

NEW YORK STATE INSURANCE DEPARTMENT
ANNUAL ASSESSMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998

REPORT 98-S-86

**NEW YORK STATE INSURANCE DEPARTMENT
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INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

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STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

Comptroller's Report
New York State Insurance Department

We have audited the accompanying Consolidated Statement of Costs to Administer Insurance Department Operations for the period April 1, 1997 to March 31, 1998. The Statement is the responsibility of New York State Insurance Department (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 Department operations for the period April 1, 1997 to March 31, 1998 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 to recover its operating costs from regulated companies (Appendix A), and a report on the Department's internal control structure (Appendix B).

Office of the State Comptroller
September 23, 1999

**NEW YORK STATE INSURANCE DEPARTMENT
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

Direct Cash Disbursements

Personal Service	\$43,661,426	
Misc. Contractual Services	8,986,618	
Real Estate Rental	5,338,089	
Equipment	3,465,835	
Travel	2,133,745	
General Office Supplies	575,480	
Postage	419,004	
OGS Telecommunications	363,547	
Telephone	301,986	
Equipment Repairs	196,675	
Printing	169,249	
OGS Computer	22,743	
OGS Interagency Courier	17,074	
Equipment Rentals	<u>4,086</u>	
 Total Direct Cash Disbursements		 \$65,655,557

Indirect Cash Disbursements

Fringe Benefits	<u>15,404,015</u>	
 Total Indirect Cash Disbursements		 <u>15,404,015</u>

Total Cash Disbursements		81,059,572
Suballocations to Other Agencies		<u>11,492,418</u>
Total Operating Costs		92,551,990
Offsetting Cash Receipts		<u>(9,167,518)</u>
Net Assessable Costs		<u>\$83,384,472</u>

The accompanying notes are an integral part of the Statement and supporting schedules.

Notes to Consolidated Statement of Costs to Administer Insurance Department Operations

1. Department Operations

The State Insurance Department (Department), created January 1, 1860, is charged with regulating the insurance industry and with ensuring that the interests of insurance consumers, companies and producers are balanced. Specific statutory responsibilities include: approving the formation, consolidation or merger of insurance organizations; monitoring the financial solvency of insurers; and licensing and monitoring the business practices of insurers, agents, brokers and adjusters.

The Department maintains offices in Albany, Buffalo, Mineola, New York City, Rochester and Syracuse, and operates under the direction of a Superintendent appointed by the Governor with the advice and consent of the Senate. During the audit period, Department activities were carried out through four major programs: Administration, Regulation of Insurance Organizations, Regulation of Insurance Products, and Regulation of Insurance Agents, Brokers and Adjusters.

The responsibility areas for each of these programs are as follows:

Administration:

The Department's Administration Program provides policy and legal direction for regulation of the insurance industry, and is responsible for the collection of Department revenues, procurement, and maintaining the Department's major accounting operations.

Regulation of Insurance Organizations:

Insurers licensed to do business in New York State must meet various statutory requirements regarding their financial condition and

corporate conduct. The Department monitors insurer solvency and compliance with these requirements by performing periodic desk reviews of insurer financial reports, and on-site examinations of insurer records. Examinations include an assessment of internal controls, insurer resources, and a review of claim processing procedures and payment practices.

The Insurance Frauds Bureau, which endeavors to identify, and where possible prevent, insurance fraud and other illegal practices, was part of this program.

Regulation of Insurance Products:

This program strives for the fair treatment of the insurance consumer. The Department helps achieve this objective by performing on-site examinations and following up on consumer complaints, reviewing insurer rating programs, and assessing the claim processing procedures and payment practices reviewed during on-site examinations.

Regulations of Insurance Agents, Brokers and Adjusters:

This program promotes 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 determined to have violated insurance laws and/or regulations.

Subsequent to the audit, Department operations were reorganized and consolidated into three major programs.

2. Cost Recovery Methods

The costs to administer Department operations

are defrayed via assessments on all domestic insurers and all licensed United States branches of alien insurers domiciled in New York State. The Insurance Law provides that recoverable expenses include all costs, direct and indirect, as approved by the Division of the Budget. State law also requires that these recoverable costs be audited by the Office of the State Comptroller.

3. Basis of Accounting

The Department has prepared its Consolidated Statement of Costs to Administer Insurance 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 disbursements, cash receipts and adjustments used to compile the Consolidated Statement of Costs to Administer Insurance Department Operations are based on the financial records maintained by the Department, and are in agreement with those maintained by the Office of the State Comptroller. Indirect costs are based on rates developed by the Division of the Budget.

5. Suballocations

The Department acts as the financial conduit between regulated insurers and four State agencies for financing 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 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 benefits 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.

6. Offsetting Cash Receipts

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 examinations. The reimbursements are based on examiner effort and actual other than personal service costs.

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.

Fire Tax

The Department administers the collection and distribution of the tax collected on fire and allied lines of insurance pursuant to Sections 9104/9105 and 2118 of the Insurance Law. The related costs for administering these sections are recovered from these taxes.

7. Year 2000 (Y2K) Issues

The Department maintains several major computer systems, two of which (the Financial Accounting System and the Examiner Billing System) are directly related to its financial reporting operations. Both of these systems have been classified by Department officials as high priority systems, signifying that they are mission critical with high business impact. Although Department officials assert that they have assessed the probability and potential impact of a Y2K systems failure on January 1, 2000, they have not formalized their assessment in writing. Nevertheless, Department officials have negotiated two separate contracts with consultants in an effort to ensure that these systems will be Y2K compliant.

These negotiations are part of the Department's Y2K Project Plan to address the awareness of the Y2K issue, as well as the development, modification, testing and implementation of the compliant systems by January 1, 2000. To date, the Examiner Billing System has been modified and is ready for acceptance testing. Department officials estimate that it will cost approximately \$216,000 to bring both of these systems into compliance.

8. Comparative Analysis of Operating Costs (Schedule 4)

According to Department officials, the primary reason for their increased maintenance and

operation costs is due to the move to, and renovation of, their New York City office located at 25 Beaver Street.

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

The primary reason for the reduction in the Department's offsetting cash receipts for the scope period can be attributed to reduced examination fee collections due to a timing difference in billing dates between the audit period and prior year.



STATE OF NEW YORK
OFFICE OF THE STATE
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**Comptroller's Report on 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, 1997 to March 31, 1998.

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 assessments.

The procedures we followed to assess compliance were substantially less than 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 Department had not complied, in all material respects, with those requirements and will not be in compliance with the law if they continue to apply the same methodology.

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

***Office of the State Comptroller
September 23, 1999***

H. CARL McCALL
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE
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Comptroller's Report on Internal Controls Applicable to the Annual Assessment of Costs to Administer 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, 1997 to March 31, 1998, 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 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 of 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 the responsibility of management for establishing and maintaining the 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
September 23, 1999

Appendix B

**NEW YORK STATE INSURANCE DEPARTMENT
CONSOLIDATED STATEMENT OF COSTS TO ADMINISTER
INSURANCE DEPARTMENT OPERATIONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

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, 1998**

<u>Direct Cash Disbursements</u>	<u>Administration</u>	<u>Regulation of Insurance Organizations</u>	<u>Regulation of Insurance Products</u>	<u>Regulation of Insurance Brokers, Agents and Adjusters</u>
Personal Service	\$2,879,944	\$18,541,285	\$18,212,934	\$4,027,263
Misc. Contractual Services	7,035,082	1,169,042	556,076	226,418
Real Estate Rental	4,004,455	559,130	572,622	201,882
Equipment	836,194	1,158,196	1,115,926	355,520
Travel	135,638	1,292,724	683,755	21,628
General Office Supplies	100,630	274,857	115,074	84,918
Postage	34,651	95,390	164,037	124,926
OGS Telecommunications	64,760	147,201	93,936	57,649
Telephone	57,188	109,089	81,409	54,300
Equipment Repairs	19,092	110,051	34,530	33,002
Printing	44,910	71,412	24,082	28,846
OGS Computer	5,618	6,777	6,926	3,422
OGS Interagency Courier	3,185	7,566	4,486	1,837
Equipment Rentals	<u>1,458</u>	<u>1,428</u>	<u>450</u>	<u>750</u>
Total Direct Cash Disbursements	15,222,805	23,544,148	21,666,243	5,222,361
<u>Indirect Cash Disbursements</u>				
Fringe Benefits	<u>1,004,942</u>	<u>6,557,779</u>	<u>6,427,935</u>	<u>1,413,360</u>
Total Cash Disbursements	<u>\$16,227,747</u>	<u>\$30,101,927</u>	<u>\$28,094,178</u>	<u>\$6,635,721</u>

**NEW YORK STATE INSURANCE DEPARTMENT
OFFSETTING CASH RECEIPTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

Cash Receipts

Examinations	\$8,993,307
Fire Tax	127,675
Security Fund	<u>46,536</u>
Total Offsetting Cash Receipts	<u>\$9,167,518</u>

**NEW YORK STATE INSURANCE DEPARTMENT
SUBALLOCATIONS TO OTHER AGENCIES
FOR THE FISCAL YEAR ENDED MARCH 31, 1998**

Cash Disbursements

Department of State	\$10,421,619
Department of Law	423,817
Department of Health	322,112
Department of Civil Service	249,247
Office of the Inspector General	<u>75,623</u>
Total Cash Disbursements	<u>\$11,492,418</u>

**NEW YORK STATE INSURANCE DEPARTMENT
COMPARATIVE ANALYSIS OF OPERATING COSTS
FOR THE FISCAL YEARS ENDED MARCH 31, 1997 AND MARCH 31, 1998**

<u>Direct Cash Disbursements</u>	<u>1997-98</u>	<u>1996-97*</u>
Personal Service	\$43,661,426	\$42,607,841
Maintenance & Operations	21,994,131	18,805,237
 <u>Indirect Cash Disbursements</u>		
Fringe Benefits	15,404,015	14,750,700
Suballocations	<u>11,492,418</u>	<u>8,371,310</u>
Total Cash Disbursements	92,551,990	84,535,088
Offsetting Cash Receipts	<u>(9,167,518)</u>	<u>(10,370,303)</u>
Net Assessable Costs	<u>\$83,384,472</u>	<u>\$74,164,785</u>

* The financial information presented for fiscal year 1996-97 was reviewed, but not audited by us. A review involves only limited testing of transactions incongruous to that performed during a comprehensive audit of transactions in accordance with government auditing standards. Therefore, we do not express an opinion on this data, but only limited assurance that it is a fair representation of the Department's cash receipts and disbursements for this period.