New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Banking and Insurance

July 1, 2006 to June 30, 2008
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Banking and Insurance for the period of July 1, 2006 to June 30, 2008. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
October 17, 2008
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Department of Banking and Insurance

Scope

We have completed an audit of the Department of Banking and Insurance for the period July 1, 2006 to June 30, 2008. Our audit included financial activities of the department’s programs accounted for in the state’s General Fund, the Mutual Workers’ Compensation Security Fund, the New Jersey Automobile Insurance Guaranty Fund, the New Jersey Insolvent Health Maintenance Organization Assistance Fund, the Real Estate Guaranty Fund, the Stock Workers’ Compensation Security Fund, the Unsatisfied Claim and Judgment Fund, and the New Jersey Compensation Rating and Inspection Bureau.

The prime responsibility of the department is to regulate the banking, insurance, and real estate industries in a professional and timely manner that protects and educates consumers and promotes the growth, financial stability, and efficiencies of those industries. Total expenditures and revenues of the department during fiscal year 2008 were $115.0 million and $163.8 million, respectively. The major components of revenue were annual assessments of insurance companies and license fees collected from individuals engaged in insurance, consumer finance, or real estate businesses within New Jersey.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the department’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolutions of significant conditions noted in our prior audit report dated June 9, 2004.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.
In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Department of the Treasury, and policies of the department. In addition, we reviewed the New Jersey Compensation Rating and Inspection Bureau's administrative policies and procedures. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and performed tests on the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the department's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination we noted certain internal control weaknesses related to the New Jersey Compensation Rating and Inspection Bureau meritng management's attention. We also found that the department has resolved the two significant issues noted in our prior report.
The department should ensure that the bureau’s resources are used in an efficient, effective, and economical manner.

The Compensation Rating and Inspection Bureau

The New Jersey Compensation Rating and Inspection Bureau (bureau) is an organization first established in 1917 by an act of the Legislature, under the supervision of the Commissioner of Banking and Insurance to maintain rules, regulations, and premium rates for workmen’s compensation insurance. The bureau’s authority to operate and collect the revenues necessary to perform its various functions is provided through the State Legislature. Its primary responsibility to maintain premium rates for workmen’s compensation insurance remains under the supervision of the Commissioner of Banking and Insurance.

We reviewed the bureau’s internal control structure and examined the records for expenditures, including credit card and travel transactions, and payroll and personnel policies. Our examination disclosed the following issues.

- The bureau has no written procurement procedures to ensure transparency and a competitive bidding process. The contracts we reviewed did not include documentation that they were competitively awarded. For example, we noted one contract for the replacement of the bureau’s HVAC for a total cost of $130,000. Another contract was awarded for website development and related IT services for $198,000. In addition, the bureau purchased 129 office chairs at a cost of $707 or $727 per chair.

- A vendor was paid $60,000 between January 2007 and May 2008 for various building maintenance and equipment removal/movement issues. We were unable to determine how the amounts on the invoices were
calculated and if the cost for the services provided were reasonable. There was no contract for these services.

- The Bureau maintains a credit card account in the name of the executive director. We obtained the statements from July 2006 through April 2008. A total of $55,000 was charged on the card including $12,000 for airline tickets, hotels, and car rentals, and $6,000 for meals. Documentation did not exist in the files to support that these charges were for official travel and/or business meetings. Several other charges did not appear to be related to the general operations of the bureau such as: premium chocolates, Valentine lollipops, floral arrangements, Halloween items, and gift cards. The credit card was also used to purchase personal airline tickets and a personal laptop computer and then subsequently reimbursed.

- An executive dining establishment in Newark was paid $19,000 by the bureau during our audit period including $10,000 for two Christmas parties held at the location, $5,000 for two annual luncheon meetings, and $450 for the purchase of two gift certificates. Additional payments were for breakfasts and lunches.

- Since July 2002 the executive director received a $400 monthly allotment in lieu of providing him with an automobile. The bureau should consult with their accountant to determine if these types of payments are considered income and therefore part of taxable wages.
Recommendation

We recommend that the Department of Banking and Insurance, as the supervising authority, provide the bureau with guidelines to improve their system of internal control and to provide appropriate procedures for the procurement and expenditure areas noted in the finding.
October 14, 2008

Mr. Steve Eells
Assistant State Auditor
Office of the State Auditor
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Dear Mr. Eells:

Thank you for this opportunity to comment on the audit of the New Jersey of Department of Banking and Insurance performed by the New Jersey State Auditor. We are pleased that the Department has no exceptions.

Below are the Department's comments regarding the State Auditor's finding of the Compensation Rating and Inspection Bureau (CRIB). CRIB is an industry funded rating bureau that gathers statistical data from all New Jersey workers' compensation insurers and makes an annual filing with the Department to alter workers' compensation rates and modify standard policy forms and rating rules. It also administers the workers' compensation assigned risk program and performs other functions helpful to the administration of the workers' compensation system.

While the Department approves their overall budget and plan of operations, it does not audit or control their expenditures. CRIB employees are not state employees and DOBI does not control the hiring or firing of employees. The CRIB staff and Board of Directors control the day to day operations and employee compensation. DOBI sends staff members to CRIB board meetings. (Funding for the Special Deputy Commissioner from DOBI was eliminated from the Department's budget in the early 1990's, although the position was not removed from the statute until recently.)

Since the audit was performed, Governor Jon Corzine signed S-1917 on October 1, 2008 which revises the CRIB governing structure. Six directors will continue to be elected by the insurer members; and three new public members will be appointed by the Commissioner representing licensed insurance producers, statewide business organizations and statewide labor organizations. The Commissioner of the Department of Banking and Insurance will be an ex-officio non-voting member. We anticipate this new governing structure clarifies the role of the governing board in overseeing CRIB's business operations and affirms the Department's traditional role as overseer of its insurance related operations.

CRIB hires a private, outside auditor and changes auditors every three years. Audit reports are reviewed by the Department but have not previously reported any problems. Thanks in large part to the internal control weaknesses cited by the State Auditor, CRIB
asked its private auditor to specifically review its internal controls and suggest specific improvements. Based on those recommendations, CRIB has collected and codified in its Procedural Manual processes addressing the following:

- Written purchasing policies and procedures
- Written travel policies and procedures
- Written policies for use of the CRIB Credit Card
- Updated procedures regarding special charges to carriers

In addition CRIB is working on a procedure to require one actual as opposed to a computer generated signature on all checks.

Please contact us if you have further questions.

Very truly yours,

[Signature]

Steven M. Goldman