

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
STATE INSURANCE AND RISK  
MANAGEMENT BOARD  
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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April 28, 2003

**AUDITORS' REPORT  
STATE INSURANCE AND RISK MANAGEMENT BOARD  
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of the State Insurance and Risk Management Board (the Board) for the fiscal years ended June 30, 2001 and 2002. 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, 2001 and 2002, 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 \$50,000, the agent of record must seek formal written bids from the available insurance carriers. For insurance policies with premiums anticipated to be less than \$50,000, 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 a formal vote by the Board. Insurance policies requiring oral bids are awarded by the agent to the low bidder unless other considerations 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:**

In accordance with 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, 2002, were as follows:

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

There was one vacancy on the Board as of June 30, 2002.

In addition, Leslie I. Olear served during the audited period.

**RÉSUMÉ OF OPERATIONS:**

**Department Operations:**

The Board's General Fund receipts totaled \$492,934 and \$481,881 for the fiscal years ended June 30, 2001 and 2002, respectively, compared to \$397,123 for the fiscal year ended June 30, 2000. 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 from other State agencies by expenditure transfers. These transfers amounted to \$1,328,155 and \$1,572,172 for the fiscal years ended June 30, 2001 and 2002, respectively, compared to \$1,430,467 for the fiscal year ended June 30, 2000. 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:

|  | <u>June 30,</u>                |                                |
|--|--------------------------------|--------------------------------|
|  | <u>2001</u>                    | <u>2002</u>                    |
| Personal Services                          | \$ 203,373                     | \$ 209,509                     |
| Capital Expenditures                       | 1,344                          | 0                              |
| Other:                                     |                                |                                |
| Insurance                                  | 10,750,469                     | 10,907,330                     |
| Professional Fees                          | 296,650                        | 303,900                        |
| Claim Administrator Fees                   | 616,261                        | 479,471                        |
| Operating costs                            | <u>12,955</u>                  | <u>18,636</u>                  |
| Totals                                     | <u>11,881,052</u>              | <u>11,918,846</u>              |
| Less Reimbursements-current year payments: |                                |                                |
| Expenditure transfers                      | 1,328,155                      | 1,572,172                      |
| Receipts                                   | <u>430,461</u>                 | <u>443,255</u>                 |
| Totals                                     | <u>1,758,616</u>               | <u>2,015,427</u>               |
| <br><b>Net Expenditures</b>                | <br><b><u>\$10,122,436</u></b> | <br><b><u>\$ 9,903,419</u></b> |
| <br>Fund Categories:                       |                                |                                |
| General Fund                               | \$7,993,817                    | \$8,230,113                    |
| Special Transportation                     | 2,127,275                      | 1,673,306                      |
| Capital Equipment/Purchase Fund            | <u>1,344</u>                   | <u>0</u>                       |
| <b>Totals</b>                              | <b><u>\$10,122,436</u></b>     | <b><u>\$9,903,419</u></b>      |

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Insurance payments increased by \$304,875 (approximately three percent) in 2001 and by \$156,861 (approximately one percent) in 2002. These changes resulted primarily from changes in the deductible payments for the fleet insurance coverage. The majority of payments made fell into four major categories of insurance as follows:

|                            | <u>Premiums</u>           | <u>2001<br/>Deductible<br/>Payments</u> | <u>Totals</u>              |
|----------------------------|---------------------------|---|----------------------------|
| Fire and extended coverage | \$1,286,698               | \$ -                                    | \$1,286,698                |
| General Liability          | 1,246,391                 | 1,542,102                               | 2,788,493                  |
| Fleet                      | 590,446                   | 4,949,698                               | 5,540,144                  |
| Buses                      | 348,334                   | 84,974                                  | 433,308                    |
| All Others                 | 701,826                   |   | 701,826                    |
| <b>Total</b>               | <b><u>\$4,173,695</u></b> | <b><u>\$6,576,774</u></b>               | <b><u>\$10,750,469</u></b> |

|                            | <u>Premiums</u>           | <u>2002<br/>Deductible<br/>Payments</u> | <u>Totals</u>              |
|----------------------------|---------------------------|---|----------------------------|
| Fire and extended coverage | \$2,222,685               | \$ -                                    | \$2,222,685                |
| General Liability          | 1,338,803                 | 1,244,633                               | 2,583,436                  |
| Fleet                      | 633,100                   | 4,291,453                               | 4,924,553                  |
| Buses                      | 280,060                   | 127,393                                 | 407,453                    |
| All Others                 | 769,203                   |   | 769,203                    |
| <b>Total</b>               | <b><u>\$5,243,851</u></b> | <b><u>\$5,663,479</u></b>               | <b><u>\$10,907,330</u></b> |

Deductible payments represent liability claims against the State within the deductible limits of the various policies. Two third-party claims 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 \$616,261 and \$479,471 for the fiscal years ended June 30, 2001 and 2002, respectively compared to \$541,901 for the fiscal year ended June 30, 2000. These fluctuations reflect a number of factors including the per-claim rates, claims activity and the deductible levels.

**Insurance Recoveries:**

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

|                            | <u>June 30,</u>         |                         |
|----------------------------|-------------------------|-------------------------|
|                            | <u>2001</u>             | <u>2002</u>             |
| Fire and extended coverage | \$577,897               | \$150,924               |
| All others                 | 0                       | 104,001                 |
| <b>Total Recoveries</b>    | <b><u>\$577,897</u></b> | <b><u>\$254,925</u></b> |

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 \$1,328,155 in 2001 and \$1,572,172 in 2002, were as follows.

|                       | <u>June 30,</u>           |                         |
|-----------------------|---------------------------|-------------------------|
|                       | <u>2001</u>               | <u>2002</u>             |
| Claim recoveries      | \$577,897                 | \$254,925               |
| Other receipts        | <u>492,931</u>            | <u>481,881</u>          |
| <b>Total Receipts</b> | <b><u>\$1,070,828</u></b> | <b><u>\$736,806</u></b> |

**Fire and Extended Coverage Insurance:**

Fire and extended coverage insurance was provided for on a blanket property policy. A five-year tabulation of ESRC (estimated replacement cost of the State's inventory of personal and real property) as of June 30, and the premiums paid and damages recovered on blanket fire policies during the State Financial year ending June 30, follows:

| <b>Fiscal Year</b> | <b>Premiums Paid</b> | <b>Recoveries</b> | <b>ESRC<br/>at June 30,</b> |
|--------------------|----------------------|-------------------|-----------------------------|
| 1997-1998          | 1,055,000            | 266,977           | 5,607,178,248               |
| 1998-1999          | 1,085,028            | 364,676           | 6,027,931,121               |
| 1999-2000          | 1,224,673            | 30,256            | 6,461,231,119               |
| 2000-2001          | 1,286,698            | 577,897           | 6,984,210,526               |
| 2001-2002          | 2,222,685            | 254,925           | 8,322,222,222               |

As of June 30, 2002, the blanket fire policy provides replacement coverage of \$8,322,222,222 (less the deductible provisions) on all State-owned buildings and contents. The premiums paid on the blanket fire policy purchased during the 2002 fiscal year were at the rate of \$.0270 per hundred dollars of coverage.

During the period under review the provisions of the blanket fire policy required the State to bear a \$250,000 deductible per occurrence.

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 papers and records coverage of \$25,000,000 and coverage of \$5,000,000 on property in transit were provided.

Auto Physical damage coverage is provided under a separate policy. This policy provides

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comprehensive and collision coverage to State vehicles valued at \$100,000 or more and any leased vehicles per the contractual agreement. The maximum limit is \$400,000 per any one vehicle, subject to a \$2,500 deductible.

**General Liability:**

General liability insurance costs were as follows:

|                     | <u>June 30,</u>           |                           |
|---------------------|---------------------------|---------------------------|
|                     | <u>2001</u>               | <u>2002</u>               |
| Premiums            | \$1,246,391               | \$1,338,803               |
| Deductible payments | <u>1,542,102</u>          | <u>1,244,633</u>          |
| <b>Totals</b>       | <b><u>\$2,788,493</u></b> | <b><u>\$2,583,436</u></b> |

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.

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:

|                     | <u>June 30,</u>           |                           |
|---------------------|---------------------------|---------------------------|
|                     | <u>2001</u>               | <u>2002</u>               |
| Premiums            | \$590,446                 | \$633,100                 |
| Deductible payments | <u>4,949,698</u>          | <u>4,291,453</u>          |
| <b>Totals</b>       | <b><u>\$5,540,144</u></b> | <b><u>\$4,924,553</u></b> |

Total fleet insurance decreased by \$615,591 during the 2002 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:

|                     | <u>June 30,</u>         |                         |
|---------------------|-------------------------|-------------------------|
|                     | <u>2001</u>             | <u>2002</u>             |
| Premiums            | \$348,334               | \$280,060               |
| Deductible payments | <u>84,974</u>           | <u>127,393</u>          |
| <b>Totals</b>       | <b><u>\$433,308</u></b> | <b><u>\$407,453</u></b> |

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 bonding of various State officers and employees 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 for 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 endorsements to 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.

## 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 one area requiring comment. This area is discussed below.

### **Compliance with Statutory Reporting Requirements:**

*Criteria:* Under Section 4a-21 of the 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 30<sup>th</sup>. The Statute details six specific areas that should be addressed in the report.

*Condition:* In response to the statutory requirement, the Board prepares an annual submission for inclusion in the State's "Digest of Administrative Reports to the Governor." Our review of those submissions noted several apparent omissions. An "evaluation of the state insurance program in terms of adequacy and reasonableness of cost" and "an evaluation of the effectiveness of each portion of the program involving deductibles or partial self-insurance" were not provided.

Section 4a-21 also requires "a statement of the agent or agents of record, or consultants, if any." While the Board has not used any consultants, it does utilize the services of a third party administrator and the agent of record. "Statements" of these contractors were not included in the annual submissions.

*Effect:* Certain data is not being reported as required by statute.

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

*Recommendation:* Procedures should be put in place to ensure detailed compliance with the statutory reporting requirements. (See Recommendation 1.)

*Agency Response:* "The State Insurance and Risk Management Board will put in place procedures to ensure detailed compliance with statutory reporting requirements under Section 4a-21 of the Statutes."

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Three recommendations were presented in our prior report, one of which is being repeated. The status of each recommendation is presented below.

- 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. An initial analysis was undertaken and it was determined that at this time the cost of such a system is prohibitive and a dollar value cannot be ascribed to any theoretical benefits that might ensue were an investment to be made in such a system. The recommendation is not repeated.
- Controls should be put in place to ensure detailed compliance with statutory reporting requirements. The recommendation is repeated.
- 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." The recommendation appears to have been implemented and is not being repeated.

### *Current Audit Recommendation:*

:

- 1. Procedures should be put in place to ensure detailed compliance with the statutory reporting requirements.**

#### Comment:

Reports submitted annually for inclusion in the State's "Digest of Administrative Reports to the Governor" failed to specifically include three of the components required by Section 4a-21 of the General Statutes.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Insurance and Risk Management Board for the fiscal years ended June 30, 2001 and 2002. 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, 2001 and 2002, 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 State Insurance and Risk Management 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 State Insurance and Risk Management Board is the responsibility of the State Insurance and Risk Management 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, 2001 and 2002, 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 one immaterial instance of noncompliance which is 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 State 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 a matter involving the internal control over the Board's financial operations, safeguarding of assets, and/or compliance, which is 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