A REPORT BY THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

Thomas P. DiNapoli
COMPTROLLER

NEW YORK STATE INSURANCE DEPARTMENT ANNUAL ASSESSMENT OF COSTS TO ADMINISTER INSURANCE DEPARTMENT OPERATIONS FOR THE TWO FISCAL YEARS ENDED MARCH 31, 2006

2007-S-66

DIVISION OF STATE GOVERNMENT ACCOUNTABILITY

OSC Management Audit reports can be accessed via the OSC Web Page:

http://www.osc.state.ny.us

If you wish your name to be deleted from our mailing list or if your address has changed,

contact the State Government Accountability at (518) 474-3271

or at the

Office of the State Comptroller

110 State Street

11th Floor

Albany, NY 12236

NEW YORK STATE INSURANCE DEPARTMENT
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE TWO FISCAL YEARS ENDED MARCH 31, 2006

Table of Contents

	Page
Comptroller's Report	**2**
Consolidated Statements of Costs to Administer Insurance Department Operations	
For the Fiscal Year Ended March 31, 2005 (Exhibit A)	**3**
For the Fiscal Year Ended March 31, 2006 (Exhibit B)	**4**
Notes to Consolidated Statements	**5**
Comptroller's Report on Compliance Issues, Appendix A	**9**
Comptroller's Report on Internal Controls, Appendix B	**10**
Supplementary Information (Supporting Schedules), Appendix C	**11**
Distribution of Department Costs by Major Program	
For the Fiscal Year Ended March 31, 2005 (Schedule C-1)	**12**
For the Fiscal Year Ended March 31, 2006 (Schedule C-2)	**13**
Offsetting Cash Receipts (Schedule C-3)	**14**
Suballocations to Other Agencies (Schedule C-4)	**15**
Comparative Analysis of Significant Variances in Operating Costs	
Between the Fiscal Years Ended March 31, 2005 and March 31, 2004 (Schedule C-5)	**16**
Between the Fiscal Years Ended March 31, 2006 and March 31, 2005 (Schedule C-6)	**17**

THOMAS P. DiNAPOLI
STATE COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Comptroller's Report
New York State Insurance Department

We have audited the accompanying Consolidated Statements of Costs to Administer Insurance Department (Department) Operations for the Two Fiscal Years ended March 31, 2006. The Statements are the responsibility of Department management. Our responsibility is to express an opinion on the Statements based on our audit.

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

As described in Note 3, the accompanying Statements were 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 Statements presents fairly, in all material respects, the Costs to Administer Insurance Department Operations for the Two Fiscal Years Ended March 31, 2006 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: March 5, 2008

EXHIBIT A

NEW YORK STATE INSURANCE DEPARTMENT
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 2005

Direct Cash Disbursements		
Personal Service	$58,051,946	
Real Estate Rental	6,804,055	
Misc. Contractual Services	6,060,423	
Equipment	1,951,109	
Travel	2,019,658	
General Office Supplies	584,137	
Telephone	313,070	
Postage	46,461	
OGS Telecommunications	959,822	
OGS/OFT Computer	112,957	
Equipment Repairs	271,674	
Printing	78,920	
Equipment Rentals	24,811	
OGS Interagency Courier	48,358	
Total Direct Cash Disbursements		$ 77,327,401
Indirect Cash Disbursements		
Fringe Benefits (Note 5)		26,658,453
Total Cash Disbursements		$103,985,854
Suballocations to other Agencies (Note 6)		49,485,446
Total Operating Costs		$153,471,300
Offsetting Cash Receipts (Note 3)		(8,242,528)
Net Assessable Costs		$145,228,772

The accompanying notes are an integral part of the Statements.

EXHIBIT B

NEW YORK STATE INSURANCE DEPARTMENT
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

Direct Cash Disbursements

Personal Service	$60,305,270	
Real Estate Rental	7,469,831	
Misc. Contractual Services	6,356,468	
Equipment	1,597,665	
Travel	2,224,858	
General Office Supplies	564,781	
Telephone	341,722	
Postage	337,435	
OGS Telecommunications	773,917	
OGS/OFT Computer	212,185	
Equipment Repairs	243,601	
Printing	76,967	
Equipment Rentals	16,374	
OGS Interagency Courier	64,328	
Total Direct Cash Disbursements		$ 80,585,402
Indirect Cash Disbursements		
Fringe Benefits (Note 5)		30,038,186
Total Cash Disbursements		$110,623,588
Suballocations to other Agencies (Note 6)		51,077,144
Total Operating Costs		161,700,732
Offsetting Cash Receipts (Note 3)		(10,860,860)
Net Assessable Costs		$150,839,872

The accompanying notes are an integral part of the Statements.

Notes to Consolidated Statements of Costs to Administer Insurance Department Operations for the Two Fiscal Years Ended March 31, 2006

1. Department Operations

The Insurance Department (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, Brooklyn (closed December 2007), Buffalo, Mineola, Oneonta, Rochester 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's Executive Bureau consists of the Superintendent's Office, the Office of General Counsel, Legislative Affairs and Internal Audit. In addition, the Department is organized into three major operational program areas: Administration, Regulation and Consumer Services (See Schedules C-1 and C-2).

The responsibilities of each program are as follows:

Administration Program

The Department's Administration Program 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 administers the Department's human resources, budgeting, mail, and supply services.

Regulation Program

The Department's Regulation Program is responsible for conducting insurer solvency and market conduct examinations and for reviewing rate filings for life, health, and property and casualty insurers.

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 by doing periodic on-site examinations of insurer records. Examinations include an assessment of insurer internal controls, financial condition and claim processing procedures.

The Regulation Program also oversees the testing, licensing and continuing education of agents and brokers. 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, and its Capital Markets Bureau, which is responsible for analyzing capital markets and insurer

investment portfolios, are also part of this Program.

Consumer Services Program

The Department's Consumer Services Program 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 annually by the State Comptroller. The Department's recoverable costs are assessed against the insurance industry by prorating the costs among insurers on the basis of the dollar amount of premiums written.

3. Offsetting Cash Receipts

Pursuant to statute, and as illustrated in Supporting Schedule C-3, 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 for personal services, a fringe benefits rate developed by the NYS Division of the Budget, and actual out of pocket expenses for travel and related OTPS.

Fire Tax Administrative Fees

These Fees reimburse the Department for assessing and collecting 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 distributes the tax revenues it collects back to the fire districts in which the policies were sold.

Security Fund Reimbursements Administrative Fees

All regulated insurers are required to make deposits into the State's Security Funds established to protect policyholders and creditors of defunct insurers. These Fees reimburse the Department for processing the revenues received from, and the claims made against, the security funds as approved by law.

4. Basis of Accounting

The Department prepares its Consolidated Statements 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.

5. Accounting Records and Indirect Costs

The direct cash disbursements, cash receipts and adjustments used to compile the Department's Consolidated Statements are based on 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 NYS Division of the Budget. The fringe benefit rates applied during the audit period were 45.47 percent for fiscal 2005, and 48.63 percent for fiscal 2006.

6. Suballocations

As illustrated in Supporting Schedule C-4, the Department acts as the financial conduit between regulated insurers and six state agencies for the financing of several insurance industry-related programs. The funding for these programs is appropriated as part of the Department's overall budget but the actual program expenditures are made by the individual agencies receiving the suballocations. Although our prior reports on the Department's Assessable Expenses reported the individual appropriations for these programs, to give the users of these financials a more accurate picture of the suballocations, the Statements, beginning with this report, will illustrate the actual cash expenditures for each.

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-based Fire Training Academy; and the fire safe cigarette program.

Department of Health (DOH)

This suballocation defrays the costs incurred by DOH for developing and revising inpatient hospital rates for insurance billing purposes; certifying managed care programs; approving managed care implementation plans; and for overseeing the forge-proof prescription card program, and the center for community health program.

Banking Department

This suballocation defrays Banking Department costs incurred for services and expenses associated with the operation of the Holocaust claims processing office.

Department of Law

Pursuant to Executive Order 109, this suballocation provides personal service and non-personal service funding for the NYS Attorney General's Automobile Insurance Fraud Unit.

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 the business permits assistance program.

Division of Criminal Justice Services (DCJS)

This suballocation, which commenced during the 2005-2006 fiscal year, finances DCJS for its services and expenses associated with the traffic and criminal software (TraCS) project, an in-car computer system that allows law enforcement officers to electronically issue traffic tickets and accident reports.

7. Comparative Analysis of Significant Variances in Operating Costs (Supporting Schedules C-5 and C-6)

Personnel Services:

Personal services expenditures increased by 5.3 percent between fiscal 2004 and 2005 due to salary increases as a result of existing negotiated bargaining agreements, and the hiring of additional staff. Similar salary increases occurred between fiscal years 2005 and 2006.

Maintenance and Operations:

Maintenance and Operations increased over 5 percent between fiscal 2005 and 2006 due to a 10 percent increase in real estate rental costs and significant additional postage costs ($290,874) for mailings relating to biennial license renewals.

Fringe Benefits:

Fringe benefit costs increased by over 12 percent between fiscal 2005 and 2006 as a result of the increased fringe benefit rate, illustrated in Note 5 above, as applied to the increased salaries and employees.

Suballocations:

Suballocation expenditures increased by over $14 million between fiscal 2004 and 2005 due to across the board increases in individual program costs. The overwhelming majority of these increased costs related to the Department of Health's forge-proof prescription card program, and center for community health program ($11 million).

THOMAS P. DiNAPOLI
STATE COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Comptroller's Report on Insurance Department Compliance with Selected Statutory Requirements Applicable to the Annual Assessment of Operating Costs to Administer Insurance Department Operations

New York State Insurance Department

We have audited the accompanying Consolidated Statements of Costs to Administer Insurance Department Operations for the Two Fiscal Years Ended March 31, 2006.

In connection with our audit, 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: March 5, 2008

Appendix A

THOMAS P. DiNAPOLI
STATE COMPTROLLER

110 STATE STREET
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

In planning and performing our audit of the Consolidated Statements of Costs to Administer Insurance Department Operations for the Two Fiscal Years Ended March 31, 2006, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Statements 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 the status of prior audit recommendations, is intended solely for the information and use of Department management and others within the organization.

Office of the State Comptroller
Date: March 5, 2008

Appendix B

NEW YORK STATE INSURANCE DEPARTMENT
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE TWO FISCAL YEARS ENDED MARCH 31, 2006

Supplementary Information

Supporting Schedules C-1 through C-6

Appendix C

Schedule C-1

NEW YORK STATE INSURANCE DEPARTMENT
DISTRIBUTION OF DEPARTMENT COSTS BY MAJOR PROGRAM
FOR THE FISCAL YEAR ENDED MARCH 31, 2005

Direct Cash Disbursements	**Administration**	**Regulation**	**Consumer Services**
Personal Service	$ 7,641,571	$43,354,022	$ 7,056,354
Real Estate Rental	5,089	6,796,340	2,626
Misc. Contractual Services	229,846	5,709,968	120,609
Equipment	199,926	1,748,586	2,597
Travel	153,914	1,794,846	70,898
OGS Telecommunications	2,579	957,242	0
Postage	80	45,441	940
Telephone	3,166	232,834	77,069
General Office Supplies	112,109	422,695	49,333
Printing	43,611	30,243	5,066
Equipment Repairs	40,910	230,449	315
OGS Interagency Courier	0	48,358	0
OGS/OFT Computer	0	112,958	0
Equipment Rentals	335	20,872	3,604
Total Direct Cash Disbursements	$ 8,433,136	$61,504,854	$ 7,389,411
Indirect Cash Disbursements			
Fringe Benefits	3,514,280	19,829,256	3,314,917
Total Cash Disbursements	$11,947,416	$81,334,110	$10,704,328

Schedule C-2

NEW YORK STATE INSURANCE DEPARTMENT
DISTRIBUTION OF DEPARTMENT COSTS BY MAJOR PROGRAM
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

Direct Cash Disbursements	**Administration**	**Regulation**	**Consumer Services**
Personal Service	$ 7,939,042	$45,047,516	$ 7,318,713
Real Estate Rental	204,732	7,058,195	206,904
Misc. Contractual Services	595,306	5,544,771	216,390
Equipment	71,506	1,525,562	599
Travel	286,968	1,851,522	86,367
OGS Telecommunications	327	773,591	0
Postage	156	337,279	0
Telephone	34,457	245,768	61,496
General Office Supplies	91,613	439,535	33,633
Printing	35,876	30,256	10,835
Equipment Repairs	79,809	163,389	403
OGS Interagency Courier	0	39,351	24,977
OGS/OFT Computer	0	212,185	0
Equipment Rentals	131	14,613	1,629
Total Direct Cash Disbursements	$ 9,339,923	$63,283,533	$ 7,961,946
Indirect Cash Disbursements			
Fringe Benefits	3,931,914	22,439,999	3,666,273
Total Cash Disbursements	$13,271,837	$85,723,532	$11,628,219

Schedule C-3

NEW YORK STATE INSURANCE DEPARTMENT
OFFSETTING CASH RECEIPTS
FOR THE TWO FISCAL YEARS ENDED MARCH 31, 2006

Cash Receipts	**Fiscal Year 2005**	**Fiscal Year 2006**
313 Examination Fees	$8,064,645	$10,725,536
Fire Tax (Note 9)	105,781	0
Security Fund	72,102	135,324
Total	$8,242,528	$10,860,860

Schedule C-4

NEW YORK STATE INSURANCE DEPARTMENT
SUBALLOCATIONS TO OTHER AGENCIES
FOR THE TWO FISCAL YEARS ENDED MARCH 31, 2006

Cash Disbursements	**Fiscal Year 2005**	**Fiscal Year 2006**
Banking	$ 264,113	$ 408,519
Inspector General	240,903	163,832
Health	25,775,428	23,125,933
State	18,380,446	20,255,608
Law	4,824,556	5,123,305
Criminal Justice Services	0	1,999,947
Total	$49,485,446	$51,077,144

Schedule C-5

NEW YORK STATE INSURANCE DEPARTMENT
COMPARATIVE ANALYSIS OF SIGNIFICANT VARIANCES IN OPERATING COSTS
BETWEEN THE FISCAL YEARS ENDED MARCH 31, 2005 AND MARCH 31, 2004

	2004-2005	2003-2004*	% Variance
Direct Cash Disbursements			
Personal Services	$ 58,051,946	$ 55,106,192	5.3%
Maintenance and Operations	19,275,455	18,705,971	3.0%
Indirect Cash Disbursements			
Fringe Benefits	$ 26,658,453	$ 26,640,336	0.1%
Suballocations	49,485,446	35,067,029*	41%
Total Cash Disbursements	$153,471,300	$135,519,528	13.2%
Offsetting Cash Receipts	(8,242,528)	(9,277,169)	(11.2%)
Net Assessable Costs	$145,228,772	$126,242,359	15.0%

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

* OSC Report 2004-S-73, issued June 2, 2005 (Comptroller's Report on the Department's Consolidated Statement for the period ended March 31, 2004) illustrated the suballocation appropriation as $41,975,904. This $35,067,029 illustrates actual suballocation expenditures for that period.

Schedule C-6

NEW YORK STATE INSURANCE DEPARTMENT
COMPARATIVE ANALYSIS OF SIGNIFICANT VARIANCES IN OPERATING COSTS
BETWEEN THE FISCAL YEARS ENDED MARCH 31, 2006 AND MARCH 31, 2005

	2005-2006	2004-2005	% Variance
Direct Cash Disbursements			
Personal Services	$ 60,305,270	$ 58,051,946	3.9%
Maintenance and Operations	20,280,132	19,275,455	5.2%
Indirect Cash Disbursements			
Fringe Benefits	$ 30,038,186	$ 26,658,453	12.7%
Suballocations	51,077,144	49,485,446	3.2%
Total Cash Disbursements	$161,700,732	$153,471,300	5.4%
Offsetting Cash Receipts	(10,860,860)	(8,242,528)	31.8%
Net Assessable Costs	$150,839,872	$145,228,772	3.9%

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