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Audited Financial Statements -
Statutory Basis and Comments on
Internal Controls and Procedures

State of Colorado
Department of Labor
and Employment
Division of State
Compensation
Insurance Fund

December 31, 1986



Ernst & Whinney

STATE OF COLORADO
THE DIVISION OF STATE COMPENSATION INSURANCE FUND
OF THE
DEPARTMENT OF LABOR AND EMPLOYMENT
AUDITED STATUTORY FINANCIAL STATEMENTS
AND
COMMENTS ON INTERNAL CONTROLS AND PROCEDURES

December 31, 1986

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Audited Statutory Financial Statements and
Comments on Internal Controls and Procedures

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

December 31, 1986

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AUDIT REPORT DIGEST

Purpose and Scope of Audit

We were engaged to perform an examination of the financial statements of the State Compensation Insurance Fund (an enterprise fund of the State of Colorado, Department of Labor and Employment) (the "Fund") as of December 31, 1986, in accordance with generally accepted auditing standards, and to issue an opinion on those financial statements. Our examination included a study and evaluation of the Fund's system of internal accounting control for the purpose of determining the nature, extent and timing of our audit procedures.

Audit Report

We have completed our examination of the financial statements and issued our report thereon dated April 3, 1987, which stated that subject to the effects on the financial statements of such adjustments, if any, had the outcome of threatened material litigation against the Fund been known, the financial statements present fairly the statutory admitted assets, liabilities and surplus of the Fund at December 31, 1986, and the results of its statutory operations and the changes in its statutory financial position for the year then ended.

Summary of Major Audit Comments

As part of our examination we made a study and evaluation of the Fund's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. In conjunction therewith, we issued certain comments and recommendations for improving internal controls. A summary of these recommendations is as follows:

- Cash receipt checks should be deposited on the day received and not used as the source document for posting accounting records.
- The Fund should consider implementing a lock-box system for premium payment receipts.
- Retroactive policy cancellation procedures should be evaluated.
- Recovery efforts on overpayments should be documented and reviewed by claims reserve auditors.
- The Fund should request reports on potentially disabled claimants to determine if they are receiving social security disability benefits.
- A review of claims incurred prior to July 1, 1981 should be prepared to determine if any exceed the Major Medical Fund threshold.

AUDIT REPORT DIGEST--Continued

- Backup files on computer tape of certain statutory and fiscal year-end data should be retained.
- Access to production data and files should be limited to a read-only basis by the ADP Department.
- A comprehensive control form for documenting the development/maintenance of programs should be developed.
- All unusual unauthorized attempts to gain access to the computer system should be reviewed and investigated.
- Investment ledgers should be automated.
- Securities valuation guidelines should be periodically reviewed for compliance.
- Conflict of interest statements should be prepared by all employees and updated annually.

Summary of Progress in Implementing Prior Audit Recommendations

The disposition of prior audit recommendations, as of April 3, 1987, is as follows:

<u>Implemented</u>	<u>Partially Implemented</u>	<u>Not Implemented</u>	<u>Total</u>
<u>5</u>	<u>1</u>	<u>9</u>	<u>15</u>

Ernst & Whinney

4300 Republic Plaza
Denver, Colorado 80202

303/534-4300

The Division of State Compensation
Insurance Fund of the Department of
Labor and Employment, Members of the
Legislative Audit Committee, and
the Auditor of the State of Colorado
Denver, Colorado

We have examined the statements of statutory admitted assets, liabilities, and policyholders' surplus of the State Compensation Insurance Fund (an enterprise fund of the State of Colorado, Department of Labor and Employment) (the "Fund") as of December 31, 1986 and 1985, and the related statements of statutory income and changes in unassigned surplus and changes in statutory financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note A, the Fund presents its financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. These practices differ in certain respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. This report is intended solely for the information of the Auditor of the State of Colorado, the Legislative Audit Committee and management or for filing with regulatory agencies and is not intended for any other purpose.

In our report dated June 13, 1986, our opinion on the 1985 financial statements was qualified as being subject to the effects on the 1985 financial statements of such adjustments, if any, as might have been required had it been known whether the Fund's actual incurred losses and loss adjustment expenses would conform to the assumptions used in the determination of reserves. As explained in Note A, the Fund has acquired sufficient reliable experience to allow it to reasonably project future losses and loss adjustment expenses. Accordingly, our present opinion on the 1985 financial statements, as presented herein, is different from that expressed in our previous report.

As discussed in Note D to the financial statements, the Fund has received notice of a potential class action and outrageous conduct suit for the Fund's alleged failure to comply with the Colorado Supreme Court's decision disallowing the Fund to offset Social Security cost of living increases in determining the amount of workers' compensation benefits to be paid. The notice indicates that the plaintiffs are seeking past due compensation of \$180 million and/or compensation for emotional distress of \$500 million. The Fund's management believes the Fund will prevail; however, the ultimate outcome of this lawsuit cannot presently be determined, and no provision for any liability that may result from this claim has been made in the financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the statutory admitted assets, liabilities and surplus of the State Compensation Insurance Fund at December 31, 1986 and 1985, and the results of its statutory operations and the changes in its statutory financial position for the years then ended in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado applied on a consistent basis.

Ernst & Whinney

Denver, Colorado
April 3, 1987

STATEMENTS OF STATUTORY ADMITTED ASSETS,
LIABILITIES, AND POLICYHOLDERS' SURPLUS

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

	December 31	
	1986	1985
ADMITTED ASSETS		
Bonds (market value: 1986--\$281,900,561; 1985--\$172,764,120)	\$276,313,517	\$170,874,173
Mortgage loans	25,172,614	28,172,779
Home office (less accumulated deprecia- tion: 1986--\$270,686; 1985--\$214,682)	2,529,314	2,585,318
Cash and cash equivalents	34,322,157	120,370,651
Short-term investments	<u>124,092,400</u>	<u>107,831,352</u>
TOTAL INVESTMENTS	462,430,002	429,834,273
Premiums receivable (less allowance for doubtful accounts: 1986--\$3,016,193; 1985--\$2,418,112)	39,352,957	30,220,590
Interest receivable and other assets	<u>7,106,115</u>	<u>7,387,489</u>
	<u>\$508,889,074</u>	<u>\$467,442,352</u>
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES		
Unpaid losses	\$371,742,000	\$327,787,000
Loss adjustment expenses	12,509,000	8,491,000
Unearned premiums	19,378,275	15,149,112
Policyholders' deposits	37,500,978	31,773,967
Amounts withheld or retained for others	7,302,906	6,140,158
Premium taxes and other liabilities	<u>4,159,638</u>	<u>4,230,936</u>
TOTAL LIABILITIES	452,592,797	393,572,173
CONTINGENCIES--Notes C and D		
POLICYHOLDERS' SURPLUS		
Statutory surplus--Note E	500,000	500,000
Unassigned surplus	<u>55,796,277</u>	<u>73,370,179</u>
TOTAL POLICYHOLDERS' SURPLUS	56,296,277	73,870,179
	<u>\$508,889,074</u>	<u>\$467,442,352</u>

See notes to statutory financial statements.

STATEMENTS OF STATUTORY INCOME AND CHANGES IN UNASSIGNED SURPLUS

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

	Year Ended December 31	
	1986	1985
Premiums earned	\$174,568,418	\$142,363,706
Underwriting expenses:		
Losses incurred	198,992,188	151,001,456
Loss adjustment expenses	10,659,021	7,565,049
Other underwriting expenses	11,144,590	8,968,635
	<u>220,795,799</u>	<u>167,535,140</u>
	UNDERWRITING LOSS	
	(46,227,381)	(25,171,434)
Net investment income	36,887,915	38,119,315
Other loss	(1,394,210)	(332,860)
	NET INCOME (LOSS)	
	BEFORE REALIZED GAIN	
	(10,733,676)	12,615,021
Gain on sale of investments	195,978	12,213
	NET INCOME (LOSS)	
	(10,537,698)	12,627,234
Change in nonadmitted assets	(7,036,204)	(3,076,925)
Unassigned surplus at beginning of year	<u>73,370,179</u>	<u>63,819,870</u>
UNASSIGNED SURPLUS AT END OF YEAR	<u>\$ 55,796,277</u>	<u>\$ 73,370,179</u>

See notes to statutory financial statements.

STATEMENTS OF CHANGES IN STATUTORY FINANCIAL POSITION

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

	Year Ended December 31	
	1986	1985
SOURCES OF CASH AND CASH EQUIVALENTS		
Net income (loss)	\$(10,537,698)	\$ 12,627,234
Add (deduct) items not affecting cash and cash equivalents:		
Building depreciation	56,004	56,004
Amortization of bond and mortgage loan discount and premium	(645,944)	(174,322)
Increase in unpaid losses and loss adjustment expenses	47,973,000	38,409,000
Increase (decrease) in premium taxes and other liabilities	(71,298)	1,041,622
Decrease in interest receivable and other assets	281,374	1,152,700
Increase in premiums receivable	(7,969,619)	(5,596,966)
Increase in unearned premiums	4,229,163	660,906
CASH AND CASH EQUIVALENTS PROVIDED FROM OPERATIONS	33,314,982	48,176,178
Net decrease in short-term investments		16,968,648
Proceeds from sale or redemption of bonds	41,799,408	48,480,728
Mortgage loan principal payments	3,000,165	2,699,741
Increase in policyholders' deposits	5,727,011	7,948,320
TOTAL SOURCES OF CASH AND CASH EQUIVALENTS	83,841,566	124,273,615
USES OF CASH AND CASH EQUIVALENTS		
Purchase of bonds	146,592,808	30,846,044
Net increase in short-term investments	16,261,048	
Net increase in nonadmitted assets	7,036,204	3,076,925
TOTAL USES OF CASH AND CASH EQUIVALENTS	169,890,060	33,922,969
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$(86,048,494)</u>	<u>\$ 90,350,646</u>

See notes to statutory financial statements.

NOTES TO STATUTORY FINANCIAL STATEMENTS

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

December 31, 1986

NOTE A--ORGANIZATION, BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The State Compensation Insurance Fund (the "Fund") was established under provisions of the Workmen's Compensation Act of Colorado (Title 8, Article 54 of the Colorado Revised Statutes, as amended) for the benefit of injured employees and dependents of deceased employees. The Fund provides insurance to employers not otherwise insured through private carriers or self-insurance.

The Fund is an enterprise fund within the Colorado Department of Labor and Employment and, by statute, must comply with all reporting requirements of the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado ("Division of Insurance"), similar to all other workers' compensation insurance carriers in the State.

The Fund is administered, in accordance with the prescribed statutes of the State of Colorado, under the direction of the Manager, pursuant to the rules, regulations and rates adopted by the Industrial Commission of Colorado. An Advisory Council, composed of thirteen members, also exists to assist the Manager and the Industrial Commission in the exercise of their respective powers and jurisdiction over the Fund. The State retains no liability on the part of the Fund, beyond the amount of the Fund's surplus, and no State monies are used for Fund operations.

Effective July 1, 1987, the Fund will become the State Compensation Insurance Authority (the Authority), a separate, political subdivision of the State of Colorado. The Authority will be administered and controlled by an appointed, five member Board of Directors.

Basis of Reporting: The financial statements have been prepared on the basis of accounting prescribed or permitted by the Division of Insurance. Such practices vary from generally accepted accounting principles in that furniture and equipment and premiums outstanding over 90 days are nonadmissible assets and, accordingly, are charged against unassigned surplus; estimated unbilled audit premiums receivable are not recorded as premiums receivable until billed; and premium taxes are expensed as paid rather than deferred and amortized over the related policy period. The effects of these variances from generally accepted accounting principles have not been determined as of December 31, 1986 and 1985.

NOTES TO STATUTORY FINANCIAL STATEMENTS--Continued

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

NOTE A--ORGANIZATION, BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments: As required by the Colorado Revised Statutes of 1973, all mortgages, which are carried at unpaid principal balances, represent first liens on the related property and are guaranteed by the United States Government. Investments in bonds are carried at amortized cost. Investment securities are held in custody by the Department of Treasury of the State of Colorado.

Cash, Cash Equivalents and Short-Term Investments: Cash, cash equivalents and short-term investments are held in custody by the Department of Treasury of the State of Colorado. Cash and cash equivalents consist primarily of unrestricted deposits in interest-bearing accounts.

Short-term investments consist of commercial paper, certificates of deposit and bankers' acceptances, and are carried at cost, which approximates market.

Home Office: Home office is carried at cost and consists of land and a building used by the Fund in its operations. The building is being depreciated on a straight-line basis over an estimated useful life of 25 years.

Recognition of Premium Revenues: Premiums are recognized as earned on a monthly pro rata basis over the period of coverage provided.

Policyholders' Dividends: The Fund Manager, at his discretion, determines the amount of dividends to be declared to policyholders based on the Fund's overall experience. Dividends are paid or credited, only after an audit, to policyholders who meet certain criteria established by the Fund. Policyholders whose losses exceed 90% of the premiums paid do not receive dividends for that policy year. No dividends were declared in 1986 or 1985. Dividends declared and unpaid as of December 31, 1986 and 1985 represent balances related to periods ended December 31, 1982 and prior.

Policyholders' Deposits: Policyholders billed on a quarterly basis are required to make an advance deposit which is approximately one-third of their estimated annual premium.

Reserves for Unpaid Losses and Loss Adjustment Expenses: The reserves for unpaid losses and loss adjustment expenses represent estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the balance sheet date. Although

NOTES TO STATUTORY FINANCIAL STATEMENTS--Continued

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

NOTE A--ORGANIZATION, BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

considerable variability is inherent in such estimates, the Fund believes the liabilities for unpaid claims and related adjustment expenses are adequate. The reserves are reviewed periodically and, as adjustments to the liabilities are determined to be necessary, such adjustments are reflected in current operations.

Subrogation: Subrogation claims (claims against third parties) are recognized as a reduction of losses incurred when received.

Reinsurance: Reinsurance premiums and reimbursements for loss and loss adjustment expenses are reflected as reductions to the related premium, loss and loss adjustment expense balances.

Taxes: As an agency of the State of Colorado, the Fund is not subject to federal or state income taxes. However, the Fund is subject to premium tax, as provided by the Colorado Revised Statutes of 1973, which is payable to the Major Medical Fund of the Department of Labor and Employment.

Employee Benefits: All Fund employees are covered under the contributory retirement plan administered by the State of Colorado. Retirement expense, which is based on salaries paid by the Fund, was \$746,609 in 1986 and \$685,504 in 1985.

Fund employees may accrue vacation and sick leave based on their length of service, subject to certain limitations on the amount which will be paid upon termination. The estimated liability for cumulative accrued vacations and sick leave, which is included in "premium taxes and other liabilities" in the accompanying financial statements, was \$556,000 in 1986 and 1985.

Reclassifications: Certain amounts in the 1985 financial statements have been reclassified to conform to the 1986 presentation.

NOTE B--TRANSACTIONS WITH OTHER COLORADO AGENCIES

The Fund has issued workers' compensation insurance policies to various public agencies of the State of Colorado. Premiums billed to other Colorado agencies were \$8,537,000 in 1986 and \$8,739,000 in 1985. Premiums receivable at December 31, 1986 and 1985 include \$1,249,415 and \$953,000, respectively, for premiums billed to other Colorado agencies.

NOTES TO STATUTORY FINANCIAL STATEMENTS--Continued

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

NOTE B--TRANSACTIONS WITH OTHER COLORADO AGENCIES--Continued

The Fund pays the Department of Labor and Employment (DOLE) for services DOLE provides to the Fund, and also pays a portion of DOLE costs and other agency statewide indirect costs. The totals of these expenses were \$4,354,446 in 1986 and \$2,261,049 in 1985.

NOTE C--REINSURANCE

The Fund purchases reinsurance for risks in excess of its retention limits on workers' compensation insurance written. Should the reinsurer be unable to meet its obligations under the reinsurance contract, the Fund would remain liable for amounts ceded to its reinsurer. At December 31, 1986, the Fund had reinsurance coverage for workers' compensation of up to \$10,000,000 in excess of its retention of \$3,000,000 on business written or renewed subsequent to June 30, 1985. The Fund's retention had been \$2,000,000 for business written prior to July 1, 1985. The reinsurance expense associated with this coverage was \$312,642 in 1986 and \$233,854 in 1985.

NOTE D--CONTINGENCIES

The Fund is a party to various claims and lawsuits which are settled in the normal course of business. However, during October of 1984, the Fund received notice of a potential class action and outrageous conduct suit for the Fund's alleged failure to comply with the Colorado Supreme Court's decision disallowing the Fund to offset Social Security cost of living increases in determining the amount of workers' compensation benefits to be paid. The Fund has complied with the decision for all open and prospective claims. However, based on the advice of the Colorado Attorney General, the Fund has determined that such decision was not to be applied on a retroactive basis. The Supreme Court decision did not indicate whether or not such decision was to be applied retroactively. The notice indicates that the plaintiffs are seeking past due compensation of \$180 million and/or compensation for emotional distress of \$500 million.

The Fund's management believes that the Fund will prevail; however, the ultimate outcome of this lawsuit cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

NOTES TO STATUTORY FINANCIAL STATEMENTS--Continued

THE STATE COMPENSATION INSURANCE FUND,
AN ENTERPRISE FUND OF THE STATE OF COLORADO,
DEPARTMENT OF LABOR AND EMPLOYMENT

NOTE E--STATUTORY SURPLUS

As a licensed insurer in Colorado, the Fund is required to maintain a minimum surplus of \$500,000. At December 31, 1986 and 1985, the Fund was in compliance with this requirement.

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The Division of State Compensation
Insurance Fund of the Department of
Labor and Employment, Members of the
Legislative Audit Committee, and
the Auditor of the State of Colorado
Denver, Colorado

We have examined the financial statements of the State Compensation Insurance Fund (an enterprise fund of the State of Colorado, Department of Labor and Employment) (the "Fund") for the year ended December 31, 1986, and have issued our report thereon dated April 3, 1987. As part of our examination, we made a study and evaluation of the Fund's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Fund's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Fund is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Ernst & Whinney

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the State Compensation Insurance Fund taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

The following suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the use of management, members of the Legislative Audit Committee, and the Auditor of the State of Colorado, and should not be used for any other purpose. This restriction is not intended to limit distribution of this report which, upon release by the Colorado Legislative Audit Committee, is a matter of public record.

Ernst & Whinney

Denver, Colorado
April 3, 1987

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES

STATE COMPENSATION INSURANCE FUND

FINDING: Cash Receipts Controls

While it appears that two days are currently required to process cash receipts on existing policies, we noted instances where up to five days were required to process such cash receipts, with a longer delay of up to thirty days to process cash receipts on new policies. This processing lag results in lost interest income to the Fund as these receipts are idle during the period from original receipt to final deposit in an interest bearing account or instrument by the State Treasurer's department. We estimate that the lost investment income could range from approximately \$100,000 to \$250,000 annually based on this processing lag.

The delays in processing appear to result from the Fund's use of the original check as the source document. Currently, original checks received by Accounting are forwarded to Data Processing for use as input source documents. Data processing sends a list of checks received to Underwriting where they are reviewed for propriety. For those policies requiring further investigation or action, Accounting sends to Underwriting the original check. If the receipt is not deemed acceptable by Underwriting, the check is returned directly to the payor by Underwriting. For checks that are acceptable for processing, Underwriting returns the checks to Accounting for deposit.

In the case of new business, checks are sent directly to Underwriting with new business applications. A delay in processing a receipt results from the check being held in Underwriting while a new policy file is created and the application is processed. Not until after a new application has been fully processed is the check sent to Accounting for deposit.

RECOMMENDATIONS

1. Checks should be deposited on the day received, and a detail listing prepared. Cash receipt checks should not leave the Accounting Department. Billing statements, not the original check, should be sent to keypunching for processing. Underwriting should not receive checks either for review or remailing. If for some reason a refund is required, a warrant should be issued by Accounting and remitted to the original payor.
2. The Fund should consider implementing a lock-box system for premium payment receipts. A lock-box system would provide for deposits to be made on a daily basis, and subsequent transfers to other desired accounts. It would also enable subsequent processing of all information received by the bank using copies of checks and remittance advices as the source documents.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

DEPARTMENT'S RESPONSE

Substantially all checks received in Accounting are deposited with the Treasury in 48 hours or two days. Those checks being pulled and needing to be investigated are returned to Underwriting and may be held for more than two days.

The majority of our new business checks which Underwriting receives are being deposited much faster also due to the creation of screen QP-48. When an application is received, it is given a sequence number and logged onto QP-48. When the check is received, it is entered and the sequence number is immediately replaced by the policy number. The policy number is then assigned to the check and forwarded right away to Accounting to be deposited in the very next deposit.

At the present time, we are working on new methods of streamlining our deposit system. We are investigating the possibility of acquiring better and more efficient equipment which we hope is available on the market.

There are currently too many checks received without policy numbers or remittance advices attached. A lock-box system at this time would result in an excessive "suspense" file. As the number of checks with turnaround documents (TADs) increases, the lock-box system will be re-evaluated. New "bills" and remittance envelopes are in the planning stage and may be implemented during the third quarter of 1987.

FINDING: Claims Paid on Cancelled Policies

There were several instances where policies were retroactively cancelled even though the Fund had paid on claims with accident dates subsequent to the effective cancellation date. Further, instances were also noted where claims had been paid on cancelled policies.

RECOMMENDATION

3. Cancellation procedures should be periodically scrutinized to ensure compliance with existing "QP-18" screen review requirements before retroactively cancelling a policy. Further, consideration should be given to modifying or restricting the current system override which allows a claim to be placed on the system after a policy has been cancelled.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

DEPARTMENT'S RESPONSE

Our current cancellation procedures include a review of the QP-18 screen and a print-out to be filed in the Underwriting file. When a claim is "forced" onto the system after the cancellation has been processed, a problem is created. We are considering modifying our computer system to prohibit any claims payments on a cancelled policy.

FINDING: Claim Recoveries

We noted that overpayments detected through claim reserve audit reviews are not followed up on as to recovery efforts once the overpayments have been brought to the attention of the Claims Department.

RECOMMENDATION

4. We understand that the senior adjusters now sign off on each claim review where an overpayment has been noted as evidence of their acknowledgement of the overpayment. However, we recommend that recovery efforts also be documented and reviewed by the claims reserve auditors in order to assess the response to the claims review and to achieve better control over recovery efforts.

DEPARTMENT'S RESPONSE

We agree with the recommendation. In the future, all senior adjusters will sign off on each instruction memo given to them by the reserve auditors. They will instruct the adjuster, in writing, to comply with the memo or list in writing the reasons why they should not comply with the memo.

The reserve auditors will review their memos for compliance at least once each year. They will take all memos not acted upon to the claim supervisor who will determine what action is necessary.

FINDING: Social Security Benefits Deductions

Social security disability benefits paid to claimants can be offset against the compensation benefits paid by the Fund. There are several instances where the Fund has not made the allowable deductions due to their difficulty in determining which claimants are receiving the social security benefits.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATIONS

5. The Fund should request "Bendex" reports on claimants who have been disabled for over five months and appear to be disabled for at least a year. The Bendex system allows the Fund to find out if the claimant is receiving social security disability benefits. There is no fee for using the Bendex system and the potential savings experienced from the social security benefits deductions could be significant.

DEPARTMENT'S RESPONSE

The Fund agrees that "Bendex" reports should be requested on a routine basis. We believe that the policy should be that a "Bendex" report must be requested on all cases where one year of temporary disability benefits have been paid. Bendex reports must be requested earlier if the claimant is the victim of a catastrophic injury, or the medical reports clearly suggest that the claimant will not be able to return to work for at least one year.

At the present time, Bendex reports are being requested, although there is no policy as to when the reports will be requested. A memorandum was issued on February 24, 1987 as to how to use the Bendex system, and guidelines are contained in the adjusting manual, #84-2, on how to compute the social security offsets. The only thing which appears to be lacking is a policy on when to request social security information. The above-stated suggested policy will be implemented immediately.

FINDING: Major Medical Fund Threshold

Prior to July 1, 1981, the Fund was liable on compensation claims up to the Major Medical Fund threshold of \$20,000. After the maximum is reached, the Major Medical Fund will begin paying the benefits. There were several claims which exceeded the threshold but the Fund continued to make the payments.

RECOMMENDATION

6. A report of all claims incurred prior to July 1, 1981 should be prepared and reviewed to determine whether any claims exceed the Major Medical Fund threshold. A refund should be requested from the Major Medical Fund for all overpayments noted.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

DEPARTMENT'S RESPONSE

We agree with the recommendation. It in fact has already been implemented. Claims Reserve conducts an annual study of all cases wherein the medical payments exceed \$20,000 on accidents occurring prior to July 1, 1981. They place recommendations in the individual files and keep copies of their sheets until such time as we are reimbursed by the Major Medical Fund. The Claims Reserve people follow up on their recommendations twice a year to determine if they have been followed. The computer also produces an "alert" message which is sent to the adjuster on all payments that exceed the \$20,000 threshold on accidents prior to July 1, 1981.

FINDING: Year-End Data Retention

The Fund does not retain a backup of computer file data at the statutory or fiscal year ends. Therefore, it is often not possible to generate a report as of a year-end date once that date has passed. Although the Fund routinely generates a number of reports at year-end dates, reports have been lost or discarded in the past without the possibility of going back to "recapture" necessary information.

RECOMMENDATION

7. We recommend that the Fund retain backup files on computer tape of all statutory and fiscal year-end data such as loss reports, policies-in-force/premium size analysis report, aged accounts receivable report (including debit balance and credit balance reports), premium deposits listing, monetary value of employee leave balances, policies requiring audit, etc., in order to ensure that information required for subsequent financial reporting and decision-making purposes is available.

DEPARTMENT'S RESPONSE

We will retain as many data files as possible. The Fund has a limited budget for DP services and has limited disk capacity for data files.

FINDING: ADP Library Security

The ADP Department currently maintains and stores all the production IDs, data and transfer programs in test libraries. The programming personnel have unlimited access (update/execute) to the test libraries. Although the ADP Department has the PANVALET software package to manage and protect its source code libraries, the security features are not being effectively utilized.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATION

8. It is imperative that production programs and files be protected from unauthorized or accidental modification. We recommend the ADP Department limit access to the production data and files to a "read-only" basis. In addition, formal procedures should be established to transfer programs from the test environment to production. This process should be limited to selected ADP personnel only.

DEPARTMENT'S RESPONSE

The fact that there is no protection for our programs and files is of great concern to the SCIF ADP staff and has already caused us significant problems. We are concerned that, at present, although there are so-called "production" versions of JCLLIB, PROCLIB, and CNTLLIB, we are unable to obtain approval for moving our production to them, and there is no restriction of access, anyway. Members may be added, changed or deleted by anyone. In PANLIB, there is a production status that may be given a member but there is no restriction as to who is allowed to confer production status and anyone may disable a production member, which causes it to be deleted when PANLIB is reorganized. Our production data files are also subject to accidental or deliberate unauthorized modification by anyone. There are files that should not even be read-accessible outside of SCIF staff. We would like to see better controls implemented and we recommend to the Department of Labor and Employment:

- a. SCIF ADP staff should be given its own test and production versions of libraries (JCLLIB, PROCLIB, CNTLLIB, LOADLIB, PANLIB). No access to these should be available to those outside SCIF staff except for arrangements to be made for production to be run by scheduling.
- b. Production versions of these libraries should be restricted to allow only selected individuals to move members from test to production after proper approval procedures are completed. SCIF staff should have this responsibility and control this function.
- c. A "work" library could be utilized for JCLLIB members to give schedulers access to copies of production members for the purpose of running them. This would eliminate the need for schedulers to make changes to production.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

- d. Controls should be implemented to prevent others from accessing SCIF data files or SCIF disk packs.

FINDING: Documentation of ADP Standards

The application development and maintenance standards are poorly documented and informal. In addition, the proper approvals for changes are not being obtained from the proper personnel and the technical support group has no standards, procedures, or documentation requirements for changes to the system software. Currently, the enforcement of such standards depends entirely on the project leader and the programming manager.

RECOMMENDATION

9. Good application development and maintenance standards improve the reliability of data processing operations by ensuring that all new programs and program changes are authorized, tested and approved prior to implementation. We recommend that the ADP Department develop and implement a more comprehensive control form for documenting the development/maintenance process. The control form should include the following:
 - The nature of the development/maintenance.
 - The user department's approval of the request and of the test reviews.
 - The programmer and EDP management approval of the request, the test reviews and the implementation of the program.
 - The dates of the requested change, the completed test results, EDP and the user department's approval, and the implementation of the change.

DEPARTMENT'S RESPONSE

We are developing documentation procedures and a form to track appropriate approvals and we have developed a system for monitoring progress of all projects.

We are in the process of obtaining an administrative position to aid us in improving our systems and programming documentation.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

We are in the process of moving our programs to a more controlled production environment on the IBM mainframe.

We have an ADP Priority Committee to review user requests and to establish priorities and direction for data processing.

FINDING: System Access Control

The ADP Department uses TOPSECRET access control software to monitor the unauthorized attempts to gain access to the system. The Department does not review the security violation reports or follow up on unusual violation attempts. In addition, the Department has not implemented the control where the terminals are automatically logged-off after 30 minutes of inactivity.

RECOMMENDATION

10. We recommend the Department monitor and investigate all unusual unauthorized attempts to gain access to the system. Though under the current batch-processing system data cannot be modified from the terminals, this is important to help prevent unauthorized access to confidential information. In addition, consideration should be given to utilizing the automatic log-off feature to help restrict access only to authorized users.

DEPARTMENT'S RESPONSE

We will request that the Department of Labor and Employment Data Center provide us with a report of all security violations. We will investigate and analyze all security violations.

We have a limited number of terminals. Some terminals are shared by many persons who work in the immediate area. We use passwords and TOPSECRET security to guard sensitive data. We do not see a need for automatic log-off after 30 minutes.

FINDING: Investment Schedules

The Accounting Department maintains several investment ledgers on a manual basis. This is a very cumbersome and time-consuming process.

RECOMMENDATION

11. Consideration should be given to automating the preparation of the investment ledgers. A software program with spreadsheet capabilities is an easy way to accomplish this automation. The software is easy to use and it would not require a significant amount of setup time.

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

DEPARTMENT'S RESPONSE

We agree with this recommendation. When a PC and software are available, we will be able to automate our investments and other areas of our accounting system.

FINDING: Securities Valuation

The Fund failed to comply with NAIC guidelines for the valuation of securities listed in the annual statement. United States T-strips quotations and sources were not submitted to the NAIC Subcommittee on Valuation of Securities prior to February 15, 1987, as required. An FAA loan, for which a market value could not be obtained, was also not submitted to the NAIC for valuation as required.

RECOMMENDATION

12. The securities valuation guidelines of the NAIC should be reviewed periodically to ensure that the Fund is in compliance.

DEPARTMENT'S RESPONSE

The NAIC guidelines for valuation of securities is the same listing which we obtain from the Treasury at the end of the year. According to the Insurance Commissioner's Office we do not need to submit our securities to the NAIC Subcommittee for evaluation, but rather obtain the market value of all securities owned as of December 31. This is exactly what we did this year as well as in previous years. Beginning in 1987, we will obtain the NAIC valuation symbols for each investment.

FINDING: Conflict of Interest Statements

Personnel files of key management employees do not contain current conflict of interest statements.

RECOMMENDATION

13. It is our understanding that Colorado has established a formal policy that requires all upper management to complete a conflict of interest statement. Consideration should also be given to establishing a formal policy requiring completion of conflict of interest statements by all other Fund employees and annual updates of previous statements by management level employees. This policy should cover disclosure requirements regarding transactions and relationships

AUDITORS' COMMENTS AND RECOMMENDATIONS
AND DEPARTMENT'S RESPONSES--Continued

STATE COMPENSATION INSURANCE FUND

that may involve potential conflicts of interest and provide for annual review by management, the Policyholder Advisory Board and the Legislative Audit Committee.

DEPARTMENT'S RESPONSE

We agree with this recommendation and will implement.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS

STATE COMPENSATION INSURANCE FUND

PRIOR RECOMMENDATIONS

Recommendations and initial responses made in conjunction with the examination of the Fund's financial statements for the fiscal year ended June 30, 1985 and their disposition are as follows:

FINDING: Conflict of Interest Statements

Personnel files of key management employees do not contain conflict of interest statements.

RECOMMENDATION

1. It is our understanding that Colorado has established a formal policy that requires all upper management to complete a conflict of interest statement. Consideration should also be given to establishing a formal policy requiring completion of conflict of interest statements by all other Fund employees and annual updates of previous statements by management level employees. This policy should cover disclosure requirements regarding transactions and relationships that may involve potential conflicts of interest and provide for annual review by management, the Policyholder Advisory Board and the Legislative Audit Committee.

FUND'S RESPONSE

Conflict of interest statements are being used by the State Compensation Insurance Fund and are contained in the personnel files of all new employees. A procedure will be established within the Departmental Internal Security Section to randomly review files to assure the completion of the forms.

DISPOSITION

The recommendation has not been implemented. Although the Fund continues to have all new employees execute a conflict of interest statement, a formal conflict of interest policy has not been implemented and management level employees are not required to submit updates to previous statements. See current recommendations.

FINDING: Compensation Claims

Compensation benefits were noted that were disbursed without the support of a physician report as is required for medical benefits. Further, we noted instances where compensation benefits had been disbursed and subsequently a physician's report was received stating that the injury was not work related. This placed the Fund in the position of having to seek recovery of benefits paid.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATION

2. Compensation benefits should not be paid until a physician's report has been obtained.

FUND'S RESPONSE

We disagree with this recommendation. In the vast majority of cases, compensation is not disbursed until a physician's report has been obtained. However, in some instances, we are unable to obtain a report from the treating physician in spite of repeated efforts to do so. The Workmen's Compensation statute [C.R.S. 8-53-102 (1)] requires us to admit or deny liability within 25 days after the employer's notice or knowledge of a disabling injury and, in the event the injured employee files a claim for compensation, within 15 days from the date we receive notice or knowledge of such injury. Upon receipt of notice or knowledge of a disabling injury, the adjuster has a duty to exercise reasonable conduct in admitting or denying liability within the above time frames subject to penalty and interest charges for late action and the possibility of a bad faith action by an injured employee. After allowing for mail and processing delays, the adjuster frequently has only one or two days to investigate a case before deciding to admit or deny liability. Due to resource constraints and very large caseloads, this investigation is generally limited to a phone call to the employer and treating physician. In some instances, the adjuster must make a decision based upon very limited information available.

DISPOSITION

The recommendation has not been implemented due to the reasons described in the Fund's Response above. While we disagree with the time limitations imposed on the Fund by the Workmen's Compensation statute, we concur with the Fund's response and the procedures it has taken to abide with the constraints imposed by the statute.

FINDING: Cash Receipts Controls

Currently, five days are required to process Fund cash receipts. This processing lag results in up to five days of lost interest income to the Fund as these funds are idle during the period of original receipt by the Fund to final deposit in an interest-bearing account or instrument by the State Treasurer's department.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

The delays in processing appear to result from the Fund's use of the original check as the source document. Currently, Underwriting reviews all original checks to determine that the policy information and premium information is correct. If, for whatever reason, the receipt is not deemed acceptable, the check is returned directly to the payor by Underwriting. For checks that are acceptable for processing, Underwriting returns the premium remittance advice to the payor and returns the checks to Accounting. The checks are then forwarded to Data Processing for use as input source documents prior to finally being sent to the State Treasurer's office.

RECOMMENDATIONS

3. Checks should be deposited on the day received, and a listing of all checks received should be prepared. Cash receipt checks should not leave the Accounting Department. Billing statements, not the original check, should be sent to key-punching for processing. Underwriting should not receive checks either for review or remailing. If for some reason a refund is required, a warrant should be issued by Accounting and remitted to the original payee.
4. The Fund should consider implementing a lock-box system for premium payment receipts. A lock-box system would provide for deposits to be made on a daily basis, and subsequent transfers to other desired accounts. It would also enable subsequent processing of all information received by the bank using copies of checks and remittance advices as the source documents.
5. A cancelled check can serve as a receipt for premium payment; accordingly, the Fund should discontinue the practice of returning remittance advices to the insured. Remittance advices should be maintained in the policy file and available in case future questions about premium payment arise.

FUND'S RESPONSE

The Departmental Controller's office will review the present procedures related to these findings to determine if deposits can be made more timely. Court interpretations related to assumed liability will be reviewed and new procedures established, if applicable. As to Recommendation #5, C.R.S. 8-54-116 requires a receipt to be issued to the policyholder. The remittance advice is returned to satisfy this requirement. We will review other options which may be available to satisfy the statute.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

DISPOSITION

Recommendations 3. and 4. have not been implemented. See current recommendations. Beginning July 1, 1987, the Fund anticipates that it will cease issuing receipts to policyholders pursuant to a revision to the statute (C.R.S. 8-54-116).

FINDING: Depreciation of Equipment

No formal depreceiation policy outlining methods of depreciation and useful lives to be used for fixed assets currently exists. Possibly as a result of the lack of guidance, the Fund did not record depreciation on new equipment purchased during the year.

RECOMMENDATION

6. The Fund should establish a written depreciation policy that outlines appropriate useful lives of fixed assets and establishes a systematic and rational method of calculating depreciation. The Accumulated Depreciation account should properly reflect accumulated depreciation associated with the related balances and be reconciled on a current basis.

FUND'S RESPONSE

We are in the process of establishing a written policy regarding our depreciation of equipment and we are reconciling our equipment inventory and general ledger account so they will balance.

DISPOSITION

The recommendation has been implemented.

FINDING: Quarterly Premium Policies

Premiums on quarterly policies are billed in arrears, and premiums are often received up to three months after the related quarter has expired.

RECOMMENDATION

7. Quarterly premiums should be billed in advance. A system requiring advance premiums on quarterly policies would improve cash flow and maximize interest income. For example, for the quarter ended June 30, 1985, approximately \$21 million of quarterly premiums were billed in arrears; at 10% interest these funds may have earned an additional \$175,000 to \$500,000 in interest income for the Fund. Further, such a system would help alleviate problems that relate to collection of past due premiums receivable.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

FUND'S RESPONSE

Some quarterly policies below \$10,000 and not in the construction industry are currently being billed in advance on our automatic quarterly system. Since the majority of our larger policyholders have fluctuating payrolls it would be impossible to bill an accurate statement in advance. The majority of the larger policies on a quarterly reporting basis now account for over 75% of our additional premium on audit. The Fund also maintains a one-third annual premium deposit on quarterly reporting policies which minimizes premium losses due to late reporting.

DISPOSITION

The recommendation has not been implemented.

FINDING: Uncollectible Receivables

There are several large premium receivable balances that have been on the Fund's books for over a year which appear to be uncollectible.

RECOMMENDATION

8. The Fund should perform a detailed review of its premium receivable balances and either initiate appropriate collection procedures or write off those balances which are not determined to be collectible.

FUND'S RESPONSE

With the current reorganization within the underwriting section an attempt will be made to correct this problem.

DISPOSITION

The recommendation has been implemented.

FINDING: Collection of Premiums Receivable

Significant delays in the collection of past due premium receivable balances are encountered due to the allocation of collection responsibilities between various State entities. Collection responsibilities are delegated to the Fund's Underwriting Department, Division of Accounts and Controls of the State of Colorado and, occasionally, outside collection agencies. Delays in collection may range up to one year or more and may result in increased bad debt write-offs. During 1984, an individual was hired to direct the collection process; however, this individual has not begun to function in a collection capacity due to personnel shortages in other areas.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATION

9. Due to the high volume and amount of past due premiums, the Fund should investigate the possibility of obtaining additional staff or changing the utilization of current staff to enhance the collection effort. A relatively minor improvement in the collection process would increase the collection of past due premiums and make this recommendation cost-effective.

FUND'S RESPONSE

Additional staff have been requested for the 1986-87 fiscal year.

DISPOSITION

The recommendation has been implemented.

FINDING: Data Processing Premium Billing Controls

During fiscal year 1985, an error in the computer program that processes quarterly premium billings caused premiums related to the corporate officer category of policy billings to be omitted from the billing process. Although the Fund knew of the error right from the beginning, correction of the error did not occur until the first quarter of fiscal year 1986. No provision for correction of the error was made for fiscal year 1985. This error not only affected the premium billing and earned premium records but also, as a result of policyholders remitting premiums for the omitted officers, premiums receivable.

RECOMMENDATIONS

10. When program changes are made, the Fund should review its computer program results and investigate unusual or significant fluctuations in account balances. Errors or irregularities noted should be corrected on a current basis.
11. Computer programs should be thoroughly tested to assure that changes in programs have been properly implemented prior to processing of final program information.

FUND'S RESPONSE

We agree and will pursue implementation with the staff of the Office of Information Processing.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

DISPOSITION

The recommendations have not been implemented. The Fund is currently reviewing procedures for implementing and testing program changes with the data processing staff.

FINDING: Overpayment of Medical Benefits

Overpayments of medical benefits continue to occur. We noted three overpayments totaling \$118 out of 49 benefit payments tested. These overpayments appear to occur because both an invoice and statement of charges are submitted by the physician and adjusters do not distinguish or cross-reference between related documents. In addition, we noted instances where physician bills that had been fee scheduled by the physician's office before submission to the Fund were paid without proper review.

RECOMMENDATION

12. The Fund should establish a policy whereby physician charges are paid based only on a physician statement of charges and not invoices. We understand that several changes have been implemented recently to improve control of benefit payments. A senior adjuster is now available to each adjusting section to assist adjusters in paying benefits, and all warrants over \$2,000 are reviewed by a supervisory adjuster before being mailed. We further recommend that the senior adjuster periodically audit benefit payments below \$2,000 to assure that payments are properly paid and/or reviewed as to rate of payment.

FUND'S RESPONSE

We agree. This recommendation will be implemented and will be incorporated in the senior adjuster performance planning and review.

DISPOSITION

The recommendation has been partially implemented. Senior adjusters' performance evaluations are now based in part upon their monitoring benefit payments for randomly selected cases of adjusters in their unit.

FINDING: Accounting Policies and Procedures

The Accounting Department does not have adequate written policies and procedures available to its accounting personnel.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATION

13. Written policies and procedures should be developed and approved by accounting management for use by accounting personnel.

FUND'S RESPONSE

The Departmental Controller's Office will review the current procedures manual and necessary changes will be made.

DISPOSITION

The recommendation has been implemented.

FINDING: Review and Approval

There is no formal review process in effect. For example, at June 30, 1985, accruals were calculated for the liability on cancelled policies and for the estimated premium receivable on policy audits using methodologies which were inconsistent with those used in the prior year. In the case of the accrual for the liability on cancelled warrants, the entry was subsequently posted to the wrong account. A review by accounting management may have detected this error and provided for correction of the misstated account balance on a timely basis.

RECOMMENDATION

14. The Controller should review and signature approve all entries prepared by accounting personnel to ensure accurate and consistent financial reporting.

FUND'S RESPONSE

The Fund Controller reviews and initials all entries of significant amounts due to recommendations in previous audits.

DISPOSITION

The recommendation has been implemented.

FINDING: Internal Audit

The Fund relies solely on the State Auditors and external auditors to audit its financial records and internal controls.

PRIOR RECOMMENDATIONS, RESPONSES AND DISPOSITIONS--Continued

STATE COMPENSATION INSURANCE FUND

RECOMMENDATION

15. The Fund is one of the largest insurance companies in Colorado and processes a significant volume of transactions. In order to provide an ongoing system of review of the Fund's policies, procedures and systems of internal control, consideration should be given to forming an internal audit division within the Fund. This division would perform audits solely within the Fund and report its findings to the department audited, Fund management, and the Policyholder Advisory Board.

FUND'S RESPONSE

The Fund has an Internal Audit unit consisting of two people. We will review the structure of the unit and present functions performed. Reporting structures will be reviewed and any necessary changes made.

DISPOSITION

The recommendation has not been implemented. The Fund anticipates a redirection of internal audit staff efforts beginning in fiscal year 1988.

