

**State of New York  
Office of the State Comptroller  
Division of Management Audit and State Financial Services**

**New York State Insurance Department  
Annual Assessment of Costs to Administer Insurance Department Operations  
For the Fiscal Year Ended March 31, 1999**

**Report 99-S-44**

H. Carl McCall  
State Comptroller

**NEW YORK STATE INSURANCE DEPARTMENT  
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER  
INSURANCE DEPARTMENT OPERATIONS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

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H. CARL McCALL  
STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report**  
**New York State Insurance Department**

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We have audited the accompanying Consolidated Statement of Costs to Administer Insurance Department (Department) Operations for the period April 1, 1998 to March 31, 1999. The Statement is the responsibility of Department management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 3, the accompanying Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Statement presents fairly, in all material respects, the Costs to Administer Insurance Department Operations for the period April 1, 1998 to March 31, 1999 in conformity with the cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report on Department compliance with selected laws and regulations pertaining to Department assessments (Appendix A), and a report on the Department's internal control structure (Appendix B).

*Office of the State Comptroller*  
*Date: August 10, 2000*

**NEW YORK STATE INSURANCE DEPARTMENT  
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER INSURANCE  
DEPARTMENT OPERATIONS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

Direct Cash Disbursements

Personal Service	\$46,885,194	
Real Estate Rental	4,780,671	
Misc. Contractual Services	3,878,858	
Equipment	2,313,647	
Travel	2,141,899	
OGS Telecommunications	656,770	
General Office Supplies	598,298	
Postage	514,424	
Telephone	487,998	
Equipment Repairs	241,624	
Printing	230,198	
OGS Interagency Courier	22,216	
OGS Computer	20,250	
Equipment Rentals	<u>5,651</u>	
 Total Direct Cash Disbursements		 \$62,777,698

Indirect Cash Disbursements

Fringe Benefits (Note 4)	<u>\$14,684,000</u>	
 Total Indirect Cash Disbursements		 <u>14,684,000</u>
 Total Cash Disbursements		 \$77,461,698
 Suballocations to Other Agencies (Note 5)		 <u>12,534,865</u>
 Total Operating Costs		 \$89,996,563
 Offsetting Cash Receipts (Note 2)		 <u>(8,778,995)</u>
 Net Assessable Costs		 <u>\$81,217,568</u>

The accompanying notes are an integral part of the Statement.

## **Notes to Consolidated Statement of Costs to Administer Insurance Department Operations**

### **1. Department Operations**

The Insurance Department, created January 1, 1860, is charged with regulating the insurance industry. Such regulation includes ensuring that the interests of insurance policy holders, companies and producers are balanced. The Department's specific statutory responsibilities include monitoring the financial solvency of insurers, approving the formation, consolidation or merger of insurance organizations, and licensing and monitoring the business practices of insurers, agents, brokers and adjusters.

The Department's main office is located at 25 Beaver Street, New York City. The Department also maintains offices in Albany, Buffalo, Rochester, Syracuse, Oneonta and Long Island. The Department operates under the direction of the Superintendent of Insurance who is appointed by the Governor with the advice and consent of the Senate.

The Department is organized into three major operational program areas: Administration, Regulation and Consumer Services. (See Schedule 1.)

The responsibilities of each program are as follows:

#### **Administration**

The Department's Administration Program establishes policy and legal direction for regulation of the insurance industry. It is also responsible for collecting, recording and reporting Department revenues, procuring necessary goods and services, and maintaining the Department's major accounting operations. In addition, this Program administers the Department's human resources, budgeting, mail and supply services.

#### **Regulation Program**

The Department's Regulation program is principally responsible for conducting examinations of, and reviewing rate filings for, life, health, property and casualty insurers. Regulation Program responsibilities also include licensing insurance companies, agents, brokers, adjusters and insurance consultants seeking to do business in New York.

Insurers licensed in New York State must meet various statutory requirements regarding their financial condition and corporate conduct. The Department monitors insurer compliance with these requirements by performing periodic desk reviews of insurer financial reports, and periodic on-site examinations of insurer records. Examinations include an assessment of insurer internal controls, financial condition, and claim processing procedures.

The Regulation Program is also responsible for promoting high standards of ethical conduct and technical knowledge for agents and brokers by overseeing their testing, licensing and continuing education. The Department maintains a registry of all licensees and is authorized to impose fines and other penalties on those who have violated insurance law.

The Department's Insurance Frauds Bureau, which endeavors to identify and, where possible, prevent insurance fraud and other illegal insurance-related practices, is part of this Program.

### **Consumer Services Program**

The Department's Consumer Services Program is responsible for responding to consumer complaints and for performing investigations to assess the trustworthiness and competence of those who underwrite and distribute insurance products in New York State.

## **2. Cost Recovery Methods**

In accordance with Section 332 of the Insurance Law, the costs to administer Department operations are to be borne by the industry via assessments on all domestic insurers and all licensed United States branches of alien insurers domiciled in New York State. The law provides that recoverable expenses include all costs, direct and indirect, as approved by the Division of the Budget, and that these costs be audited by the State Comptroller. Individual insurer assessments are prorated between insurers on the basis of premiums written.

In addition, pursuant to statute and as illustrated in Schedule 2, the Department routinely receives various cash receipts which offset the Department's annual assessment of costs on regulated companies. These receipts are classified as follows:

### **Examination Fees**

Section 313 of the Insurance Law requires regulated insurers to reimburse the Department for necessary expenses relating to on-site examinations. The reimbursements are based on examiner effort and actual other than personal service costs. The offsetting examination fees account for approximately 98 percent of the Department's total offsetting cash receipts.

### **Fire Tax**

The Department assesses and collects a mandated tax on the premiums collected by insurance providers of fire and allied lines of insurance pursuant to Sections 9104/9105 and 2118 of the Insurance Law. The Department also distributes the tax revenues it collects back to the fire districts in which the policies were sold. The related costs for administering these sections are recovered from these taxes and account for less than 2 percent of the Department's total offsetting cash receipts.

## **Security Fund Reimbursements**

The Department processes the revenues received from, and the claims made against, the State's security funds. The Department is reimbursed for the costs it incurs performing these functions. Security fund reimbursements account for less than 1 percent of the Department's total offsetting cash receipts.

### **3. Basis of Accounting**

The Department prepares its Consolidated Statement of Costs to Administer Department Operations using the cash basis of accounting. As such, revenues are recognized when received, and expenses are recognized when paid.

### **4. Accounting Records**

The direct cash disbursements, cash receipts and adjustments used to compile the Department's Consolidated Statement are based on the financial records maintained by the Department, and are in agreement with those maintained by the State Comptroller. Indirect costs (e.g., fringe benefits, overhead, etc.) are based on rates developed by the NYS Division of the Budget. The fringe benefit and overhead rates for the audit period were 29.6% and 4.64% respectively.

### **5. Suballocations**

As illustrated in Schedule 3, the Department acts as the financial conduit between regulated insurers and five State agencies for the financing of several insurance industry-related programs, as follows:

#### **Department of State (DOS)**

This suballocation defrays the costs incurred by DOS for the maintenance of: a State fire reporting system; the development, maintenance and enforcement of the State's building code; the urban search and rescue program; the fire prevention and control program; aid to localities for payments related to fighting fires on State property; the State's fire mobilization and mutual aid plan; and training costs incurred in accordance with Section 209-x of the General Municipal Law - requiring certain first-line supervisors of paid fire departments to attend training at the New York City-based Fire Training Academy.

#### **Department of Health (DOH)**

This suballocation defrays the costs incurred by DOH to develop and revise inpatient hospital rates for insurance billing purposes, and for certifying managed care programs and approving managed care implementation plans.

### **Department of Civil Service (DCS)**

This suballocation defrays the costs incurred by DCS to monitor the administration of health benefit contracts between State employees and retirees with health maintenance organizations.

### **Department of Law (DOL)**

This suballocation defrays the costs incurred by DOL to litigate insurance fraud issues.

### **Office of the State Inspector General (OSIG)**

Pursuant to Article 39, Sections 875 and 879 of the Consolidated laws, this suballocation defrays the costs incurred by the OSIG for services, fringe benefits and other expenses relating to the establishment and maintenance of an office for business permits and a program of business permits assistance.

## **6. Comparative Analysis of Operating Costs (Schedule 4)**

### **Personal Service**

The primary reason for the increase in Department personal service costs is attributed to its increased workforce of 49 persons during the audit period. The additional staff was assigned between the Department's Administration and Regulation Programs, and its examiner trainee pool.

### **Maintenance and Operation**

The Department's maintenance and operation costs for fiscal year 1997-1998 were significantly higher than those incurred during the audit period due to the renovation's made, and the costs of moving, to the Department's new main office located at 25 Beaver Street, New York City.

### **Suballocations**

As explained in Note 5, the Department allocates monies to various State agencies to finance the costs of insurance industry-related programs. The amounts allocated are based on the actual disbursements made by these localities and are not controlled by the Department.

H. CARL McCALL  
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

State of New York  
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## **Comptroller's Report on Insurance Department Compliance with Selected Statutory Requirements Applicable to the Annual Assessment of Operating Costs on Regulated Companies**

### **New York State Insurance Department**

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We have audited the accompanying Consolidated Statement of Costs to Administer Insurance Department Operations for the period April 1, 1998 to March 31, 1999.

In connection with our audit of the Statement, we selected certain transactions applicable to compliance with the annual assessment of Department costs on regulated insurance companies as set forth in Section 332, Article 3 of the New York State Insurance Law. This section addresses the regulated insurers' mandated obligation to finance Department operations, and the general methodology to be applied by the Department when making the related assessments.

The procedures we followed to assess Department compliance were substantially less than those performed during an audit, the objective of which is to express an opinion on Department compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, we found no material instances of noncompliance with the requirements relating to the annual assessment of Department costs on regulated insurers. With respect to the items not tested, nothing came to our attention that caused us to believe that the Insurance Department had not complied, in all material respects, with those requirements and would not be in compliance with the law if they continue to apply the same methodology(s).

This report is intended for the information and use of Department management, regulated companies, and the State of New York. However, this report is a matter of public record and its distribution is not limited.

*Office of the State Comptroller*  
*Date: August 10, 2000*

**Appendix A**



H. CARL McCALL  
STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

**Comptroller's Report on Internal Controls Applicable to the Annual Assessment of Costs to Administer Insurance Department Operations**

**New York State Insurance Department**

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In planning and performing our audit of the Consolidated Statement of Costs to Administer Insurance Department (Department) Operations for the period April 1, 1998 to March 31, 1999, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement and not to provide assurance on the Department's internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the Statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We conveyed the results of our review of the Department's internal control structure in a separate letter to Department management, which includes a description of management's responsibility to establish and maintain the Department's internal control structure, and the objectives of, and inherent limitations in, such a structure.

The letter noted above is intended solely for the information and use of Department management and others within the organization.

*Office of the State Comptroller*  
*Date: August 10, 2000*

**Appendix B**

**NEW YORK STATE INSURANCE DEPARTMENT  
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER  
INSURANCE DEPARTMENT OPERATIONS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

**Supplementary Information**

Supporting Schedules 1 through 4

**NEW YORK STATE INSURANCE DEPARTMENT  
DISTRIBUTION OF DEPARTMENT COSTS BY MAJOR PROGRAM  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

<u>Direct Cash Disbursements</u>	<u>Administration</u>	<u>Regulation</u>	<u>Consumer Services</u>
Personal Service	\$6,177,529	\$36,258,192	\$4,449,475
Real Estate Rental	25,407	4,755,095	169
Misc. Contractual Services	492,639	3,240,135	146,083
Equipment	76,852	2,177,109	59,686
Travel	135,247	1,960,074	46,578
OGS Telecommunications	(128)	656,898	0
Postage	759	513,321	344
Telephone	12,040	455,358	20,600
General Office Supplies	103,402	449,341	45,555
Printing	7,517	220,539	2,143
Equipment Repairs	37,916	188,957	14,750
OGS Interagency Courier	0	22,216	0
OGS Computer	0	20,250	0
Equipment Rentals	375	5,169	107
	<hr/>	<hr/>	<hr/>
Total Direct Cash Disbursements	\$7,069,555	\$50,922,654	\$4,785,490
 <u>Indirect Cash Disbursements</u>			
Fringe Benefits	<hr/> 1,911,688	<hr/> 11,354,969	<hr/> 1,417,343
Total Cash Disbursements	<hr/> <u>\$ 8,981,243</u>	<hr/> <u>\$ 62,277,623</u>	<hr/> <u>\$ 6,202,833</u>

**NEW YORK STATE INSURANCE DEPARTMENT  
OFFSETTING CASH RECEIPTS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

Cash Receipts

Examinations	\$8,602,858
Fire Tax	142,288
Security Fund	<u>33,849</u>
Total Offsetting Cash Receipts	<u>\$8,778,995</u>

**NEW YORK STATE INSURANCE DEPARTMENT  
SUBALLOCATIONS TO OTHER AGENCIES  
FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

Cash Disbursements

Department of State	\$10,794,463
Department of Health	657,360
Department of Law	565,616
Office of the Inspector General	332,005
Department of Civil Service	<u>185,421</u>
Total Cash Disbursements	<u>\$12,534,865</u>

**NEW YORK STATE INSURANCE DEPARTMENT  
COMPARATIVE ANALYSIS OF OPERATING COSTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 1998 AND MARCH 31, 1999**

	<u>1998-99</u>	<u>1997-98</u>	<u>% Variance</u>
<u>Direct Cash Disbursements</u>			
Personal Service	\$46,885,194	\$43,661,426	7.38
Maintenance and Operations	15,892,504	21,994,131	(27.74)
<u>Indirect Cash Disbursements</u>			
Fringe Benefits	14,684,000	15,404,015	(4.67)
Suballocations	<u>12,534,865</u>	<u>11,492,418</u>	9.07
Total Cash Disbursements	\$89,996,563	\$92,551,990	(2.76)
Offsetting Cash Receipts	<u>(8,778,995)</u>	<u>(9,167,518)</u>	(4.24)
Net Assessable Costs	<u>\$81,217,568</u>	<u>\$83,384,472</u>	(2.60)

See Note 6 to the Consolidated Statement for explanations of the significant variances.

See OSC Report 98-S-86, issued September 23, 1999, for Comptroller's Report on the Department's Consolidated Statement for the period ended March 31, 1998.