

EXECUTIVE DIGEST

ADMINISTRATION OF INSURANCE COMPANY RECEIVERSHIPS

INTRODUCTION

This report contains the results of our performance audit of the Administration of Insurance Company Receiverships by the Insurance Bureau, Department of Commerce, for the period January 1, 1990 through September 30, 1994.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and because of legislative interest. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency.

BACKGROUND

Sections 500.7800 - 500.7868 and Sections 500.8101 - 500.8159 of the *Michigan Compiled Laws* (Chapters 78 and 81, respectively, of the Michigan Insurance Code), provide the framework within which the insurance company receiverships are to be managed. Within this framework, the Ingham County Circuit Court issues court orders appointing the Insurance Commissioner as the receiver to oversee the administration of the insurance companies in receivership.

The Commissioner is also empowered by statute to appoint a deputy receiver to act as the Commissioner's agent and to employ counsel, clerks, and assistants as may be necessary to administer a receivership. The Commissioner usually appoints a deputy receiver from the staff of the Insurance Bureau's Receivership Division.

For fiscal year 1993-94, the Division incurred total internal operating expenditures of \$269,474 for the administration of insurance companies in receivership. This amount was billed to the individual insurance companies in receivership, along with all the other external costs of administering those receiverships, such as the costs for professional services firms.

As of September 30, 1994, the Division had 3 employees. They consisted of the Division director, an auditing specialist, and a secretary.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness of the internal control structure over Receivership Division activities.

Conclusion: We concluded that the internal control structure was not fully effective. We noted the following two material reportable conditions:

- The Bureau did not have an effective internal control structure with respect to certain control procedures for receivership functions (Finding 1).

The Receivership Division agrees with this finding, but emphasized that some issues arose because of its limited staff.

- The Bureau did not have written policies and procedures for certain Division related responsibilities (Finding 2).

The Receivership Division agrees with this finding and informed us that it will develop written policies and procedures for certain Division related responsibilities to supplement the National Association of Insurance Commissioners Receivers Handbook and existing policies and procedures.

We also noted that the Division could improve its management practices by improving its planning and scheduling of work assignments, monitoring financial responsibilities at the receiverships, and reviewing Division expense allocation methodology (Findings 3 through 5).

Audit Objective: To assess the effectiveness of the Division's liquidation plans and the usefulness of its periodic reports to the Court and other reports, as they relate to the status of the liquidation.

Conclusion: We concluded that the Division's liquidation plans and its periodic reports to the Court need to be improved. Our audit noted one material reportable condition

related to the effectiveness of the liquidation plans and the usefulness of periodic reports to the Court and other reports:

- The Division had not required written liquidation plans and revisions to the plans; periodic management reports; and the listing of an insurance company's assets (Finding 6).

The Receivership Division did not agree with this finding but informed us that it will attempt to develop written liquidation plans although not required by statute to do so. The Division has complied with the requirement to file a listing of assets with the Court. In one instance, when the requirement was first enacted, the Division prepared the listing of assets but did not file the listing with the Court.

Also, the Division's periodic reports to the Court did not include certain detailed financial information (Finding 7).

Audit Objective: To review the existence and completeness of contracts and court orders for professional services obtained on behalf of the receiverships.

Conclusion: We concluded that the Division had obtained contracts and the court orders for most of the professional services firms hired on behalf of the receiverships. However, the Division could improve its management practices by documenting its selection criteria, documenting remuneration rates for travel and other charges within the contracts, and effectively managing all contracts (Findings 8 through 10).

Audit Objective: To test selected expenditures for propriety.

Conclusion: We concluded that expenditures were reasonably proper. However, the Division could improve its management practices by requiring deputy receivers to obtain adequate supporting documentation (Finding 11).

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records related to the administration of domestic insurance company receiverships by the Insurance Bureau for the period January 1, 1990 through September 30, 1994. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

To accomplish our specific audit objectives, we reviewed Insurance Bureau and Receivership Division policies and practices and documented the Division's approval and control functions for persons acting in the capacity of deputy receivers.

We visited four insurance companies, three in receivership and one in rehabilitation. We interviewed staff and reviewed invoices, cash disbursement journals, general ledgers, other financial records, engagement letters, and court orders. We also reviewed reports to the Court, correspondence, and other documentation. We tested selected expenditures and

supporting documentation for compliance with various approval and control functions at the receiverships. We also observed the day-to-day activities of the deputy receivers at the receiverships.

**AGENCY
RESPONSES**

Our audit report includes 11 findings and 13 corresponding recommendations. The Receivership Division agreed with several of the findings and recommendations. However, the Division stated that, for reasons set forth in particular responses contained in the report and for factual and legal reasons, the agency disagreed with certain findings and recommendations regarding travel, liquidation plans, information in court reports, negotiation of rates of remuneration, and the renegotiation of existing contracts.