. Ellen Andrews also served as a member until her resignation on January 1, 2011.

**Significant New Legislation:**

There was no significant new legislation during the audited period.

**RÉSUMÉ OF OPERATIONS – OFFICE OF THE HEALTHCARE ADVOCATE:**

Comparative summaries of agency expenditures from the Insurance Fund for the audited period, as compared to the period ended June 30, 2009, are shown below:

	<b>Fiscal Year Ended June 30,</b>		
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
Personal Services	\$ 524,351	\$ 584,325	\$ 565,609
Other Expenses	134,632	119,387	135,371
Equipment	1,159	1,574	1,146
Fringe Benefits	305,009	369,479	359,779
Indirect Overhead	<u>16,426</u>	<u>(2,155)</u>	<u>(527)</u>
<b>Total Expenditures</b>	<b><u>\$ 981,577</u></b>	<b><u>\$ 1,072,610</u></b>	<b><u>\$ 1,061,378</u></b>

Total expenditures increased by \$79,801 or 8.1 percent, during the audited period. Personal services and related fringe benefit costs accounted for the majority of expenditures during the audited period.

Increases in personal services costs were primarily the result of annual salary increases negotiated by collective bargaining during the 2009-2010 fiscal year. Increases in fringe benefit costs were due to increases in medical insurance payments and contributions to the State Employees Retirement System (SERS).

As of June 30, 2011, the Office of the Healthcare Advocate had seven employees.

**Special Revenue Fund – Federal and Other Restricted Accounts:**

Federal and Other Restricted Accounts receipts totaled \$135,262 and \$110,727 for the fiscal years ended June 30, 2010 and 2011, respectively. The Federal and Other Restricted Accounts receipts consisted of a consumer assistance grant from the U.S. Department of Health and Human Services under the Affordable Care Act. It was designated for outreach and education on the Affordable Care Act and to provide direct consumer assistance with health plan selections and grievance appeals.

Federal and Other Restricted Accounts expenditures totaled \$11,850 and \$135,262 for the fiscal years ended June 30, 2010 and 2011, respectively. The majority of expenditures were for personal services and related fringe benefit costs, advertising, marketing and management consulting services.

**CONDITION OF RECORDS**

Our review of the Office of the Healthcare Advocate's records did not disclose any deficiencies.

**COMMISSION ON HEALTH EQUITY  
COMMENTS**

**FOREWORD:**

The duties, powers and responsibilities of the Commission on Health Equity (Commission) are set forth in Title 38a, Chapter 706b, Section 38a-1051 of the General Statutes and, pursuant to these provisions, is placed within the Office of the Healthcare Advocate for administrative purposes only. The Commission's mission 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. An agency assigned to a department for administrative purposes only exercises its statutory authority independent of such department and without approval or control of the department as set forth under Section 4-38f of the General Statutes.

The Commission has appointed a Health Equity Director to assist in its operations. Dr. Raja Staggers-Hakim was appointed as Health Equity Director on November 5, 2010 and continues to serve in that capacity.

**Commission on Health Equity:**

Section 38a 1051 (a) of the General Statutes established the 32-member Commission on Health Equity. The Commission consists of the following commissioners, or their designees, and public members: The Commissioners of Public Health, Mental Health and Addiction Services, Developmental Services, Social Services, Correction, Children and Families, and Education; the dean of The University of Connecticut Health Center, or his designee; the director of The University of Connecticut Health Center and Center for Public Health and Health Policy, or their designees; the dean of the Yale University Medical School, or his designee; the dean of Public Health and the School of Epidemiology at Yale University, or his designee; one member appointed by the president pro tempore of the Senate, who shall be a member of an affiliate of the National Urban League; one member appointed by the speaker of the House of Representatives, who shall be a member of the National Association for the Advancement of Colored People; one member appointed by the majority leader of the House of Representatives, who shall be a member of the Black and Puerto Rican Caucus of the General Assembly; one member appointed by the majority leader of the Senate with the advice of the Native American Heritage Advisory Council or the chairperson of the Indian Affairs Council, who shall be a representative of the Native American community; one member appointed by the minority leader of the Senate, who shall be a representative of an advocacy group for Hispanics; one member appointed by the minority leader of the House of Representatives, who shall be a representative of the state-wide Multicultural Health Network; the chairperson of the African-American Affairs Commission, or his or her designee; the chairperson of the Latino and Puerto Rican Affairs Commission, or his or her designee; the chairperson of the Permanent Commission on the Status of Women, or his or her designee; the chairperson of the Asian Pacific American Affairs Commission, or his or her designee; the director of the Hispanic Health Council, or his or her designee; the chairperson of the Office of the Health Care Advocate, or his or her designee; and eight members of the public, representing communities facing disparities in health status based

on race, ethnicity, gender and linguistic ability, who shall be appointed as follows: Two by the president pro tempore of the Senate, two by the speaker of the House of Representatives, two by the minority leader of the Senate, and two by the minority leader of the House of Representatives.

As of June 30, 2011, the following were members (designees) of the Commission on Health Equity:

Kenneth R. Alleyne  
Glenn A. Cassis  
Lorraine Carrano  
Paul D. Cleary  
Kelson J. Ettienne-Modeste  
Ann M. Ferris  
Sylvia Gafford-Alexander, designee of the Commissioner of Social Services  
James. H. Gatling  
Paul F. Flinter, designee of the Commissioner of Education  
Colleen Gallagher, designee of the Commissioner of Correction  
Cathy R. Graves  
Meg Hooper, designee of the Commissioner of Public Health  
Marie Lopez Kirkley-Bey  
Werner Oyanadel  
Marja M. Hurley  
Miriam E. Delphin-Rittman, designee of the Commissioner of Mental Health and Addiction Services  
Stephanie Paulmeno  
Natasha M. Pierre  
Marie M. Spivey  
Tory Z. Westbrook  
James E. Rawlings  
Gregory L. Stanton  
Michael C. Willams  
Nancy Berger  
Marjorie Colebut Jackson  
Kristen Noelle Hatcher  
Elizabeth Krause  
Catherine Medina  
Doreen McGrath, designee of the Commissioner of Developmental Services  
Arvind Shaw  
Sharon Mierzwa  
One vacancy

**Significant New Legislation:**

There was no significant new legislation during the audited period.

**RÉSUMÉ OF OPERATIONS – COMMISSION ON HEALTH EQUITY:**

During the 2010-2011 fiscal year, the Commission on Health Equity expended \$87,832 primarily for personal services and related fringe benefit costs of the Health Equity Director.

## CONDITION OF RECORDS

Our review of the Commission on Health Equity's records revealed the following area that requires improvement:

### **Administrative Digest Reports not Submitted:**

*Criteria:* Section 4-60 of the General Statutes states, "The executive head of each budgeted agency shall, on or before September first, annually, deliver to the Governor a report of the activities of such agency during the fiscal year ended the preceding June thirtieth." The agency reports are published in the Administrative Digest report published by the Department of Administrative Services.

*Condition:* The Commission on Health Equity did not file a report in accordance with Section 4-60 of the General Statutes for the fiscal years ended June 30, 2010 and 2011.

*Effect:* The required report was not published in the Administrative Digest report produced by the Department of Administrative Services.

*Cause:* Management was unaware of this requirement.

*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. (See Recommendation 1.)

*Agency Response:* "On behalf of the Commission on Health Equity, I acknowledge the completion of the audit and accept the recommendation that '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.' As the preparer of the administrative report, in the future, I will ensure that said report is submitted on or before September 1<sup>st</sup>."

## RECOMMENDATIONS

Our previous audit examination of the Insurance Department contained seven recommendations, and three recommendations for the Office of the Healthcare Advocate.

*Status of Prior Audit Recommendations:*

### **Insurance Department:**

- **The Insurance Department should improve purchasing procedures to ensure compliance with Section 4-98 of the General Statutes.** The Department complied with statutory requirements for the purchasing of goods or services; therefore, this recommendation is not being repeated.
- **The Insurance Department should develop an employees' personnel manual.** The Department has sufficiently developed a personnel manual in draft form and is in the process of being completed and approved. As a result, this recommendation is not being repeated.
- **The Insurance Department should limit the use of administrative leave with pay to no more than 15 days, as required by the state personnel regulations.** The Department has complied with state regulations concerning the proper use of administrative leave; therefore, this recommendation is not being repeated.
- **The Insurance Department should properly apply the Leave in Lieu of Accrual job aid procedures when the LILA time reporting code is posted to employees' timesheets.** Leave in Lieu of Accrual (LILA) procedures and reporting deficiencies still exist; therefore, this recommendation is being repeated in modified form. (See Recommendation 1.)
- **The Insurance Department should develop a comprehensive business continuity plan using the template provided by the Department of Information Technology.** Some improvements were noted, including planning to contract with a vendor to assist in detailing resumption of all business functions; however, deficiencies concerning this matter still exist. As a result, this recommendation will be repeated in modified form. (See Recommendation 2.)
- **The Insurance Department should revise its cash receipts procedures to conform to the requirements of the Comptroller's State Accounting Manual. In lieu of logging in each receipt in the mailroom, the Department should consider implementing a bank lock-box system for its receipts.** A bank lock-box system for receipts was considered but not implemented. Receipting deficiencies still exist; therefore, this recommendation will be repeated in modified form. (See Recommendation 3.)
- **The Insurance Department should report a \$5.9 million receivable resulting from the fine of Golf Marketing Worldwide, LLC, et al, and any other receivables, resulting from fines, which are outstanding as of June 30, on GAAP Form 2, along with an amount of the**

**receivables estimated to be uncollectible.** The Department has reported the correct receivable and estimated uncollectible receivable amounts on GAAP Form 2 as of June 30, 2011; therefore, this recommendation is not being repeated.

**Office of the Healthcare Advocate:**

- **The Office of the Healthcare Advocate should prepare and submit an administrative report to the Governor in accordance with Section 4-60 of the General Statutes.** Even though an administrative report was not filed in 2010, improvements were noted with the reports being appropriately filed to the Governor in 2011. As a result, this recommendation is not being repeated.
- **The Office of the Healthcare Advocate and the Advisory Committee to the Healthcare Advocate should take steps to ensure that all provisions of Section 1-225 of the General Statutes are being complied with, with respect to proper noticing of the meetings of the Office of Healthcare Advocate Advisory Committee.** The Healthcare Advocate has sufficiently complied with state requirements concerning the proper notification of meetings; therefore, this recommendation will not be repeated.
- **The Office of the Healthcare Advocate should continue to periodically notify the appointing authorities of the existing vacancies on the Commission on Health Equity.** Sufficient notification to appointing authorities filling existing vacancies on the Commission on Health Equity was done. As a result, this recommendation will not be repeated.

**Commission on Health Equity:**

There were no prior audit recommendations for the Commission on Health Equity. One new recommendation is being presented as a result our current examination.

Our current audit examination contains four recommendations for the Insurance Department, and one recommendation for the Commission on Health Equity.

*Current Audit Recommendations:*

**Insurance Department:**

1. **The Insurance Department 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.**

Comment:

We found that LILA time reporting procedures were not being followed, resulting in three cases of overstated leave balances.

- 2. The Insurance Department should develop a comprehensive business continuity plan using the template provided by the Department of Administrative Services, Bureau of Enterprise Systems and Technology.**

Comment:

The Department of Insurance does not currently have a comprehensive business continuity plan.

- 3. The Insurance Department should revise its cash receipts procedures to conform to the requirements of the State Comptroller's State Accounting Manual by recording receipt of checks in a bound journal.**

Comment:

We found that no original listing in a bound journal of checks received was maintained as required by the State Accounting Manual upon receipt in the Department's mail room, but instead, checks are sorted and delivered to the appropriate unit for processing, then subsequently delivered to the Business Office (note that some receipts, such as assessments on insurance companies, go directly from the mail room to the Business Office.) The checks from the various units are sent to the Business Office for recording in the cash receipts journal and for deposit in the bank.

- 4. The Insurance Department should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes.**

Comment:

Our testing disclosed instances where dual employment activity began before approvals were obtained, and a conflict in the employee's work schedule existed between the Dual Employee Request Form and the timesheet/attendance reports.

#### **Office of the Healthcare Advocate:**

No recommendations resulted from the current review.

#### **Commission on Health Equity:**

- 1. 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.**

Comment:

The Commission on Health Equity did not file a report in accordance with Section 4-60 of the General Statutes for the fiscal years ended June 30, 2010 and 2011.

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity for the fiscal years ended June 30, 2010 and 2011. This audit was primarily limited to performing tests of the agencies' compliance with certain provisions of laws, regulations, and contracts and grant agreements and to understanding and evaluating the effectiveness of each agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to each agency are complied with, (2) the financial transactions of each agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of each agency are safeguarded against loss or unauthorized use. The financial statement audits of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity for the fiscal years ended June 30, 2010 and 2011, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity complied in all material or significant respects with the provisions of certain laws, regulations, and contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Internal Control over Financial Operations, Safeguarding of Assets and Compliance:**

Management of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating each agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of each agency's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity's internal control over those control objectives.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or the breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or a

combination of deficiencies, in internal controls, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, grant agreements that would be material in relation to each agency's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over each agency's financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over each agency's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report for the Insurance Department, to be a significant deficiency: Recommendation 3 – Internal controls over cash receipts. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity complied with laws, regulations, and contracts and grant agreements, 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 each agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to the Insurance Department and the Commission on Health Equity's management in the accompanying Condition of Records and Recommendations sections of this report.

The Insurance Department and the Commission on Health Equity's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Insurance Department and the Commission on Health Equity's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of each agency's management, 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 courtesies and cooperation shown to our representatives by the personnel of the Insurance Department, the Office of the Healthcare Advocate, and the Commission on Health Equity during the course of our examination.



William T. Zinn  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts