The purpose of our involvement in today’s board meeting is to give the board and members attending an opportunity to receive information about the CIAW’s financial condition.

Our concerns about the solvency of the CIAW lead to our retention of Mr. James Marta, CPA to conduct a special review, and also lead to the issuance of the recent cease and desist order. Based on information from Mr. Marta, it was clear that the liabilities exceeded assets/reserves by over $3 million, placing the CIAW in an unsafe financial condition.

The state risk manager’s office is aware that the pool has recently provided information to its members through written correspondence. We believe communication with members is a step in the right direction. However, the information provided to members in this correspondence must be accurate. We noted several important inaccuracies in this information. We do not feel it necessary at this time to respond specifically to each inaccuracy. We believe the members are capable of understanding and asking good questions about the information they are receiving.

However, one inaccuracy we are concerned about and that we cannot ignore is the characterization that the funding deficiency of approximately $4.7 million at the end of 2008 occurred as a result of an “accounting problem” or was due to recent revisions in the administrative rules. The fact is that the CIAW had booked an insurance stop loss receivable of $4.7 million, but then was not able to provide any indication that such an insurance policy had ever existed which would provide these receivable payments to the pool. The booking of this receivable concealed the funding deficiency. The deficiency occurred because the pool has been underfunded for a number of years. The funding deficiency and uncollectable receivable were
noted as far back as October of 2005 when the State Auditor’s office noted this same condition and issued a management letter to CIAW.

The third party administrator received information during the review by Mr. Marta indicating that the pool cannot record this uncollectable insurance receivable in its financial reports, NOR can it record a funding plan in the 2009 reports that is only an organizational goal. Necessary action to make that goal a reality is required before it can be recorded as a valid receivable. At year end 2009, the board had not taken official action to approve such a funding plan. The members had not been notified of a funding plan, nor had assessments been billed to the members. The board should also have been aware of this information.

Yet, last week the state risk manager’s office received the CIAW’s required annual report as of the 2009 fiscal year end, and we were surprised to see the unapproved “funding plan” included as an asset. We noted other inaccuracies in this report, despite the information provided by Mr. Marta during the review and in his subsequent report. The CIAW is required to report accurate information to the state risk manager as discussed in our cease and desist order issued to the CIAW on January 14, 2010. The pool has continued to provide inaccurate information to the state risk manager’s office as recently as January 31, despite the previous issuance of this Order.

The CIAW board must revise the annual financial report to the state risk manager to ensure it accurately reflects the financial condition of the pool, whether the report is audited or unaudited. It is not the auditor’s job to correct these reports, but only to issue an opinion on the balances. Therefore, we expect the board to re-submit both the revised annual report and a funding plan which meets the requirements of our February 3, 2010 communication with the CIAW. Both
the final funding plan and the revised annual report correcting these inaccuracies must be submitted to our office by February 25, 2010. We also ask that the members are notified so they understand the amount of their assessments and can record this liability in their own records and in their own financial reports.

Now Mr. James Marta, CPA, is available to answer any questions regarding the findings in his recent report.