

STATE OF CONNECTICUT



***AUDITORS' REPORT
STATE INSURANCE AND RISK MANAGEMENT BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 AND 2007***

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	2
Department Operations.....	2
Insurance Recoveries.....	5
Fire and Extended Coverage Insurance.....	5
General Liability.....	6
Fleet Insurance	6
Bus Insurance	7
All Others	7
CONDITION OF RECORDS	8
Travel Authorization	8
Annual Evaluations	9
Failure to Document the Use of State Purchasing Card.....	10
RECOMMENDATIONS	11
CERTIFICATION	13
CONCLUSION	15

June 18, 2008

**AUDITORS' REPORT
STATE INSURANCE AND RISK MANAGEMENT BOARD
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 AND 2007**

We have examined the financial records of the State Insurance and Risk Management Board (the Board) for the fiscal years ended June 30, 2005, 2006 and 2007. 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, 2005, 2006 and 2007 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 that place it under the Office of the State Comptroller for administrative purposes only.

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 may also develop and implement risk management and loss prevention programs.

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's 11 members are appointed by and serve terms concurrently with that of the Governor or until a successor is appointed. Four of the appointees must be public members and seven must be qualified in the area of insurance by training and experience. 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, 2007, were as follows:

M. Alice Sherman, Acting Chairman	Marjorie F. B. Lemmon
Joseph G. Lynch, Vice Chairman	Elita M. Lilly
Kevin M. Connors	Seth Mahler
Robert B. Gyle, III	Linda R. Savitsky
Wallace J. Irish, Jr.	Nancy Wyman, State Comptroller, ex-officio
Pamela J. Kedderis	Vacancy

RÉSUMÉ OF OPERATIONS:

Department Operations:

The Board's General Fund receipts totaled \$775,929, \$928,316 and \$831,533 for the fiscal years ended June 30, 2005, 2006 and 2007, respectively, compared to \$763,734 for the fiscal year ended June 30, 2004. 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 \$2,297,000, \$2,749,000 and \$2,810,000 for the fiscal years ended June 30, 2005, 2006 and 2007, respectively, compared to \$2,539,751 for the fiscal year ended June 30, 2004. These reimbursements were mainly for Department of Administrative Services, Fleet Operations and Department of Transportation related insurance coverage. The increase in transfers is caused mainly by an increase in premiums.

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:

	2005	<u>June 30,</u> 2006	2007
Personal Services	\$ 228,244	\$ 248,265	\$ 260,787
Capital Expenditures	1,000	1,500	100
Other:			
Insurance	13,410,906	14,252,544	15,380,999
Professional Fees	286,800	299,000	313,750
Claim Administrator Fees	753,273	668,253	164,118
Operating Costs	<u>113,533</u>	<u>56,149</u>	<u>19,421</u>
Total	<u>14,793,756</u>	<u>15,525,711</u>	<u>16,139,175</u>
Less Reimbursements:			
Current Year Payments			
Expenditures Transfers	2,296,764	2,749,760	2,810,764
Receipts	713,979	865,117	555,788
Prior Year Payments	<u>61,950</u>	<u>63,199</u>	<u>275,745</u>
Total Reimbursements	<u>3,072,693</u>	<u>3,678,076</u>	<u>3,642,297</u>
Net Expenditures	<u>\$ 11,721,063</u>	<u>\$11,847,635</u>	<u>\$12,496,878</u>
Fund Categories:			
General Fund	10,745,610	10,097,423	11,827,252
Special Transportation Fund	974,453	1,748,712	669,525
Capital Equipment Purchase Fund	<u>1,000</u>	<u>1,500</u>	<u>100</u>
Totals	<u>\$11,721,063</u>	<u>\$11,847,635</u>	<u>\$12,496,878</u>

Insurance premiums without fees decreased by \$2,102,525 in 2005 but increased by \$1,903,943 in 2006 and by \$360,691 in 2007. The decrease noted in 2005 is due to lower claim payments and the softening of the insurance market.

Auditors of Public Accounts

The increases noted in 2006 and 2007 are due to larger insurance claim payments. The majority of payments made fell into four major categories of insurance as follows:

	<u>Premiums</u>	<u>2005 Deductible Payments</u>	<u>Totals</u>
Fire and extended coverage	\$ 3,802,063	\$ -	\$ 3,802,063
General Liability	2,518,770	163,876	2,682,646
Auto Fleet	813,070	4,400,255	5,213,325
Bus Fleet	490,100	202,510	692,610
All Others	<u>962,651</u>	<u>-</u>	<u>962,651</u>
Total	<u>\$ 8,586,654</u>	<u>\$ 4,766,641</u>	<u>\$ 13,353,295</u>

	<u>Premiums</u>	<u>2006 Deductible Payments</u>	<u>Totals</u>
Fire and extended coverage	\$ 3,912,197	\$ -	\$ 3,912,197
General Liability	3,061,330	875,521	3,936,851
Auto Fleet	844,572	4,820,151	5,664,723
Bus Fleet	469,772	173,292	643,064
All Others	<u>926,468</u>	<u>-</u>	<u>926,468</u>
Total	<u>\$ 9,214,339</u>	<u>\$ 5,868,964</u>	<u>\$ 15,083,303</u>

	<u>Premiums</u>	<u>2007 Deductible Payments</u>	<u>Totals</u>
Fire and extended coverage	\$ 3,971,014	\$ -	\$ 3,971,014
General Liability	2,976,373	119,135	3,095,508
Auto Fleet	784,566	6,085,321	6,869,887
Bus Fleet	441,214	421,308	862,522
All Others	<u>999,386</u>	<u>-</u>	<u>999,386</u>
Total	<u>\$ 9,172,553</u>	<u>\$ 6,625,764</u>	<u>\$15,798,317</u>

Deductible payments represent liability claims against the State within the deductible limits of the various policies. Such claims were processed by a third-party claim's administrator that were remunerated on a fee-per-claim basis by the Board totaling \$753,273, \$668,253 and \$164,118 for the fiscal years ended June 30, 2005, 2006 and 2007, respectively, compared to \$486,176 for the fiscal year ended June 30, 2004. 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. In addition, as noted above in "Department Operations" the Board collected receipts for various premium reimbursements. The following table presents both the recoveries recorded by the Comptroller and total insurance program receipts, exclusive of expenditure transfers to other State agencies, of \$2,296,764 in 2005, \$2,749,760 in 2006 and \$2,810,764 in 2007.

	<u>June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Fire and Extended Coverage	\$ 895,167	\$ 12,481	\$ 2,585,102
All Others	-	-	-
	<hr/>	<hr/>	<hr/>
Total Recoveries	895,167	12,481	2,585,102
Other Receipts	<u>775,929</u>	<u>928,316</u>	<u>831,533</u>
Total Receipts	<u>\$ 1,671,096</u>	<u>\$ 940,797</u>	<u>\$ 3,416,635</u>

Fire and Extended Coverage Insurance:

Fire and extended coverage insurance was provided for on a blanket property policy. A seven-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:

<u>Fiscal</u> <u>Year</u>	<u>Premiums</u> <u>Paid</u>	<u>Recoveries</u>	<u>ESRC</u> <u>at June 30,</u>
2000-2001	1,286,698	577,897	6,984,210,526
2001-2002	2,222,685	150,924	8,322,222,222
2002-2003	3,588,767	145,404	8,398,611,611
2003-2004	4,161,084	-	9,478,822,102
2004-2005	3,802,063	-	10,201,598,496
2005-2006	3,912,197	-	10,419,910,778
2006-2007	3,971,014	-	11,172,467,000

As of June 30, 2007, the blanket fire policy provides replacement coverage of \$11,172,467,000 (less the deductible provisions) on all State-owned buildings and contents. The premiums paid on the blanket fire policy purchased during the 2007 fiscal year were at the rate of \$.0395 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.

Auditors of Public Accounts

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 \$61,636,000 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 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 \$50,000 deductible.

General Liability:

General liability insurance costs were as follows:

	<u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>2007</u>
Premiums	\$ 2,518,770	\$ 3,061,330	\$ 2,976,373
Deductible payments	<u>163,876</u>	<u>875,521</u>	<u>119,135</u>
Totals	<u>\$ 2,682,646</u>	<u>\$ 3,936,851</u>	<u>\$ 3,095,508</u>

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 under the caption "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>2005</u>	<u>June 30,</u> <u>2006</u>	<u>2007</u>
Premiums	\$ 813,070	\$ 844,572	\$ 784,566
Deductible payments	<u>4,400,255</u>	<u>4,820,151</u>	<u>6,085,321</u>
Totals	<u>\$ 5,213,325</u>	<u>\$ 5,664,723</u>	<u>\$ 6,869,887</u>

Total fleet insurance increased by \$1,205,164 during the 2007 fiscal year when compared with the previous fiscal year. This reflects a decrease in premiums of \$60,006 and an increase in claims settled totaling \$1,205,164.

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>2005</u>	<u>June 30,</u> <u>2006</u>	<u>2007</u>
Premiums	\$ 490,100	\$ 469,772	\$ 441,214
Deductible payments	<u>202,510</u>	<u>173,292</u>	<u>421,308</u>
Totals	<u>\$ 692,610</u>	<u>\$ 643,064</u>	<u>\$ 862,522</u>

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

Our audit of the Board's records revealed the following matters of concern requiring disclosure and Board attention.

Travel Authorization:

Criteria: The Office of State Comptroller Employee Travel Procedures states that an employee may be required to travel in the performance of their duties or to maintain training and or hours for a certified designation. All travel requests must be made at least three (3) weeks prior to traveling. The following information outlines the travel process:

Employee provides information about the trip and submits a written request to the Director for approval. If the request is denied, the process ends. If the request is signed and approved:

The employee collects all information related to the desired trip. The employee obtains a Travel Authorization (CO-112), and completes the necessary information. The employee signs original CO-112. The employee incorporates all documentation which includes the itinerary, conference documents, etc. and submits the package to the supervisor for signatures with sufficient justification for the travel and the object and necessity of travel.

Condition: Our examination of the Board's travel transactions for the period under review found 16 instances where an employee was reimbursed for travel expenses, without the required Travel Authorization Request (CO-112) form on file during the audit period. The total amount of associated travel expenses was \$6,522.

Effect: The propriety of travel requests that are not fully documented can not be properly assessed by the authorizer of the related expenditures. As a result, there is an increased risk that the travel expenditures incurred may not support the mission of the Board.

Cause: The Board did not comply with guidelines set forth by the Office of State Comptroller Employee Travel Procedures.

Recommendation: The Board should comply with established policies and procedures with respect to travel requests and improve internal controls over travel-related expenditures. (See Recommendation 1.)

Agency Response: "The Board will comply with established policies and procedures with respect to travel requests by utilizing the Travel Authorization Request (CO-112) Form and improve internal controls over travel-related expenditures."

Annual Evaluations:

- Criteria:** Section 5-210 of the General Statutes authorizes the Commissioner of Administrative Services to establish one or more State incentive plans for employees whose positions have been designated managerial or confidential. Annual salary increases or lump-sum payments for employees whose positions have been designated managerial or confidential may be based on annual performance appraisals made by agency heads or their designees in accordance with state incentive plans approved by the Commissioner of Administrative Services.
- Condition:** Our testing of payroll and personnel functions relative to the agency found that a managerial employee received an annual salary increase of \$3,055.01, \$3,241.00 and \$44.11 for the fiscal years 2005, 2006 and 2007, respectively. Also the managerial employee received a lump-sum incentive payment of \$3,394.00 during fiscal year 2007.
- The annual salary increase and lump-sum payment were awarded to the managerial employee without evidence that an annual performance appraisal had been performed by management.
- Effect:** The Board did not comply with the requirements of section 5-210 of the General Statutes. Annual salary increases and a lump-sum incentive payment were awarded to a managerial employee under section 5-210 of the General Statutes without the evidence of the annual performance appraisals.
- Cause:** A lack of administrative oversight appears to be the cause of this condition.
- Recommendation:** The Board should ensure that any annual incentive award to its managerial employee is in compliance with the guidelines established by the Department of Administrative Services. At a minimum, those guidelines require that an annual evaluation be performed for each managerial employee prior to receiving an increase in salary. (See Recommendation 2.)
- Agency Response:** “This was an administrative oversight. The Board will work with the Personnel Office of the Office of the State Comptroller who handles Personnel Matters for the Board and the Department of Administrative Services to obtain and complete the performance appraisal form for each managerial employee prior to receipt of any salary increases.”

Failure to Document the Use of State Purchasing Card:

- Criteria:** The State Comptroller, in conjunction with the Department of Administrative Services, has issued the State of Connecticut Purchasing Card Cardholder Work Rules, which set forth the State's guidelines and procedures on the use of the purchasing cards by the State employees. The completion of the "Air Travel Log Sheet," CO-502 is used to maintain all documentation related to travel. The log should list the following information: primary cardholder name, agency number/name/department, billing cycle (date), date of purchase, employee name (person traveling), travel authorization number, dates of travel, rail/airline, amount, returned/credited/disputed item, cardholder's signature/date, supervisor/ reviewer signature/date and total dollar amount.
- Condition:** Our examination of the Board's Purchasing Card (P-Card) activity for travel purchases made during the 2007 audited period revealed three instances, totaling \$2,478, in which the P-Card transactions did not have the supporting documentation pertaining to travel. Our extended testing found an additional 13 instances in fiscal years 2005, 2006 and 2007, totaling \$4,044, in which P-Card transactions did not have any of the supporting documentation pertaining to travel as described above. The total amount of associated travel expenses was \$6,522.
- Effect:** Without the proper supporting documentation, management is unable to prevent or detect those instances when travel is proposed or taken for purposes that do not support the mission of the agency.
- Cause:** The Board did not comply with guidelines set forth in the State of Connecticut Purchasing Card Program Cardholder Work Rules that the Department of Administrative Services has issued in conjunction with the State Comptroller, relative to the use of State purchasing cards.
- Recommendation:** The Department should improve its controls over the use of Purchasing Cards to ensure that their use is in compliance with the guidelines set forth in the State of Connecticut Purchasing Card Program Cardholder Work Rules. (See Recommendation 3.)
- Agency Response:** "The Board will improve its controls over the use of Purchasing Cards for travel related expenses and complete the CO-502, "Air Travel Log Sheet", to ensure compliance with the guidelines set forth in the State of Connecticut Purchasing Card Program Cardholder Work Rules."

RECOMMENDATIONS

Our prior report contained four recommendations. There has been satisfactory resolution of all four prior audit recommendations. Three additional recommendations are being presented as a result of our current examination.

Prior Audit Recommendations:

- **The Board should develop a system to monitor its risk management and loss prevention programs that includes establishing criteria for evaluating a program's success. It should monitor the current program and evaluate its effectiveness.**

Our review found no reoccurrence of this condition. The recommendation will not be repeated.

- **Board members should be designated to file Statements of Financial Interest and should resolve this matter with the Governor's Office and the Office of State Ethics. They should develop an Ethics Statement and gift affidavits should be obtained in compliance with Section 4-251 of the General Statutes.**

The Board has taken the necessary corrective actions to address this recommendation. This recommendation will not be repeated.

- **The Board should recover all contingent commissions earned by the Agent of Record on the State's business and should develop procedures to verify such contingent commissions periodically. The Board should seek the Attorney General's clarification of the reporting requirement to determine if it is intended to include commissions paid by insurers.**

On January 2, 2007, the Office of the Attorney General reached a settlement with some of the nation's largest property and casualty insurers. The settlement required insurance companies that deal with the State of Connecticut to stop paying contingent commissions to brokers and agents. Recovery of prior contingent commission's payments, as noted in the recommendation, is still at issue with the Office of the Attorney General and insurance companies.

The Board has taken the necessary corrective actions to address this recommendation by making all of their premium's net of commissions. This recommendation will not be repeated.

- **The Board should improve its contractor monitoring and payment processes by periodically reviewing audit reports on the processes of outside service organizations and by reviewing invoices to prevent overpayments.**

Our review found no reoccurrence of the condition. The recommendation will not be repeated.

Current Audit Recommendation:

- 1. The Board should comply with established policies and procedures with respect to travel requests and improve internal controls over travel-related expenditures.**

Comment:

Our examination of the Board's travel transactions for the period under review found 16 instances where an employee was reimbursed for travel expenses, without the required Travel Authorization Request (CO-112) form on file during the audit period. The total amount of associated travel expenses was \$6,522.

- 2. The Board should ensure that any annual incentive award to its managerial employee is in compliance with the guidelines established by the Department of Administrative Services. At a minimum, those guidelines require that an annual evaluation be performed for each managerial employee prior to receiving an increase in salary.**

Comment:

Our testing of payroll and personnel functions relative to the Agency found that a managerial employee received an annual salary increase of \$3,055.01, \$3,241.00 and \$44.11 for the fiscal years 2005, 2006 and 2007, respectively. Also the managerial employee received a lump-sum incentive payment of \$3,394.00 during fiscal year 2007.

- 3. The Department should improve its controls over the use of Purchasing Cards to ensure that their use is in compliance with the guidelines set forth in the State of Connecticut Purchasing Card Program Cardholder Work Rules.**

Comment:

Our examination of the Board's Purchasing Card (P-Card) activity for travel purchases made during the 2007 audited period revealed three instances, totaling \$2,478, in which the P-Card transactions did not have the supporting documentation pertaining to travel. Our extended testing found an additional 13 instances in fiscal years 2005, 2006 and 2007, totaling \$4,044, in which P-Card transactions did not have any of the supporting documentation pertaining to travel as described above. The total amount of associated travel expenses was \$6,522.

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, 2005, 2006 and 2007. This audit was primarily limited to performing tests of the Board's compliance with certain provisions of laws, regulations, contracts and grants 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, contracts and grants 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 State Insurance and Risk Management Board, for the fiscal years ended June 30, 2005, 2006 and 2007, 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 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 State Insurance and Risk Management Board complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants 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, contracts and grants 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, 2005, 2006 and 2007, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 certain immaterial or less than significant 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 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, contracts and grants

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.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following finding represents a reportable condition: the lack of annual evaluations of the Risk Manager of the State Insurance and Risk Management Board.

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, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable condition described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over 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.

Nikolaos Perdikakis
Auditor 1

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts