

EXECUTIVE DIGEST

RISK MANAGEMENT DIVISION

INTRODUCTION

This report contains the results of our performance* and financial audit* of the Risk Management Division, Department of Management and Budget. The financial portion of our audit covered the period October 1, 1993 through September 30, 1995.

AUDIT PURPOSE

This performance and financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* . Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Also, this audit complements the departmentwide financial audit.

BACKGROUND

The Risk Management Division (a unit within the Employee Health Management Division beginning in fiscal year 1996-97) was established within the Department of Management and Budget (DMB) in 1987 to improve the State's risk control policies and procedures.

The Division is responsible for monitoring and containing costs related to the State's insurance coverage. The Division also provides loss prevention assistance to State departments.

The Risk Management Fund was established as an internal service fund* during fiscal year 1989-90 to account for certain centralized risk management* functions performed by the Division. The Fund is responsible for the centralized purchasing of insurance coverage*, however, the Fund does not assume any risk. Currently, the employee bonding program, automotive liability, Michigan State Fair liability claims, and administrative functions are accounted for as operating activities of this Fund. The Division's financial statements are included in the *State of Michigan Comprehensive Annual Financial Report*.

The Division's activities include analysis of and control over insurance coverage and risk exposure. The State has elected to purchase some level of insurance coverage for aircraft liability, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. In addition, the State has elected not to purchase commercial insurance for some of the risks of loss the State is exposed to and, instead, has self-insured these risks. Each State department receives an annual appropriation which includes funding for the department's costs for the State's insurance programs.

Beginning in July 1992, the State self-insured its automobile liability (referred to as vehicle self-insurance*) exposure. The State was also self-insured for workers' compensation* which was administered by the Accident Fund of Michigan.

As of September 30, 1995, the Division had three employees. For fiscal year 1994-95, the Division incurred total operating expenses of \$4.5 million.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the effectiveness of the Division's activities to assist departments in containing program costs* .

Conclusion: We concluded that the Division was generally effective in assisting departments in containing program costs.

Audit Objective: To assess the effectiveness and propriety of the Division's services that include funding procedures, including the funding of loss reserves, and claim procedures.

Conclusion: We concluded that the Division's services that include funding procedures, including the funding of loss reserves, and claim procedures were effective and proper.

Audit Objective: To assess the adequacy of the Risk Management Fund's internal control structure*.

Conclusion: Our assessment of the Fund's internal control structure did not disclose any material weaknesses*. However, we identified two reportable conditions* related to allocating program costs and establishing short- and long-term claims payable for the vehicle self-insurance program (Findings 1 and 2).

Audit Objective: To assess the Fund's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and department policies and procedures.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Fund's financial statements.

Audit Objective: To audit the Fund's financial statements as of and for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed an unqualified opinion on the Fund's financial statements for the fiscal years ended September 30, 1995 and September 30, 1994.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Risk Management Division. Also, our audit scope was to examine the financial records for the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *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.

Our methodology* included examining program and other records for the period October 1, 1993 through June 30, 1996.

To accomplish our audit objectives, we interviewed Division staff and management. We studied statutory requirements and Division policies and procedures to gain an understanding of the Division's purpose and responsibilities.

We evaluated the reasonableness of the Division's methodology for computing premiums* billed to departments and agencies for the State's vehicle self-insurance program. We assessed the Division's efforts at managing and financing the State's casualty risks for the various risk insurance programs. We also reviewed audit reports of other states' risk management operations to identify the other states' practices for managing and financing casualty risks.

We examined and tested the internal control structure that related to the Risk Management Fund. We identified control strengths and weaknesses to determine the extent of our detailed analysis and testing.

**AGENCY
RESPONSES**

Our audit report includes 2 findings and 2 corresponding recommendations. DMB has agreed with the 2 recommendations.