NEW YORK STATE
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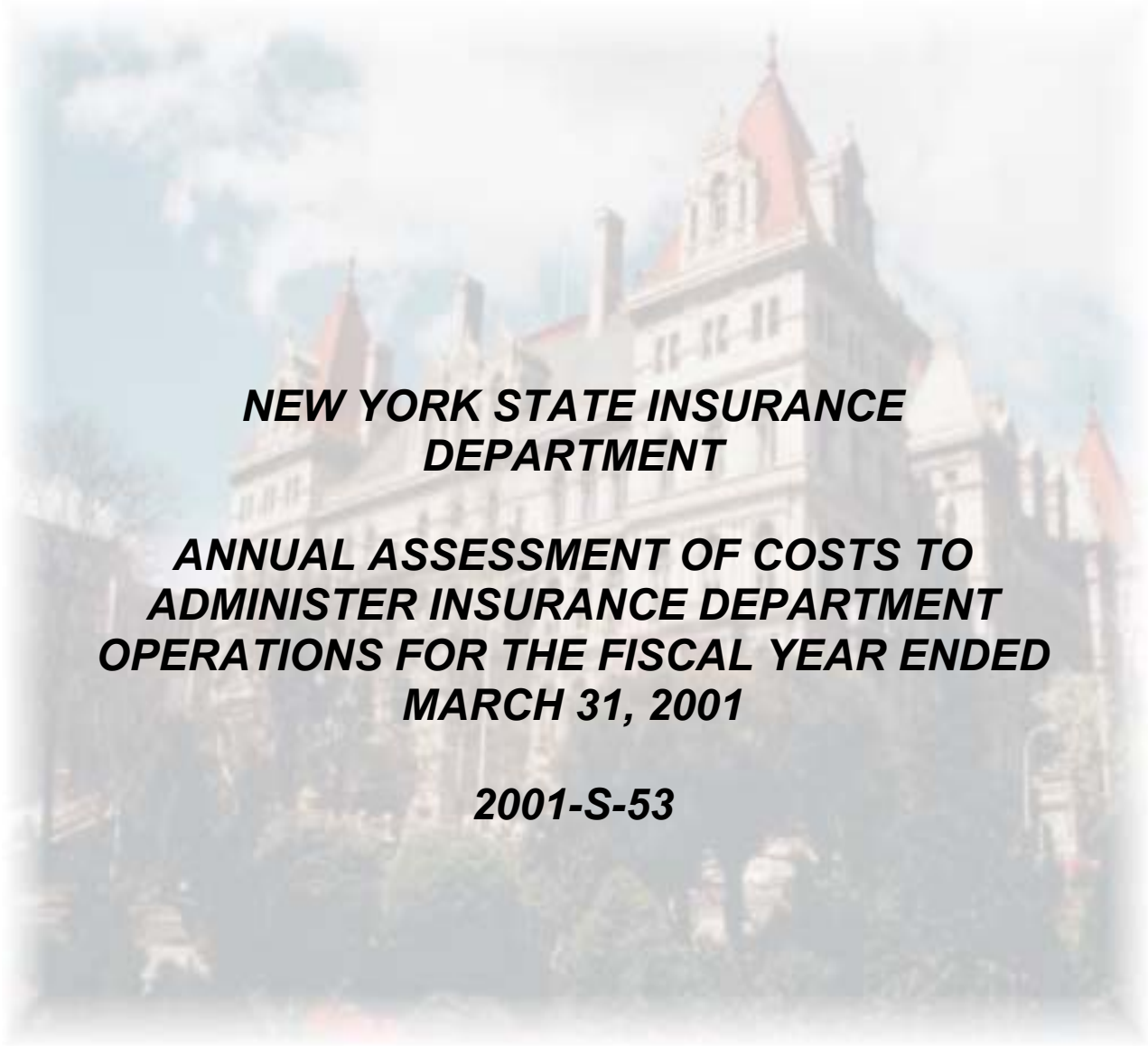
H. Carl McCall
STATE COMPTROLLER



NEW YORK STATE INSURANCE DEPARTMENT

ANNUAL ASSESSMENT OF COSTS TO ADMINISTER INSURANCE DEPARTMENT OPERATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 2001

2001-S-53

DIVISION OF MANAGEMENT AUDIT AND STATE FINANCIAL SERVICES

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, 2001

Report 2001-S-053

NEW YORK STATE INSURANCE DEPARTMENT
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

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STATE OF NEW YORK
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Comptroller's Report
New York State Insurance Department

We have audited the accompanying Consolidated Statement of Costs to Administer Insurance Department (Department) Operations for the period April 1, 2000 to March 31, 2001. 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, 2000 to March 31, 2001 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: June 4, 2002

EXHIBIT A

NEW YORK STATE INSURANCE DEPARTMENT
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

Direct Cash Disbursements		
Personal Service	$51,915,568	
Real Estate Rental	4,830,431	
Misc. Contractual Services	4,780,443	
Equipment	3,207,837	
Travel	1,899,354	
General Office Supplies	800,999	
Telephone	790,663	
Postage	624,051	
OGS Telecommunications	590,870	
Equipment Repairs	257,265	
Printing	175,087	
Equipment Rentals	67,154	
OGS Interagency Courier	16,730	
Total Direct Cash Disbursements		$69,956,452
Indirect Cash Disbursements		
Fringe Benefits (Note 4)	$17,829,633	
Total Indirect Cash Disbursements		17,829,633
Total Cash Disbursements		87,786,085
Suballocations to other Agencies (Note 5)		14,756,290
Total Operating Costs		102,542,375
Offsetting Cash Receipts (Note 2)		(7,768,990)
Net Assessable Costs		$94,773,385

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. 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, Minneola, Oneonta and Syracuse. 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 area establishes Department policy and recommends statutory changes to the Legislature relating to insurance industry regulation. It is also responsible for collecting, recording and reporting revenues, procuring necessary goods and services, and maintaining the Department's major accounting operations. In addition, this program area administers the Department's human resources, budgeting, mail and supply services.

Regulation

The Department's Regulation program area is responsible for conducting insurer solvency and market conduct examinations of licensed insurance companies, agents, brokers, adjusters and insurance consultants seeking to do business in New York. In addition, Regulation staff review rate filings for life, health, property and casualty insurers.

Insurers licensed in New York State must meet various statutory requirements regarding their financial condition and corporate conduct. The Department also 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 area 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 is responsible for preventing and detecting insurance fraud and other illegal insurance-related practices, is also part of this program area.

Consumer Services

The Department's Consumer Services program area is responsible for responding to consumer complaints and 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 insurance 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 are audited by the State Comptroller annually. The Department's recoverable costs are assessed against the insurance industry by prorating the costs 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 an hourly rate, out-of-state travel expenses, and the overhead rate developed by the Division of the Budget.

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 Department is reimbursed for the costs it incurs performing these functions.

Security Fund Reimbursements

The Department processes the revenues received from, and the claims made against, the security funds as approved by law. The Department is reimbursed for the costs it incurs performing these functions.

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 (cash receipts) are recognized when received, and expenses (cash disbursements) 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) are based on rates developed by the Division of the Budget. The combined fringe benefit and indirect cost rate for the audit period was 34.43 percent.

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 relating 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 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.

Banking Department

This suballocation defrays the costs incurred for services and expenses associated with the operations of the State's Holocaust Claims Processing office.

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 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.

Department of Motor Vehicles (DMV)

This suballocation is used by DMV for the Accident Information System (AIS) pursuant to a contract between DMV and SAIC (Scientific Application International Corporation). The contract provides equipment such as servers and workstations as well as maintenance and enhancements for the AIS. The contract covers the period February 2000 through March 2002.

6. Comparative Analysis of Significant Variances in Operating Costs (Schedule 4)

Personal Service

The increase in personal service expenses for the audit period was the result of new employee bargaining agreements ratified during the summer of 2000.

Suballocations

The increase in suballocations for the audit period is the result of DMV's newly contracted Accident Information System (See Note 5).

Offsetting Cash Receipts

The primary reason for the decrease in the Department's offsetting cash receipts for the audit period is attributable to a carrier billing of approximately $500,000 that occurred on March 29, 2001, which was not collected until the reporting period ended March 31, 2002.

H. CARL McCALL
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OFFICE OF THE STATE COMPTROLLER

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

We have audited the accompanying Consolidated Statement of Costs to Administer Insurance Department Operations for the period April 1, 2000 to March 31, 2001.

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' mandate 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: June 4, 2002

Appendix A

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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

In planning and performing our audit of the Consolidated Statement of Costs to Administer Insurance Department Operations for the period April 1, 2000 to March 31, 2001, 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 therein 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 standard 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, which addresses issues relating to the Department's accounts receivable, is intended solely for the information and use of Department management and others within the organization.

Office of the State Comptroller
Date: June 4, 2002

Appendix B

NEW YORK STATE INSURANCE DEPARTMENT
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

Supplementary Information

Supporting Schedules 1 through 4

Appendix C

Schedule 1

NEW YORK STATE INSURANCE DEPARTMENT
DISTRIBUTION OF DEPARTMENT COSTS BY MAJOR PROGRAM
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

Direct Cash Disbursements	Administration	Regulation	Consumer Services
Personal Service	$6,933,863	$39,994,005	$4,987,700
Real Estate Rental	-0-	4,829,551	880
Misc. Contractual Services	167,005	4,466,626	146,812
Equipment	87,184	3,094,331	26,322
Travel	102,552	1,688,557	108,245
OGS Telecommunications	-0-	590,870	-0-
Postage	606	621,461	1,984
Telephone	6,059	680,625	103,979
General Office Supplies	149,970	641,233	9,796
Printing	34,436	140,594	57
Equipment Repairs	25,629	220,451	11,185
OGS Interagency courier	-0-	16,730	-0-
OGS Computer	-0-	-0-	-0-
Equipment Rentals	4,944	62,210	-0-
Total Direct Cash Disbursements	$7,512,248	$57,047,244	$5,396,960
Indirect Cash Disbursement			
Fringe Benefits	2,387,702	13,760,345	1,681,586
Total Cash Disbursements	$9,899,950	$70,807,589	$7,078,546

NEW YORK STATE INSURANCE DEPARTMENT
OFFSETTING CASH RECEIPTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

Cash Receipts	
Examinations	$7,574,836
Fire Tax	132,393
Security Fund Administration	61,761
Total Offsetting Cash Receipts	$7,768,990

Schedule 3

NEW YORK STATE INSURANCE DEPARTMENT
SUBALLOCATIONS TO OTHER AGENCIES
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

Cash Disbursements	
Department of State	$12,864,309
Department of Health	292,539
Banking Department	279,920
Office of the State Inspector General	233,086
Department of Motor Vehicles	1,086,436
Total Cash Disbursements	$14,756,290

Schedule 4

NEW YORK STATE INSURANCE DEPARTMENT
COMPARATIVE ANALYSIS OF SIGNIFICANT VARIANCES IN OPERATING COSTS
BETWEEN THE FISCAL YEARS ENDED MARCH 31, 2001 AND MARCH 31, 2000

	2000-2001	1999-2000[1]	% Variance
Direct Cash Disbursements			
Personal Services	$51,915,568	$47,747,645	8.73%[2]
Maintenance and Operations	18,040,884	17,399,844	3.68%
Indirect Cash Disbursements			
Fringe Benefits	17,829,633	18,185,650	(-1.96%)
Sub-allocations	14,756,290	12,422,402	18.79%[2]
Total Cash Disbursements	$102,542,375	$95,755,541	7.09%
Offsetting Cash Receipts	(7,768,990)	(8,239,835)	(-5.71%)[2]
Net Assessable Costs	$94,773,385	$87,515,706	8.29%

(1) See OSC Report 2000-S-35, issued February 9, 2001, for Comptroller's Report on the Department's Consolidated Statement for the period ended March 31, 2000.

(2) See Note 6 to the Consolidated Statement for an explanation of the variance.