EXECUTIVE DIGEST

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION

INTRODUCTION

This report contains the results of our performance audit of the Michigan Catastrophic Claims Association for the period July 1, 1992 through June 30, 1995.

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

The Michigan Catastrophic Claims Association (MCCA) was established by Act 136, P.A. 1978 (Section 500.3104 of the *Michigan Compiled Laws*). The Legislature created MCCA because smaller insurance companies had difficulty obtaining reinsurance for Michigan's no-fault policies, which provided for unlimited personal injury benefits. MCCA reimburses no-fault automobile insurers for amounts paid on no-fault personal injury protection* claims in excess of $250,000. Michigan is the only state offering unlimited personal injury benefits. The other states have placed dollar limits on the amount of coverage available.

MCCA was established to provide indemnification to member insurance companies for 100% of the liability for any claims under the personal injury protection insurance coverages in excess of $250,000 for each loss occurring on or after July 1, 1978. All insurance companies and municipal self-insurance group pools writing coverages in Michigan are statutorily required to be members of MCCA.

MCCA's Board of Directors is responsible for administering and managing MCCA consistent with the provisions of the Michigan Insurance Code and MCCA's Plan of Operation. The Board consists of five members appointed by the Insurance Commissioner. The Insurance Commissioner (see glossary on page 15 for definition), or his representative, serves as an ex officio member of the Board without vote.

MCCA is audited annually by a public accounting firm. MCCA received an unqualified opinion on its financial statements for the most recent audit covering the fiscal year ended June 30, 1995.

MCCA has received substantial insurance industry knowledge and expertise from the members of its Board of Directors and its five standing committees (actuarial, audit, claims, investment, and personnel). These positions are filled by 30 executives and managers from the automobile insurance industry. The various insurance companies have donated their services to help ensure the effective and efficient operation of MCCA.

As of June 30, 1995, MCCA had 13 employees: a general manager, a controller, 5 claim examiners, and 6 technical staff. MCCA expended approximately $782,750 for operations for the fiscal year ended June 30, 1995. MCCA also spent an additional $3.2 million for outside services including legal, actuarial consulting, investment management, custodial and trust, and payroll processing services.

AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective: To determine the completeness and correctness of MCCA's annual premium assessments (see glossary on page 15 for definition).**Conclusion:** Generally, MCCA's annual premium assessments were complete and accurate. However, premium assessments are based on assumptions of future occurrences and early assessments lacked sufficient historical data. As a result, annual premium assessments have had some dramatic increases. Improved historical data has increased the accuracy of recent premium assessments.

Audit Objective: To determine the effectiveness and efficiency of MCCA's claims administration, including coordination with insurance companies.

Conclusion: MCCA was both effective and efficient in administering claims and coordinating its administrative activities with insurance companies.

Audit Objective: To assess the efficiency of MCCA's Board of Directors in administering MCCA's investment portfolio.

Conclusion: The Board was generally efficient in administering MCCA's investment portfolio. However, our audit noted a reportable condition* regarding the Board's delayed reaction to the performance of an investment management firm* (Finding 1).

Audit Objective: To assess the effectiveness and efficiency of MCCA in carrying out its statutory and management responsibilities.

Conclusion: MCCA was generally effective and efficient in carrying out its statutory and management responsibilities. However, our audit noted reportable conditions related to adjusting MCCA's $250,000 claims threshold and developing written policies and procedures for administrative activities (Findings 2 and 3).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the Michigan Catastrophic Claims Association policies and practices, premium assessments, claims records, and other records for the period July 1, 1992 through June 30, 1995. 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.

Our methodology (see glossary on page 15 for definition) included reviewing the Michigan Insurance Code and MCCA's policies and practices to gain an understanding of MCCA's purpose and responsibilities.

We reviewed MCCA's annual premium assessments, selected claims files, and MCCA's investment portfolio mix. We also compared MCCA's rate of return on investments with its assumed rate of return. In addition, we reviewed Board and various committee minutes.

AGENCY RESPONSES

Our audit report includes 3 findings and 3 corresponding recommendations.

MCCA basically agreed with our findings and recommendations. However, MCCA explained in its response that the Legislature, not MCCA, was responsible for enacting any change to MCCA's $250,000 threshold. This is our first audit of MCCA; thus, there are no prior audit findings to follow-up.