



Washington State Auditor Brian Sonntag

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Risk Pool Audit Issues

There are a total of 15 risk pools; five of which have had significant challenges issuing timely and accurate financial reports. Our Office is issuing audit reports on these five pools (listed below) on February 14, 2011. The reports will include audit findings disclosing the weaknesses and errors found, financial audit opinions and financial statements.

1. Cities Insurance Association of Washington (CIAW)
2. Washington Rural Counties Insurance Pool (WRCIP)
3. Non-profit Insurance Program (NPIP)
4. Schools Insurance Association of Washington (SIAW)
5. United Schools Insurance Program (USIP)

The other 10 risk pools had no reportable conditions during our most recent financial audits.

In 2009 we reported similar weaknesses in the Washington Counties Insurance Pool (WCIP) and in 2010 reported on their declining financial condition. WCIP ceased operation at the end of 2010.

Description of Conditions Found at the Five Pools:

- Staff preparing financial statements lacked sufficient technical knowledge.
- Pool administrator and board did not perform adequate reviews and oversight of financial statements.
- Pool administrator did not assign adequate resources to result in timely and accurate financial statements.
- Controls over calculation and reporting of various financial information was inadequate (see attached audit findings).

Effect of these Conditions:

- Significant errors in financial information were not detected by the pool administrator or the board including:
 - CIAW receivables overstated by \$5 million, operating expenses understated by \$5.4 million and \$371,417 liability omitted in fiscal year 2008. Correcting these errors in the final financial statements resulted in negative Net Assets of \$4.8 million and an Operating Loss of \$5.5 million.

- CIAW liabilities understated by \$2 million and operating expenses understated by \$1.8 million in fiscal year 2009. Correcting these errors in the final financial statements resulted in negative Net Assets \$3.5 million.
- WRCIP cash and cash equivalents overstated by \$376,000.
- NPIP liabilities and operating expenses overstated by \$310,245.
- USIP receivables overstated by \$708,426, operating expenses understated by \$708,426 and \$179,901 liability omitted in fiscal year 2008. Correcting these errors in the final financial statements resulted in an Operating Loss of \$707,691.

Note: All of the above errors were corrected in the final financial statements.

- Multiple versions of financial statements delayed completion of the audits.
 - This delay resulted in increased audit costs and delayed financial information for users.
 - Non-compliance with getting financials to Risk Manager within one year (WAC 82-60-037) and getting financials to SAO within 150 days (WAC 43.09.230).
- One risk pool was required to have audited financial statements to the State Risk Manager by May 31, 2010, and this will occur on February 14, 2011; over eight months late and nearly 21 months after the fiscal year end.
 - Four of five risk pools were required to have audited financial statements to the State Risk Manager by August 31, 2010, and this will also occur on February 14, 2011. This is over five months late and nearly 18 months after the fiscal year end.

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