Department of Insurance:

Needs To Refine Its Cost Model for Insurance Examination and Proposition 103 Fees

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Summary

Audit Highlights ...

The department has modified its cost accounting system to capture the costs of its examination and Proposition 103 activities. However, it:

- ☑ ***Incorrectly calculated insurance examination fees.***
- ☑ ***Accurately calculated Proposition 103 fees.***
- ☑ ***Needs to improve the collection of labor costs and the allocation of indirect charges.***

Results in Brief

The Department of Insurance (department) is responsible for protecting the insurance policyholders of the State. To meet this responsibility, the department administers various programs designed to monitor insurance companies. These programs include ones that examine insurance companies. In addition, the department must enforce Proposition 103, a voters' initiative passed in November 1988. The Insurance Code limits the amount of fees the department can charge for examinations and Proposition 103 activities to the actual cost of these regulatory activities. In a Bureau of State Audits report, issued in April 1994, we reported that the department could not completely identify its costs related to the regulatory activities. Since that audit was issued, the department has modified its cost accounting system so that it can capture costs by activity. Our review focused on whether the department's fees for fiscal year 1995-96 were based on actual costs from the previous fiscal year. We noted the following concerns:

- The fees that the department will charge for examinations of insurance companies during fiscal year 1995-96 are inaccurate. These inaccuracies are caused by errors and flaws in the department's cost model used to calculate these fees. Specifically, the department did not properly adjust for errors in reporting employee time, it included travel costs in its calculations when it should not have, and it made several mathematical errors. As a result, the department's estimated billings for examinations of \$13.1 million will be underbilled by \$1.6 million in fiscal year 1995-96. The department intends to correct any underbillings or overbillings in one fiscal year by adjusting the fees for the following fiscal year. This method is not equitable because the department does not examine the same insurance companies each year. Therefore, insurance companies examined during fiscal year 1995-96 will generally be underbilled, whereas insurance companies examined during fiscal year 1996-97 will be overbilled.

- The fees that the department will charge during fiscal year 1995-96 to recoup costs incurred in carrying out its regulatory responsibilities under Proposition 103 are accurate and generally based on actual costs, as required by the Insurance Code.

- Although the department adjusted for errors in the actual cost data used in its fee calculations, it needs to improve its procedures for gathering the data. Specifically, department employees are not always charging their time correctly. In addition, late or unapproved employee time sheets are not appropriately recorded in the department's cost accounting system. Moreover, errors in the reporting of employee time skew the department's allocation of indirect costs.

Recommendations

Based on the flaws and errors we found in the department's cost model for calculating insurance examination fees, the department should revise the fees it will charge during fiscal year 1995-96.

To ensure that its future fees are accurate, the department needs to improve its cost model for calculating insurance examination fees and improve its process for gathering data used in the cost model. Specifically, it should do the following:

- In its actual cost data, make the proper adjustments for errors in reporting employee time.
- Exclude travel costs from the calculation of insurance examination fees.
- Perform a detailed review of its calculations to ensure that all mathematical errors are detected and corrected.
- Implement procedures to ensure that time reporting errors are detected.
- Improve its process for ensuring that employee time sheets are submitted and approved promptly.
- Modify its time reporting procedures to ensure that employees charge program and administrative activities to the proper cost centers.

Agency Comments

The department agrees with the information and conclusions in our report. Further, the department is taking steps to implement all our recommendations. For the one insurance examination fee that we reported was overstated, the department has reduced the fee to the amount we calculated. For the three insurance examination fees we reported were understated, the department is seeking a legal opinion to determine if it is allowed to increase these fees more than once during fiscal year 1995-96. If their legal counsel believes the department cannot increase those three fees immediately, then the department intends to adjust billings to those affected insurers at the close of fiscal year 1995-96.

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Introduction

Background

The primary responsibility of the Department of Insurance (department) is to protect insurance policyholders in the State of California. To meet this responsibility, the department administers programs to protect policyholders, beneficiaries, and the public from the insolvency of insurers and to prevent unlawful or unfair practices by insurers. The department also protects the general public and policyholders from discriminatory, unlawful, or fraudulent practices or incompetence relating to the sale of insurance. The department's activities include examinations of insurance companies and brokers to ensure that their operations comply with the Insurance Code. In addition, Proposition 103, a voters' initiative passed in November 1988, required the department to develop regulations and implement rollbacks of property and casualty insurance rates. Proposition 103 also requires the department to review and approve changes in property and casualty rates before they go into effect.

The department funds its regulatory activities almost exclusively from fees assessed to the entities it regulates, that is, the insurers and brokers in the State. The department assesses various types of fees, which it calculates in different ways. The various fees include the following:

- Fees, established by the Insurance Code, for licensing and certifying insurance companies or brokers, with the fee amount varying, depending on the type of license or certification issued;
- Fees, established by the Insurance Code, for investigating fraudulent insurance activities;
- Fees that are direct charges to insurance companies to cover the hourly costs of staff members engaged in actuarial, field, insurance practice, and financial analysis examinations that are in accordance with Section 736 of the Insurance Code; and
- Fees based on regulations promulgated by the department to recover costs incurred in meeting its regulatory obligations under Proposition 103.

Until July 1995, the department also charged fees for consumer complaint examinations. However, in a recently decided lawsuit, *National Association of Independent Insurers, et al. v. John Garemendi*, the California Court of Appeals ruled that the department did not have statutory authority to charge fees for consumer complaints.

The department bills insurance companies an hourly fee for providing insurance examinations authorized under the Insurance Code, Section 736. In our previous audit of the department in April 1994, we could not determine whether the fees that the department collected for examinations matched the department's costs. Since then, the department has modified its cost accounting system to capture the fees and costs for each of its regulatory activities. Thus, fiscal year 1994-95 was the first year that the department was able to determine its costs related to regulatory activities and compare these costs against the fees collected. According to the department's records, the department's examination costs were more than the fees it collected for each of the four insurance examination fees we reviewed, as shown in Table 1.

Table 1

Examination Fees and Related Costs for Fiscal Year 1994-95

Type of Examination	Fees Collected	Costs Incurred
Actuarial	$ 466,000	$1,111,000
Field	5,581,000	7,876,000
Insurance practice	2,770,000	3,637,000
Financial analysis	1,143,000	2,470,000

Fiscal year 1995-96 is the first year that the law requires the department to base its fees on actual costs.

The department bills insurance companies for Proposition 103 fees each quarter. During fiscal year 1994-95, the department assessed $21 million in Proposition 103 fees against expenditures of $19.4 million. The department reduced its fiscal year 1995-96 Proposition 103 fees for the difference of $1.6 million between its fees and expenditures for fiscal year 1994-95.

Results of Previous Reports by the Bureau of State Audits

In April 1994, the Bureau of State Audits issued a report, entitled "The Department of Insurance Cannot Completely Identify Its Costs for Implementing Proposition 103 and Performing Examinations." During that audit, we found that the department could not identify the costs of carrying out its regulatory responsibilities under Proposition 103. In addition, the department did not have a comprehensive method for identifying all its costs related to examinations of insurance companies. Thus, we concluded that the department did not have an effective way to determine whether Proposition 103 and insurance examination fees should be decreased or increased to match the actual cost of conducting these activities. Also, the department did not use an appropriate method for allocating indirect costs to Proposition 103 or insurance examinations. Moreover, the department had collected more revenues than necessary to cover its operating costs. We did find the department was revising its cost accounting system to identify expenditures related to specific fees.

We made the following recommendations to help ensure that the department complied with the requirements that fees approximate the amount of costs incurred for its regulatory responsibilities:

- Periodically compare expenditures against the fees charged for those activities.
- Adjust fees when they significantly differ from related costs.
- To ensure consistency in its allocation of expenditures to cost centers, provide clear guidance to employees on distinguishing among activities when charging their time.
- Develop a method to document the allocation of costs to activity-based cost centers.
- Devote sufficient resources to promptly make any necessary changes to its cost accounting system to implement our recommendations.

As a result of our audit, the Legislature added Article 5, commencing with Section 12990, to Chapter 2 of Division 3 of the Insurance Code. Article 5 requires the department to assess Proposition 103 fees based on the actual administrative and operational costs arising from Proposition 103 and to set insurance examination fees based on the actual cost of providing the examination. Further, Article 5 requires the department to implement a cost accounting system as recommended by our audit. This system must accurately identify costs by regulatory activities and link the costs to fees collected for those activities. In addition, Article 5 required the department to publish a schedule of these fees by October 1, 1995, and did not allow the department to bill for these fees until it completed the schedule. Finally, Article 5 requires the state auditor to complete an audit of these fees to determine whether they are based on actual costs.

In response to our audit and the Legislature's changes to the Insurance Code, the department developed a cost model for calculating insurance examination and Proposition 103 fees. This model is simply the department's methodology for converting the department's costs associated with these regulatory activities to a schedule of fees that can be charged to insurance companies subject to the activities. To gather the costs of Proposition 103 activities and insurance examinations, the department made significant changes to its cost accounting system. Specifically, the department revised its cost allocation process by establishing cost centers to accumulate costs incurred for each of its regulatory responsibilities.
Further, in July 1994, the department implemented an employee timekeeping system to allow department employees to record their time based on the type of activity performed.

The Department of Finance is conducting a comprehensive audit of the department's internal accounting and administrative controls. It expects to issue the audit report to the department in early 1996.

Scope and Methodology

The purpose of this audit was to determine whether the department implemented the recommendations from our previous audit and to determine whether it based its fees on actual costs as required by Article 5 of the Insurance Code. Therefore, we reviewed the department's new cost model and analyzed the process it used to gather the cost data used in the model.

In conducting this audit, we reviewed laws, regulations, and departmental policies relating to Proposition 103 and to the insurance examination fees authorized under Section 736 of the Insurance Code. Further, we interviewed personnel in the department's Fiscal Services Bureau, Rate Regulation Division, Enforcement Branch, Financial Surveillance Branch, Administrative Law Bureau, and other units in the department.

Our review of the department's cost model focused on whether the department based the fiscal year 1995-96 fees on actual costs and whether it calculated the fees appropriately. Thus, we performed a detailed review of the schedules and reports the department used to calculate the fees. In its cost model, the department used a combination of fiscal year 1994-95 actual costs, fiscal year 1995-96 budget data, and estimates as a basis for calculating these fees. We cross-referenced fiscal year 1994-95 actual costs to reports from the department's cost accounting system. We verified whether the budget data were accurate and whether the budgeted expenditure would be incurred during fiscal year 1995-96. When estimates were used, we determined the basis for these estimates and evaluated whether that basis was reasonable. We also verified whether the department's mathematical calculations were accurate. We then recalculated the department's fees for errors and flaws in its methodology.

To determine the accuracy of the department's actual cost data related to Proposition 103 activities and insurance examinations, we reviewed the department's cost accounting system and cost allocation process in place during fiscal year 1994-95. This cost accounting system accumulates costs in cost centers that are attributable to the department's various programs. Thus, our review of the department's accounting system focused on whether the department recorded costs to the proper cost centers.

Most of the costs charged to the cost centers are personnel costs. Therefore, we examined the department's new time reporting system. This system, known as the Time Activity and Reporting System (TARS), accounts for hours that employees charge to the department's regulatory activities. We selected a sample of department employees and reviewed the activities they charged according to TARS records to determine whether these activities were consistent with the employee's job description and the cost center charged. We also interviewed employees in our sample who charged time to Proposition 103 or insurance examination activities to verify that the employee actually performed the activities charged. Because the TARS records only hours, not dollars charged to activities, we reviewed the transfer of TARS hours to the department's cost accounting system. We then reviewed the process through which the department's cost accounting system converts these hours to dollars. Moreover, to verify that time data were transferred correctly, we reconciled the hours recorded in the TARS with those recorded in the department's cost accounting system.

We also reviewed the department's allocation of indirect costs to determine whether the department allocates these costs appropriately. To understand and evaluate its cost allocation methodology, we reviewed the department's cost allocation plan and interviewed department staff members. To determine whether indirect costs were allocated properly, we reviewed selected allocations in fiscal year 1994-95.

We also reviewed selected operating expenditures to determine whether these expenditures were charged to the proper cost centers.

In Chapter 1, we analyze the department's cost model for converting the department's costs for doing insurance examinations and Proposition 103 work into a schedule of fees for these activities. In Chapter 2, we analyze the department's cost accounting system and the data it produces for use in the cost model.

Chapter 1

Insurance Examination Fees Are Inaccurate, While Proposition 103 Fees Are Accurate

Chapter Summary

According to the Insurance Code, by October 1, 1995, the Department of Insurance (department) should limit the fees it assesses for several types of examinations of insurance companies to the approximate costs of performing these exams. Similarly, the Insurance Code requires the department by the same date to limit the fees it charges insurance companies for Proposition 103 regulatory activities. Although the department generally calculated Proposition 103 fees appropriately, it did not correctly calculate the fees for insurance examinations. As a result, it has understated three fees and overstated another fee it plans to charge for conducting insurance examinations. If these errors are not corrected, the department's billings of $13.1 million for examinations in fiscal year 1995-96 will be understated by $1.6 million.

The Department Has Implemented the Recommendations of Our Previous Audit

Since our previous audit was issued, the department has made significant improvements in its ability to match its fees with the actual costs of performing insurance examinations and Proposition 103 activities. To comply with the new provisions of the Insurance Code and to implement our recommendations, the department modified its cost accounting system to capture costs in cost centers based on types of activities. Also, as part of these modifications, the department implemented its Time Activity and Reporting System (TARS). Department employees use the TARS to record time spent on various program activities. Thus, the department now has procedures to properly track the costs of its regulatory activities. Although the department has made significant progress in linking its fees to actual costs, additional refinements are needed.

The department's cost accounting system now allows it to link fees to actual costs.

The department's Fiscal Services Bureau (bureau) is responsible for determining the fiscal year 1995-96 insurance examination and Proposition 103 fees. The bureau has developed cost models for calculating these fees based on actual costs. The models make adjustments to actual costs to arrive at a fee schedule that the department believes will represent the actual cost of performing these activities.

In this chapter, we focus on how the department calculated its insurance examination and Proposition 103 fees. As described in this chapter, the department must first gather its costs related to insurance examination and Proposition 103 activities so that it can calculate the fees. Chapter 2 describes certain errors in the cost information the department gathered.

The Cost Model for Calculating Insurance Examination Fees

Through modifications to its cost accounting system, the department can now compute the hourly fees for doing insurance examinations based on the department's costs. The department will charge these fees to insurance companies for each hour that its examiners spend on examinations.

The bureau took the following steps to arrive at an hourly fee for each of the four types of examinations we reviewed:

- Collected information from the department's cost accounting system on the direct and indirect costs for conducting each type of examination for fiscal year 1994-95;
- Adjusted this direct and indirect cost data for fiscal year 1994-95 to correct for errors in the way department employees charged their time to various examination cost centers;
- Adjusted the direct and indirect costs for fiscal year 1994-95 for budgetary changes expected in fiscal year 1995-96 to arrive at a reasonable estimate of the cost of doing each of the examinations;
- Collected information from the bureau managers on the estimated billable hours for examinations for fiscal year 1995-96; and
- Computed the hourly fee by dividing the expected cost of examinations for fiscal year 1995-96 by the estimated billable hours for fiscal year 1995-96.

We provide a detailed description of how the bureau calculated the four types of fees in the appendix.

Flaws and Errors in the Department's Cost Model

We analyzed the department's calculations for each step of the cost model to determine if its fees approximate actual costs. Although we found that the department's cost model generally based examination fees on actual costs, we found several flaws and errors in its calculations of the fees. Specifically, in gathering the costs of these examinations, the department discovered errors employees made in reporting their time. We found that the department's method for adjusting for these errors was flawed. The model also included travel costs in its calculation of fees even though the department bills examiners' actual travel costs separately. In addition, the department's calculations contained several mathematical errors. We analyzed the flaws and errors noted above to determine the overall effect on the fees and then recalculated the fees by correcting them for the flaws and errors we found. Table 2 shows the recalculated fees. The effect of these flaws and errors is described more fully in the appendix.

Department miscalculations resulted in erroneous examination fees.

Table 2

Recalculation of the Department's Hourly Examination Fees

	Type of Examination			
	Actuarial	**Field**	**Insurance practice**	**Financial analysis**
Department's hourly fee	$ 240	$ 95	$ 78	$ 111
plus:				
Methodology flaws	$ 32	$ 1	$ *	$ 10
Travel costs	3	2	3	0
Mathematical errors	(53)	12	3	11
Total error	$ (18)	$ 15	$ 6	$ 21
Recalculated hourly fee	**$ 222**	**$110**	**$ 84**	**$ 132**

* We did not observe a methodology flaw in the insurance practice fee.

The department will be using these inaccurate fees to bill insurance companies on an hourly basis for examinations during fiscal year 1995-96. Therefore, the department's billings for fiscal year 1995-96 will be in error. To determine the extent of the error, we used the department's estimated billing hours for fiscal year 1995-96 to calculate the effect (as shown in Table 3) on the department's projected billings. We project that the department's total billings for insurance examination fees during fiscal year 1995-96 to be approximately $13.1 million. As a result of the department's inaccurate fees, we estimate that the department will underbill insurance companies by approximately $1.6 million for the four types of examinations.

Table 3

Overbilling (Underbilling) of Fees Based on Fiscal Year 1995-96 Estimated Billable Hours

Type of Examination	Total Error in Each Fee	x	Estimated Fiscal Year 1995-96 Billing Hours	=	Overbilling (Underbilling)
Actuarial	$ 18		3,844		$ 69,192
Field	(15)		74,036		(1,110,540)
Insurance practice	(6)		41,756		(250,536)
Financial analysis	(21)		16,927		(355,467)
Total estimated underbilling					**$ (1,647,351)**

Insurance companies will be underbilled $1.6 million because of inaccurate examination fees.

For any overbilling or underbilling of fees in fiscal year 1995-96, the department intends to adjust its fees for fiscal year 1996-97 to correct the difference. However, in our opinion, the department’s method of adjusting for overbilling or underbilling is not equitable to individual insurance companies because the department does not examine each insurance company every year. So those companies receiving a field, insurance practice, or financial analysis examination in fiscal year 1995-96 would be underbilled, whereas those companies receiving these same types of examinations in fiscal year 1996-97, after the fees have been adjusted, would be overbilled. The converse is true for companies receiving an actuarial examination in fiscal year 1995-96. Because adjusting the fees in fiscal year 1996-97 will cause these types of billing inequities, we believe that the department should immediately adjust the fiscal year 1995-96 fees.

The Cost Model for Calculating Proposition 103 Fees

Except for a few minor errors, the department's model for calculating the Proposition 103 assessment results in fees that match the department's actual Proposition 103 administrative and operational costs. In the past, the department could not separately identify its expenditures related to these activities. As a result, it could not determine whether Proposition 103 fees should be increased or decreased to match the costs of regulatory activities. However, the department modified its cost accounting system to separately identify the actual costs of Proposition 103 activities, and now the department can collect cost data to use as a basis for calculating the fees.

The bureau took the following steps to arrive at the Proposition 103 assessment:

- Collected information from the department's cost accounting system on the operational and administrative costs for fiscal year 1994-95 for Proposition 103 regulatory activities;

- Adjusted the cost data for fiscal year 1994-95 because of errors in the way department employees charged their time to Proposition 103 cost centers;

- Updated the fiscal year 1994-95 costs for Proposition 103 to a projected cost for fiscal year 1995-96 because the fee was to be implemented in fiscal year 1995-96;

- Adjusted the costs for fiscal year 1994-95 for known budget changes, including a $9.4 million budget augmentation to be used for resolving Proposition 103 rate rollback cases; and

- Reduced the costs for fiscal year 1995-96 by the $1.6 million that it overassessed the fee assessment for fiscal year 1994-95.

Based on its calculations, the bureau determined that the total Proposition 103 assessment for fiscal year 1995-96 is $27.6 million. Unlike insurance examination fees in which insurance companies are charged an hourly fee for examinations, the Proposition 103 fees are assessed to insurance companies based on a fee schedule in the California Code of Regulations. Using this schedule, the department applies the assessment fee based on the volume of insurance premiums written by an insurance company during the preceding calendar year.

Minor Errors in the Department's Calculation of Proposition 103 Fees

The department's calculations of Proposition 103 fees are generally accurate.

We analyzed the bureau's calculations to determine whether the bureau based the Proposition 103 fee for fiscal year 1995-96 on actual costs. We found that the bureau appropriately based the fiscal year 1995-96 fee on actual costs for fiscal year 1994-95, adjusted for known errors and budgetary changes. However, we noted several minor mistakes that the bureau made when calculating the fiscal year 1995-96 fee. These mistakes cause the fiscal year 1995-96 assessment to be understated by $209,000. Although the bureau's review process did not detect these errors, they are relatively immaterial (as shown in Table 4) to the total fiscal year 1995-96 assessment.

Table 4

Recalculated Proposition 103 Fee Assessment

Department's fee assessment	$27,635,000
Add: Mistakes in calculation	209,000
Recalculated fee assessment	**$27,844,000**

At the end of fiscal year 1995-96, the bureau intends to compare collections against its Proposition 103 expenditures and adjust the Proposition 103 fee for fiscal year 1996-97 for any undercollections or overcollections. When the department makes this adjustment to the fiscal year 1996-97 assessment, it also could adjust for the errors that we discovered.

Conclusion

The department's cost model for determining insurance examination fees contains several flaws and errors. As a result, fees the department will charge for examinations of insurance companies during fiscal year 1995-96 are inaccurate. Conversely, the department correctly calculated the fee assessment for Proposition 103.

Recommendations

Because the fees that the department is charging for examinations of insurance companies during fiscal year 1995-96 are inaccurate, the department should immediately revise these fees.

Moreover, the department should do the following to ensure that its future fees are accurate and based on actual costs:

- In its actual cost data, make the proper adjustments for errors employees make in reporting their time.
- Exclude travel costs from the cost model because the department separately bills for travel of examiners.
- Thoroughly review future fee calculations to ensure that all mathematical errors are detected and corrected.

Chapter 2

The Department's System for Gathering Its Costs for Insurance Examination and Proposition 103 Activities Can Be Improved

Chapter Summary

The cost model used by the Department of Insurance (department) to determine insurance examination and Proposition 103 fees depends on upon actual cost information from the department's cost accounting system. In Chapter 1, we discussed flaws and errors we found in the department's cost model. Some of these errors were caused by the department's attempts to correct for unreliable data. In this chapter, we discuss errors in the department's cost data for fiscal year 1994-95 that individually may not be significant but that collectively raise concerns about the reliability of data entered in the department's cost accounting system. For example, we found that department employees did not record their time to the correct program activities. Further, late submission of employee time sheets resulted in employee time charged to the wrong cost centers. Moreover, because the department allocates indirect costs based on employee labor charges, the errors we found in the department's cost data caused a misstatement in the allocation of indirect costs. Although we could not quantify the effect of these time reporting errors, they misstate the department's cost for Proposition 103 and insurance examination activities, and this misstated cost in turn affects the fees charged for these activities.

For the first year of the department's fee schedule, the department adjusted for these errors by surveying the managers of the bureaus regarding the extent to which time reporting errors existed. Then the department adjusted the data used in the cost models to mitigate these errors. However, for future years, the department needs to improve its process for gathering costs so that adjustments to the cost data are minimized. We discuss the process that the department uses to adjust the cost data in Chapter 1 and in the appendix of this report.

Basic Principles of a Reliable Cost Accounting System

A well-designed cost accounting system uses cost centers based on types of activities to record direct and indirect costs equitably. However, a cost accounting system depends on reliable source data. If the source data are unreliable or contain errors, then information produced from the cost accounting system is inaccurate. This is especially important for the department because the law requires it to base insurance examination and Proposition 103 fees on actual costs. Therefore, the department should make every effort to ensure the reliability and accuracy of the data used in its cost accounting system.

To be effective, the department's cost accounting system should gather accurate labor and operating data.

Source data for the department's cost accounting system consist of operating expenditures and personal service expenditures. Operating expenditures include costs for equipment, contracts, rent, and supplies. They can be charged to direct or indirect cost centers depending on whether they directly benefit a specific program. We reviewed the department's allocation of operating expenditures and found no errors related to insurance examination or Proposition 103 activities.

The Time Activity and Reporting System (TARS) records employee time spent on programs and is the source for the department's personal service expenditures. The TARS accumulates the monthly time charges of department employees in hours spent working on specific activity-based cost centers. Monthly, the department transfers the hours employees charged to cost centers into the department's cost accounting system. Because the cost accounting system records personal service costs in dollars, not hours, it converts these hours into dollars using employee salaries. Thus, the cost accounting system depends on accurate TARS data to ensure the accuracy of its allocation of employee labor charges.

Another aspect of a cost accounting system is the allocation of indirect costs. Indirect costs are those costs that cannot be easily identified with or assigned to a given cost center. They generally include administrative costs, such as the cost of the executive office, general administration, budgeting, accounting, personnel, business services, data processing, and training. The department gathers these indirect costs into indirect cost centers and then allocates them to the cost centers relating to each of its programs. The department uses cumulative labor charges in direct cost centers as the basis for allocating indirect costs. So if a direct cost center comprised 50 percent of the department's cumulative labor charges, then it would be allocated 50 percent of the department's indirect costs. Therefore, for the indirect cost allocation to be equitable, the department's employees need to record their time accurately.

Department Employees Do Not Always Record Time Correctly

Program costs are not accurate because of employee time reporting errors.

Although the department has set up guidelines to ensure that employees record their time accurately, we found that the employees are not always doing so. In addition, we found that the department's process for reviewing the accuracy of employee time reporting is weak. Because employees do not always record their time to the correct programs, both the direct and indirect costs of the programs are inaccurate.

In reviewing the department's year-end reports from TARS for fiscal year 1994-95, we found that department employees did not consistently charge time to the program activities they performed. For example, employees in the Consumer Communications

Bureau charged approximately 2,700 hours of administrative time to a Proposition 103 cost center. In addition, employees in the Rate Enforcement Bureau charged approximately 5,700 hours of administrative time to a Proposition 103 cost center. However, these employees should have charged this time to the unit's indirect cost center, which, in turn, would have allocated the administrative time to all programs in each bureau.

Conversely, employees in the Field Actuarial Bureau charged approximately 1,400 hours of direct program activities as an indirect cost. Also, employees in the Reinsurance Bureau charged approximately 1,200 hours of direct program activities as an indirect cost. These employees should have charged this time to direct cost centers. Because these costs were incorrectly charged as an indirect cost, all the programs in each bureau were charged inappropriately for these costs.

We also reviewed a sample of employees' time sheets and found that 3 of the 60 employees we tested charged their time incorrectly. For example, one employee charged his time to the wrong unit during fiscal year 1994-95. This employee's error caused indirect costs to be incorrectly allocated in the unit. As a result, Proposition 103 costs were overcharged by $160,000. This overcharge consisted of $84,000 for the employee's salary and benefits and $76,000 of allocated indirect costs. A second employee charged workers' compensation activities to a Proposition 103 cost center. However, workers' compensation and Proposition 103 activities are unrelated. As a result, Proposition 103 costs were overcharged by $4,000. Finally, a third employee who works in the License Bureau charged time to a Proposition 103 cost center. However, the License Bureau does not perform Proposition 103 activities. As a result, Proposition 103 costs were overcharged by $43,000. We provided the information on these three examples to the Fiscal Services Bureau (bureau) so that it could correct these errors when calculating the insurance examination and Proposition 103 fees.

Department supervisors are in the best position to determine whether employees in their unit have charged their time correctly. The department has procedures that require supervisors to ensure the accuracy of their employees' time sheets. Since April 1995, the bureau has provided to department supervisors monthly reports showing which cost centers their employees charged. However, we believe a more useful report also would show the specific activities and tasks that employees charged. This level of detail would allow department supervisors to determine whether their staff members charged the correct cost centers. By not providing detailed reports to supervisors, the department is lacking an important control over time reporting.

Supervisors should ensure that employees accurately charge their time.

The bureau is responsible for ensuring accurate TARS data. The bureau also has the necessary TARS reports available to
it to detect employee errors in time reporting. However, the department's procedures are not specific as to what steps the bureau should take to ensure accurate data.

Late or Unapproved Time Sheets Are Not Recorded to the Proper Cost Centers

We also found that late or unapproved time sheets are not recorded properly in the department's cost accounting system. For the TARS to work effectively, each employee must complete a monthly time sheet. Before an employee's time sheet can be sent to the department's cost accounting system, the employee must complete it and the supervisor must approve it. Time sheets that are not submitted and approved do not pass to the department's cost accounting system. When this occurs, the employee's time does not get recorded to the cost centers they charged. Instead, the cost accounting system charges the employee's time to a default cost center, known as the homebase, assigned to that employee's unit. The homebase cost center can be either a direct cost center representing a specific regulatory activity or an indirect cost center that will allocate costs to all the direct cost centers in a unit. The homebase cost center may not be representative of how employees actually spent their time during the month.
During fiscal year 1994-95, we found that the number of late or unapproved time sheets ranged from 13 to 126, or 1.4 to 12.8 percent of the monthly time sheets. Thus, the time of these employees is not correctly recorded in the department's cost accounting system. As a result, the department's cost accounting system does not reflect the correct distribution of labor costs for these employees.

The Fiscal Services Bureau (bureau), which administers the TARS, cuts off time reporting each month when at least 95 percent of employee time sheets for direct programs are submitted and approved. The reason for this cutoff is that the bureau needs to record this information promptly in its cost accounting system. The bureau believes that the effect of having 5 percent or less of its employee time sheets charged to the homebase cost center does not materially alter the department's allocation of its indirect costs. We recognize the need to meet accounting deadlines; however, the bureau should ensure that employees and supervisors promptly submit and approve time sheets so that the most accurate cost data are recorded in its cost accounting system. Further, although a cutoff of 95 percent was reasonable during the first year of TARS operation, when the department was still orienting its employees to the new system, department employees are now more familiar with the TARS. In our opinion, 99 percent of the department's employees should be expected to submit their accurately completed time sheets on time.

Errors in Time Reporting Cause Misallocations of Indirect Costs

Indirect costs are a substantial portion of the expenditures associated with insurance examination and Proposition 103 activities. Thus, it is important that the department have a fair and equitable process for allocating indirect costs. However, the errors discussed above cause the misallocation of the department's indirect costs.

The department's cost accounting system uses cumulative labor charges as a basis for allocating indirect costs. Therefore, proper allocation of indirect costs depends on accurate time reporting. However, because the department's labor charges contain errors, the basis for the allocation of indirect costs is skewed. For example, we noted that 3 of the 60 employees we tested did not report their time correctly. For the employee who charged his time to the wrong unit, we determined that this error caused an underallocation of $49,000 in indirect costs to an insurance examination cost center and an overallocation of $76,000 to a Proposition 103 cost center. This example demonstrates the effect that employee time reporting has on the indirect cost allocation and demonstrates that an error by even one employee can alter the indirect cost allocation. We did not attempt to quantify the overall effect of employee time reporting errors because neither we nor the department could determine the extent of those errors. However, because of the time reporting errors noted above, the department's allocation of indirect costs is not totally correct during fiscal year 1994-95.

The department uses cumulative labor charges as a basis of allocating indirect costs.

The Department Has Taken Corrective Action

The department has taken steps to minimize employee time reporting errors. Beginning in November 1995, the department now requires that bureau managers review a more detailed TARS report for employee time reporting errors. This detailed report shows not only the cost centers charged, but also the types of activities charged. Thus, bureau managers will now be able to determine if the activities charged to cost centers are appropriate.

In addition, beginning in July 1995, the bureau began identifying employees whose time sheets missed the cutoff for input to the cost accounting system. The bureau now obtains these employees' time sheets and manually inputs them in the cost accounting system. The bureau also sends a report to its division chiefs and deputy commissioners identifying those employees whose time sheets were late. The bureau believes that these procedures will ensure that at least 99 percent of its employees submit their time sheets on time.

Conclusion

The department can improve its process for gathering costs related to insurance examination and Proposition 103 activities. Specifically, employees are not always reporting their time to the proper cost centers. Further, late or unapproved employee time sheets are not recorded appropriately in the department's cost accounting system. Moreover, because the department bases its allocation of indirect costs on employee labor charges, errors in the way employees report their time skew the allocation of indirect costs. Finally, the department needs to improve its process for gathering these costs so that future adjustments are minimized.

Recommendations

To improve the gathering of actual cost data used in the cost model for determining examination and Proposition 103 fees, the department should do the following:

- Implement procedures requiring supervisors to review monthly TARS reports for errors by employees reporting their time.
- Define and implement the procedures that the Fiscal Services Bureau will use for ensuring accurate TARS data.
- Implement procedures to require that 99 percent of employee time sheets are submitted and reviewed on time.
- Modify its procedures for reporting time to ensure that employees charge program and administrative activities to the proper cost centers.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq., of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of the this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: January 9, 1996

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Appendix

A Detailed Description of the Department's Cost Model for Computing Examination Fees

As discussed in Chapter 1, the department has a cost accounting system that enables it to gather its actual costs of performing insurance examinations. Using these actual costs, the department can compute the hourly fees for insurance examinations. The department will charge these fees to insurance companies for each hour its examiners spend doing examinations.

The following are the steps the department's Fiscal Services Bureau (bureau) took to arrive at an hourly fee for each of the four types of examinations we reviewed:

1. The bureau collected information from the department's cost accounting system on the direct and indirect costs for each type of examination for fiscal year 1994-95.

2. The bureau then adjusted the direct and indirect cost data for fiscal year 1994-95 because of errors in the way department employees charged their time to various examination cost centers.

3. The bureau collected each bureau's direct costs for fiscal year 1994-95 from the department's cost accounting system. These direct costs include not just the cost of doing examinations but also the cost of all other activities.

4. The bureau collected information on the percentage of time the bureaus spent doing examination activities. These percentages were used to estimate the portion of each bureau's direct costs related to each examination activity.

5. The bureau collected each bureau's budgeted direct costs for fiscal year 1995-96 from the department's budget office.

6. The bureau obtained an estimate from the bureau managers of the percentage of direct costs that would be spent on each examination activity in fiscal year 1995-96. These percentages were used to estimate the portion of each bureau's budgeted direct costs that the bureau managers estimate will be spent on examination activities in fiscal year 1995-96.

7. Using the direct costs for fiscal year 1994-95 and the budgeted direct costs for fiscal year 1995-96 for examination activities as determined in the previous four steps, the bureau calculated the expected change in the cost of each of the examinations from fiscal year 1994-95 to fiscal year 1995-96.

8. The bureau adjusted the direct and indirect costs for fiscal year 1994-95 for budgetary changes to arrive at a reasonable estimate of the expected fiscal year 1995-96 cost for each of the examinations.

9. The bureau collected information from the bureau managers on the estimated billable hours for examinations for fiscal year 1995-96.

10. Finally, the bureau computed the hourly fee by dividing the expected fiscal year 1995-96 cost of examinations by the estimated billable hours for fiscal year 1995-96.

Flaws and Errors in the Department's Cost Model

We analyzed the department's cost model to determine if it based the fees on actual costs. Although we found that the department's cost model generally based the fees on actual costs, we found several flaws and errors that materially misstated the fees. For example, the department's methodology for adjusting the expenditures for fiscal year 1994-95 for errors employees made in reporting their time overcompensated for the effect those errors had on the fees. It also included travel costs in its calculation of the fees even though the department bills examiners' actual travel costs separately. In addition, the department's calculations contained several mathematical errors.

Example Using Actuarial Examination Fees

In the text below, we discuss the department's calculation and the errors we found, using the department's actuarial examination fee as an example. We explain each of the steps that the bureau took to determine the actuarial fee, along with our calculations. In the exhibit, we present the department's calculation and our calculation side by side for ease of comparison.

Steps 1 and 2:
Collected Fiscal Year 1994-95 Direct and Indirect Costs and Adjusted Them for Known Errors

To calculate the fee, the bureau collected the direct and indirect costs for fiscal year 1994-95. Typically, the efforts of several of the department's bureaus will make up the total time spent on a given type of examination. For example, the Actuarial Analysis Bureau, Field Actuarial Bureau, Office of Chief Actuary, and Field Examination Division Office each contribute in the performance of actuarial examinations. Therefore, employees from each of these units who participated in the performance of actuarial examinations should have charged their time to the cost center for actuarial examinations.

The bureau knew that the direct and indirect costs for fiscal year 1994-95 contained some time reporting errors, so it made adjustments to the costs for the known errors. Although the bureau adjusted for the known errors, it did not adjust for all the errors discovered by the bureau managers. Specifically, the bureau managers determined that the percentage of time employees spent on examination activities was in error. The bureau managers supplied the bureau with corrected percentages for fiscal year 1994-95. However, as explained below, the bureau did not properly adjust the direct and indirect costs for fiscal year 1994-95 for these time reporting errors. In Tables 1 and 2 of the exhibit, we illustrate the department's calculation and our calculation.

The Department's Calculation	Our Calculation
The bureau collected the direct and indirect costs of actuarial examinations for fiscal year 1994-95. These costs also included travel costs, which the department bills separately from examination fees. The bureau then adjusted these costs for known errors, as shown in Table 1 of the exhibit.	The bureau should have estimated the amount for time reporting errors using the percentages supplied by the bureau managers. Also, the bureau should have adjusted the direct and indirect costs for fiscal year 1994-95 for these errors. We used the percentages to determine a reasonable estimate of the time reporting errors. We then used these estimates to adjust each bureau's total direct and indirect costs related to actuarial examinations, as shown in Table 2 of the exhibit. In addition, the bureau made a mathematical error in calculating one of its adjustments. Furthermore, travel costs should have been excluded from the direct and indirect costs for fiscal year 1994-95. As shown in Table 2 of the exhibit, our methodology resulted in lower direct and indirect costs for fiscal year 1994-95.

***Steps 3 and 4*:**
Calculated Fiscal Year 1994-95 Actual Direct Costs Related to Actuarial Examinations

Because the fee schedule being created would be put into effect in fiscal year 1995-96, the Fiscal Services Bureau (bureau) realized that it needed to adjust the fiscal year 1994-95 costs for budgetary changes in fiscal year 1995-96. However, the department's budget is broken down by bureau, not by cost center. Therefore, to adjust for budgetary changes, it was necessary for the bureau to compare each bureau's actual costs for fiscal year 1994-95 to its budgeted costs for fiscal year 1995-96. The bureau began by obtaining the direct costs of each bureau that does actuarial examinations. In addition, the bureau determined the percentage of time, as recorded in the Time Activity and Reporting System (TARS), that each of the bureaus spent doing actuarial examinations in fiscal year 1994-95. However, the bureau relied on these percentages, as shown in Table 3 of the exhibit, in instances when it knew the TARS data contained time reporting errors. Instead, it should have used the percentages that the bureau managers felt were more accurate, as shown in our calculations in Table 4 of the exhibit.

The Department's Calculation	Our Calculation
Using each bureau's direct costs for fiscal year 1994-95 and the percentage of time, according to the TARS, that each bureau spent doing actuarial examinations, the bureau calculated the total direct costs of actuarial examinations for fiscal year 1994-95, as shown in Table 3 of the exhibit. The percentages used are based on data from the TARS.	Each bureau's direct cost that the Fiscal Services Bureau (bureau) used was correct. However, the bureau used percentages based on the TARS, despite information from the bureau managers indicating that these percentages were inaccurate. To arrive at a more accurate direct cost for fiscal year 1994-95, the bureau should have used the percentages developed by the bureau managers when it estimated the percentage of time each bureau spent doing actuarial examinations in fiscal year 1994-95. In our calculations, we used the percentages that the bureau managers supplied to determine a more accurate estimate of direct costs for fiscal year 1994-95, as shown in Table 4 of the exhibit.

<u>Steps 5 and 6</u>:
Calculated Fiscal Year 1995-96 Budgeted Direct Costs Related to Actuarial Examinations

As discussed above, the bureau needed to adjust its direct and indirect costs for fiscal year 1994-95 for budgetary changes. To adjust for these changes, the bureau compared each bureau's actual direct cost for fiscal year 1994-95 to its budgeted direct cost for fiscal year 1995-96. To determine the budgeted direct costs related to actuarial examinations for fiscal year 1995-96, the bureau obtained the fiscal year 1995-96 budget for each bureau that does actuarial examinations. In addition, from the bureau managers, the bureau obtained estimates of the percentage of time each bureau would spend doing actuarial examination activities in fiscal year 1995-96. As shown below, the bureau used these percentages to determine the portion of each bureau's budget that the bureau managers estimate will be spent on actuarial examination activities in fiscal year 1995-96. Tables 5 and 6 of the exhibit illustrate the department's calculation and our calculation.

The Department's Calculation	Our Calculation
To calculate the estimated direct cost related to actuarial examinations for fiscal year 1995-96, the	The bureau's method for calculating the fiscal year 1995-96 budget for actuarial

The Department's Calculation	Our Calculation
bureau used the budgeted direct cost for fiscal year 1995-96 for each bureau and the percentage of time the bureau managers estimate their examiners will spend doing actuarial examinations in fiscal year 1995-96. Table 5 of the exhibit shows this calculation.	examinations was appropriate. However, we noted one mathematical error in its calculations. Specifically, the bureau did not correctly record one bureau's estimated percentage. When we used the correct percentage, we determined a much lower estimate of direct costs for fiscal year 1995-96, as shown in Table 6 of the exhibit.

Step 7: Expected Budgetary Change

The bureau calculated an expected budgetary change to adjust the direct and indirect costs for estimated workload changes for fiscal year 1994-95. To compute the expected budgetary change, the bureau used the totals for the direct costs for fiscal year 1994-95 and the budgeted direct costs related to actuarial examinations for fiscal year 1995-96, as calculated in the two previous steps. The department's calculation of the budgetary change is illustrated in Table 7 of the exhibit, and our calculation is illustrated in Table 8 of the exhibit.

The Department's Calculation	Our Calculation
The bureau divided the estimated direct costs of actuarial examinations for fiscal year 1995-96 (Table 5 of the exhibit) by the direct costs of actuarial examinations for fiscal year 1994-95 (Table 3 of the exhibit) to arrive at the expected percentage change in the budget. Thus, as shown in Table 7 of the exhibit, the bureau calculated the percentage change to be 78 percent. In other words, the bureau expects the direct and indirect costs of actuarial examinations for fiscal year 1995-96 to be only 78 percent of the direct and indirect costs for fiscal year 1994-95.	We found no mathematical errors in the bureau's calculation of the expected budgetary change. However, as shown in the previous two steps, the bureau did not correctly calculate the direct costs of actuarial examinations for fiscal year 1994-95 and the budgeted direct costs for fiscal year 1995-96. Specifically, the fiscal year 1994-95 direct costs should have been approximately $446,000, as shown in Table 4 of the exhibit. Further, the budgeted direct costs for fiscal year 1995-96 should have been approximately $434,000, as shown in Table 6 of the exhibit. When we used these more accurate estimates of direct costs, we calculated the expected budgetary change to be 97 percent, as shown in Table 8 of the exhibit.

Step 8: Adjusted the Fiscal Year 1994-95 Direct and Indirect Costs for Budgetary Changes

After the bureau calculated the expected percentage change in the budget, it adjusted the direct and indirect costs for fiscal year 1994-95 for the expected change to arrive at an estimate of direct and indirect costs for fiscal year 1995-96. After the estimated direct and indirect costs were calculated for fiscal year 1995-96, the bureau reduced the estimated costs by the fiscal year 1995-96 travel cost expected to be incurred in doing actuarial examinations. However, because examiners' actual travel costs are billed separately, travel costs should not be included in the calculation of the fee. The department's calculation of the estimated direct and indirect costs for fiscal year 1995-96 is illustrated in Table 9 of the exhibit, and our calculation of the estimated direct and indirect costs for fiscal year 1995-96 is illustrated in Table 10 of the exhibit.

The Department's Calculation	Our Calculation
As shown in Table 9 of the exhibit, the bureau adjusted the direct and indirect costs for fiscal year 1994-95 for the estimated budgetary changes for fiscal year 1995-96. The bureau did this by multiplying the 78 percent determined in the previous step by the direct and indirect costs for fiscal year 1994-95, as calculated in Table 1 of the exhibit. In addition, because the bureau included actual fiscal year 1994-95 travel costs in its fee calculation, it reduced the estimated fiscal year 1995-96 costs by the estimated fiscal year 1995-96 travel costs.	As shown in Table 10 of the exhibit, we recalculated the estimated direct and indirect costs of actuarial examinations for fiscal year 1995-96 because of errors in the previous calculation steps. Furthermore, it is more appropriate to exclude travel costs from the fee calculations because examiners' actual travel costs are billed separately. We removed the actual travel costs from the direct and indirect costs for fiscal year 1994-95, as shown in Table 2 of the exhibit. Therefore, we did not reduce the estimated direct and indirect costs for fiscal year 1995-96 by the estimated travel costs for fiscal year 1995-96. By making these corrections, we determined a more accurate estimate of direct and indirect costs for actuarial examinations for fiscal year 1995-96, as shown in Table 10 of the exhibit.

Steps 9 and 10:
Computed the Hourly Fee

To compute the hourly fee, the bureau obtained from the bureau managers the estimates of fiscal year 1995-96 billable hours. The bureau divided the estimated direct and indirect costs for fiscal year 1995-96 by the estimated fiscal year 1995-96 billable hours to arrive at the actuarial examination fee. However, errors that the bureau made in its calculations in the previous steps caused the fee to be inaccurate. The department's calculation and our calculation of the actuarial examination fee are illustrated in Tables 11 and 12 of the exhibit.

The Department's Calculation	Our Calculation
As shown in Table 11 of the exhibit, the bureau calculated the fee as $241.	As shown in Table 12 of the exhibit, because of the errors we noted above, the bureau should have calculated the fee as $222.

We did not illustrate the bureau's calculations of the other three examination fees, nor did we illustrate our calculations of these fees, because the calculations and errors were similar. The effects on the other three fees from the errors discussed above are illustrated in Tables 2 and 3 of Chapter 1 of this report.

Exhibit

The Department's Calculation

Steps 1 and 2

Table 1

Unadjusted FY 1994-95 Direct and Indirect Costs		$1,111,297
Adjustments to:		
Actuarial analysis	$ 1,344	
Field actuarial	93,279	
Office of chief actuary	-	
Field examination division office	-	
Departmental overhead	-	
Travel costs	-	
Total Adjustments		94,623
Adjusted FY 1994-95 Costs		$1,205,920

Steps 3 and 4

Table 3

Bureau	FY 1994-95 Direct Costs	Percentage Attributable to Actuarial Activities Based on the TARS	Direct Cost of Doing Actuarial Examinations for FY 1994-95
Actuarial analysis	$636,464	30.36%	$193,211
Field actuarial	530,138	57.08	302,610
Office of chief actuary	324,774	57.23	185,872
Field examination division office	545,477	0.59	3,227
Total Estimated Direct Costs for FY 1994-95			$684,920

Our Calculation

Steps 1 and 2

Table 2

Unadjusted FY 1994-95 Direct and Indirect Costs		$ 1,111,297
Adjustments to:		
Actuarial analysis	**$(74,499)**	
Field actuarial	**61,027**	
Office of chief actuary	**(162,531)**	
Field examination division office	**(481)**	
Departmental overhead	**(47,894)**	
Travel costs	**(7,460)**	
Total Adjustments		(231,838)
Adjusted FY 1994-95 Costs		$ 879,459

(Bureau of State Audits adjustments are shown in bold.)

Steps 3 and 4

Table 4

Bureau	FY 1994-95 Direct Costs	Percentage Attributable to Actuarial Activities From Bureau Managers	Direct Cost of Doing Actuarial Examinations for FY 1994-95
Actuarial analysis	$636,464	**18.35%**	$116,791
Field actuarial	530,138	57.08	302,610
Office of chief actuary	324,774	**8.0**	25,982
Field examination division office	545,477	**0.13**	709
Total Estimated Direct Costs for FY 1994-95			$446,092

(Bureau of State Audits adjustments are shown in

Note: Percentages in the tables are rounded to two digits for presentation purposes. Therefore, calculations using percentages may be off by small amounts because of rounding.

The Department's Calculation

Steps 5 and 6

Table 5

Bureau	FY 1995-96 Budgeted Direct Costs	Estimated Percentage Attributable to Actuarial Activities	Estimated Direct Costs for FY 1995-96
Actuarial analysis	$643,512	18.35%	$118,084
Field actuarial	507,633	57.0	289,351
Office of chief actuary	313,625	8.0	25,090
Field examination division office	639,332	16.0	102,293
Total Estimated Direct Costs for FY 1995-96			$534,818

Step 7

Table 7

FY 1995-96 Estimated Direct Costs (Table 5)		FY 1994-95 Estimated Direct Costs (Table 3)		Expected Budgetary Change
$534,818	÷	$684,920	=	78.08%

Step 8

Table 9

FY 1994-95 direct and indirect cost as adjusted (Table 1)	$ 1,205,920
Expected budgetary change (Table 7)	78.08%
Subtotal	941,640
Less estimated FY 1995-96 travel costs	(15,000)
Estimated FY 1995-96 Direct and Indirect Cost	$ 926,640

Steps 9 and 10

Table 11

Estimated FY 1995-96 Direct and Indirect Cost (Table 9)		Estimated FY 1995-96 Billable Hours		FY 1995-96 Actuarial Examination Fee
$926,640	÷	3,844	=	$241.06[1]

[1] The department elected to bill this fee at $240, rather than use the $241

Our Calculation

Steps 5 and 6

Table 6

Bureau	FY 1995-96 Budgeted Direct Costs	Estimated Percentage Attributable to Actuarial Activities	Estimated Direct Costs for FY 1995-96
Actuarial analysis	$643,512	18.35%	$118,084
Field actuarial	507,633	57.0	289,351
Office of chief actuary	313,625	8.0	25,090
Field examination division office	639,332	**0.16**	1,023
Total Estimated Direct Costs for FY 1995-96			$433,548

(Bureau of State Audits adjustments are shown in bold.)

Step 7

Table 8

FY 1995-96 Estimated Direct Costs (Table 6)		FY 1994-95 Estimated Direct Costs (Table 4)		Expected Budgetary Change
$433,548	÷	$446,092	=	97.19%

Step 8

Table 10

FY 1994-95 direct and indirect cost as adjusted (Table 2)	$879,459
Expected budgetary change (Table 8)	97.19%%
Subtotal	854,730
Less estimated FY 1995-96 travel costs	
Estimated FY 1995-96 Direct and Indirect Cost	$854,730

Steps 9 and 10

Table 12

Estimated FY 1995-96 Direct and Indirect Cost (Table 10)		Estimated FY 1995-96 Billable Hours		FY 1995-96 Actuarial Examination Fee
$854,730	÷	3,844	=	$222.35

as calculated.

Note: Percentages in the tables are rounded to two digits for presentation purposes. Therefore, calculations using percentages may be off by small amounts because of rounding.