



A Report on
An Audit of Financial Transactions
Associated with the Suspension of Operations
of the Texas Health Reinsurance System

February 27, 2019

Members of the Legislative Audit Committee:

As authorized by Texas Insurance Code, Section 1501.3022(g), auditors reviewed the statutorily required transactions necessary to complete the execution of the Texas Health Reinsurance System's (System) plan of suspension (see text box below for more information about the plan of suspension's requirements).

Auditors determined that all of the surplus assets of the System as of March 30, 2018, were distributed. According to the plan of suspension, the surplus assets were proportionately distributed to the System's participants based on those entities' participation in the System for the calendar year 2006 assessment period. Auditors determined that the proportionate share calculation was mathematically accurate. However, auditors were unable to determine whether the final distribution of surplus assets was made to the correct participants and in the correct amounts because the documentation to support the final distribution calculation had not been maintained. As a result, participants that were not eligible may have received a distribution, or participants may have received an incorrect distribution based on their proportionate share of surplus assets.

The System's prior third-party administrator asserted that all liabilities were paid, revenues were collected, and there were no outstanding payables or receivables prior to the suspension.

The Texas Health Reinsurance System (System)

The System was created pursuant to Texas Insurance Code, Chapter 1501, Subchapter G, to:

- Promote the availability of health insurance coverage to small employers regardless of health status or claim experience.
- Provide for reinsurance as a mechanism to fairly share the risk.
- Carry out the provisions of the Health Insurance Portability and Availability Act and its related regulations.

Sources: Texas Insurance Code, Chapter 1501, Subchapter G; and the System's plan of operation.

The System's Plan of Suspension

The Department of Insurance (Department) approved the System's plan of suspension requiring the System's prior board of directors to complete all suspension activities including the distribution of surplus assets.

The plan of suspension requires that the System's board of directors complete all suspension activities on or before the 180th day from the date that the plan was approved by the Department (September 6, 2017).

The plan of suspension also requires the proportionate distribution of any surplus assets that are remaining after payment of claims and costs associated with implementing the plan of suspension. That proportionate distribution is to be made on a claims-made basis for each health benefit plan issuer reinsured by the System as part of the System's calendar year 2006 assessment.

Source: The System's plan of suspension.

SAO Report No. 19-033

If you have any questions, please contact Michael Clayton, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

cc: The Honorable Greg Abbott, Governor
Mr. Kent Sullivan, Commissioner of Insurance

Objective, Scope, and Methodology

The objective of this audit was to audit the financial transactions necessary to complete the execution of the Texas Health Reinsurance System's (System) plan of suspension.

The scope of the audit covered the System's final transactions to suspend the System's operations.

Audit work included comparing the cash balance for January 2018 to the System's bank statements and verifying that all transactions through the final distribution date were properly recorded. Audit work also included recalculating and obtaining support for the final distribution calculation, and verifying surplus assets were distributed.

Audit fieldwork was conducted from January 2019 through February 2019. We conducted the audit in accordance with generally accepted government auditing standards. Auditors complied with all standards required to complete the limited scope work necessary for this project, but some requirements related to gaining an understanding of the nature and profile of program and user needs, information system controls, and internal control were not necessary for auditors to follow to complete this work.

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We do not believe noncompliance with those standards affected or could have affected the reasonable basis for our findings and conclusions based on our audit objective. Also, auditors relied on a confirmation from the System's administrator regarding any outstanding liabilities and expenses after the final distribution date.

The following members of the State Auditor's staff performed the project:

- Kelley Ngaide, CIA, CFE (Project Manager)
- Allison Fries, CFE
- Elijah Marchlewski
- Bill Morris, CPA
- Robert G. Kiker, CGAP (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.