

## EXECUTIVE DIGEST

# MICHIGAN INSURANCE BUREAU

---

### INTRODUCTION

This report, issued in August 2000, contains the results of our performance audit\* of the Michigan Insurance Bureau, Department of Consumer and Industry Services.

---

### AUDIT PURPOSE

This performance 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\* .

---

### BACKGROUND

The Michigan Insurance Bureau, under the direction of the Commissioner of Insurance, was responsible for regulating the insurance industry in Michigan and for administering operations of the Bureau as mandated by the Insurance Code of 1956 (Sections 500.100 - 500.8302 of the *Michigan Compiled Laws*) and related general insurance laws (Sections 550.1 - 550.1811 of the *Michigan Compiled Laws*). The Commissioner was appointed by the Governor, with the advice and consent of the Senate, for a four-year term.

Subsequent to our audit, Executive Order 2000-4, effective April 3, 2000, created the Office of Financial and Insurance Services as a type I agency within the Department of Consumer and Industry Services, to be

headed by a Commissioner of Financial and Insurance Services. The Executive Order transferred all authority, powers, duties, functions, and responsibilities of the Michigan Insurance Bureau and the Commissioner of Insurance to the Office of Financial and Insurance Services, and then abolished the Michigan Insurance Bureau and the Commissioner of Insurance.

The Bureau's responsibilities were divided among four offices: Office of the Commissioner, Office of Financial Evaluation, Office of Licensing and Enforcement, and Office of Policy and Consumer Services.

For fiscal year 1998-99, the Bureau had revenues and expenditures of \$16,536,355 and \$9,393,115, respectively. As of October 31, 1999, the Bureau had 110 permanent, full-time employees.

---

AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To assess the effectiveness of the Bureau's customer service efforts.

**Conclusion:** We concluded that the Bureau's efforts to provide customer service were generally effective. However, we noted reportable conditions\* related to the consumer complaint process and the timeliness of insurer responses during complaint investigations (Findings 1 and 2).

**Audit Objective:** To assess the effectiveness and efficiency of the Bureau's licensing and regulation of the insurance and managed health care\* industries.

**Conclusion:** We concluded that the Bureau was generally effective in its licensing and regulation of the insurance and managed health care industries and generally performed these functions in an efficient manner. However, we noted reportable conditions relating to documentation of the health maintenance organization (HMO) licensure process, administration of receivership\* proceedings, and contract monitoring (Findings 3 through 5).

**Noteworthy Accomplishment:** After the completion of our audit fieldwork, the Commissioner recommended to the Governor new and updated regulations for the State's HMOs. These recommendations resulted in reform packages being introduced in the Legislature that were designed to strengthen the HMO financial requirements. The recommendations, expected to be signed into law, set stricter solvency levels for HMOs that will be phased in over a period of time. One such recommendation increases the current HMO minimum net worth requirement of \$250,000 to \$1.5 million. That minimum threshold would increase over time as the number of clients served also increases so that the minimum threshold is always at least 5% of subscriber revenues.

**Audit Objective:** To assess the Bureau's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and Bureau policies and procedures that could have a material effect on its operations.

**Conclusion:** We concluded that the Bureau was generally in compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and

**Bureau policies and procedures that could have a material effect on its operations.** However, we noted reportable conditions related to timeliness of HMO applications, relicensures, and financial examinations and contracting procedures (Findings 6 and 7).

---

**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Michigan Insurance Bureau focusing on the Office of Policy and Consumer Services and the Office of Licensing and Enforcement. 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 included examining the Bureau's records and activities for the period October 1, 1996 through October 31, 1999.

To accomplish our first audit objective, we conducted a preliminary review by interviewing key Bureau personnel, evaluating the Bureau's goals\* and objectives, reviewing contracts for professional services, and reviewing various states' reports and selected national publications related to insurance regulation. In addition, we conducted a survey of individuals who had filed complaints with the Bureau.

To accomplish our second audit objective, we evaluated the Bureau's oversight and monitoring of the licensing and regulation processes, including related contractual services. We examined the minimum requirements for

HMO licensure and evaluated the Bureau's efforts to ensure the financial viability of HMOs.

To accomplish our third objective, we obtained an understanding of the statutes, regulations, policies, and procedures that were integral to the Bureau's operations and conducted tests of the Bureau's compliance with those laws and regulations that could have a material effect on its operations.

---

**AGENCY RESPONSES**

Our audit report includes 7 findings and 7 corresponding recommendations. The Bureau's preliminary response indicated that it generally agreed with our recommendations and has initiated action to implement them.