

## **IV. Funds and Program Management**



## Information Services Section

The Information Services Section provides new applications, project management, architecture, design work and programming; network and database operations and security; maintenance support for all in-house computer applications and interfaces for all external applications; hardware and software testing and acquisitions; and help desk support for desktop and laptop PCs, printers, faxes, scanners and copiers. The section is also responsible for the agency's project management program. The section strives for 99.9% uptime of the database and network. Agency telecommunications services are also provided or coordinated through this section.

### Applications

On the applications side of the Information Services Section, the following work was accomplished in support of user business applications:

- Completed Phase 2 of the development of an Injured Patients and Families Compensation Fund business management application to replace the existing legacy system.
- Completed the conversion of OCI reports from ReportBuilder to JasperReports.
- Completed implementation of Microsoft SharePoint 2010 Foundation.
- Started work on the Complaints System redesign.
- Analyzed and finalized digital asset management solutions.
- Finalized the security framework implementation.
- Began work on the digital asset management solution.
- Began work on the Premium Tax system redesign.
- Provided support for and maintenance of existing OCI systems:
  - ◆ OCI Enterprise - put out several new builds of the OCI Enterprise system to incorporate periodic improvements in applications, such as Complaints and Legal.

### Infrastructure

On the technical side of the Information Services Section, the following work was accomplished to improve business users' computing environment:

- Completed TeamMate Software Upgrade, the primary auditing tool used by the agency.

- Completed Microsoft Office 2010 Upgrade for the agency.
- Completed Adobe Acrobat Professional X Upgrade.
- Continued efforts on the Server Rationalization project.
- Provided telecom systems administration, maintenance, and support for the agency.
- Provided IT infrastructure administration and support services for the agency.

### Management

On the management side of the Information Services Section, the following work was accomplished to improve overall IT program management:

- Reorganized the Information Services Section into three areas: Applications, Infrastructure, and Project Management and Quality Assurance.
- Finalized the development process and provided staff training.
- Continued work to update the agency's disaster recovery plan by securing and coordinating activation activities for the agency's primary alternate site, the Public Service Commission.

### Project Management Office and Quality Assurance

The Project Management Office (PMO) is responsible for all projects the agency undertakes. It provides training in project management and ensures that the projects meet business goals. The PMO reports project performance directly to the Project Governance Board on a quarterly basis. In 2011 the function of quality assurance was assigned to the PMO.

Activities in 2011 included:

- Continued improvements to the project management process.
- Monitored project performance.
- Began developing quality assurance processes.

## Management Analysis and Planning

The Management Analysis and Planning Section (MAPS) supports the mission of the Office of the Commissioner of Insurance (OCI) through oversight of the agency's business planning processes in the areas of financial management and office management. This section is responsible for the agency's budget, accounting, and fiscal responsibilities, records management, and administers office management services, including risk management, health and safety, building maintenance, and parking coordination. MAPS staff also serves as liaison between the agency and the Department of Administration for human resources and procurement services.

### Financial Management

This area provides accounting, budgeting, contract management, internal control, procurement, risk management, and vendor payment services for OCI. The section produces the annual operating budgets for all units of the agency, external financial reports at the fund and agency level, GAAP reports, and required statutory reports, e.g., the minority contracting reports, as well as annual contract justification for continued contract renewals.

The staff is responsible for providing technical budget assistance and guidance to OCI managers and staff, tracking expenditures and revenues, collecting accounts receivables, calculating and billing the annual examination assessment, calculating and billing the annual care management organization examination charges, administering the state purchasing card program, cashiering and serving as liaison with the Department of Administration-Procurement.

Some of the accomplishments in this area during the past year include:

- Member of the State Agency Purchasing Council.
- Continued meeting requirements for obtaining IT contract services through the vendor managed IT services contract.
- Implemented the agency's 2011-2013 Biennial Budget.

### Office Management

The Office Management area provides essential office leadership and services in an effort to achieve a quality workforce and environment in support of the mission of the agency. This area is responsible for monitoring and maintaining agency policies and procedures, managing administrative matters affecting the business operation of the agency, and serving as liaison with the Department of Administration-Human Resources as well as staff development. In an effort to strive to achieve physical accommodations for maximum comfort, security, and safety for staff and visitors alike, this area is responsible for the management of building maintenance and security, along with provision of health and safety oversight.

Some of this area's major accomplishments for 2011 were:

- Continued the agency's ongoing supported work efforts by renewing the employment of disabled individuals through Community Work Services, Inc.
- Responded to employees' ergonomic needs.
- Reviewed and updated the agency's Health and Safety Action Plan.
- Reconfigured office space to accommodate organizational changes.
- Utilized all available National Association of Insurance Commissioners' (NAIC) grant/zone funds to support our regulatory training needs.
- Specialized industry training in-house, including NAIC ACL training.
- Employee Assistance Program (EAP) involvement including attended quarterly meetings, worked on Health Fair and gave updated EAP information to agency.
- OCI Affirmative Action Advisory Committee involvement including monthly meetings, attended joint State AAAC meeting and updated committee members with information shared.

## **Alternative Work Patterns**

OCI is cognizant of the need to offer a flexible work environment in order to maximize the employment options available to existing and potential state employees and to meet the needs of our constituents. OCI encourages the utilization of alternative work patterns such as flex time, part-time, and shared-time schedules to increase productivity, extend services, reduce absenteeism, improve employee morale, allow for employee development, and maximize energy conservation through ridesharing and use of mass transit systems. Approximately 90% of

the agency's staff has some form of nonstandard work schedule. The agency also reviews requests, on a case-by-case basis, from staff who wish to temporarily work from their home. The agency recognizes that alternative work pattern schedules may provide opportunities for individuals to productively utilize their skills, talents, and abilities. It recognizes that a traditional full-time work schedule may not meet the needs of individuals who, due to age, health, or family circumstances, find such a schedule in conflict with responsibilities outside of work.

## Injured Patients and Families Compensation Fund (Fund)

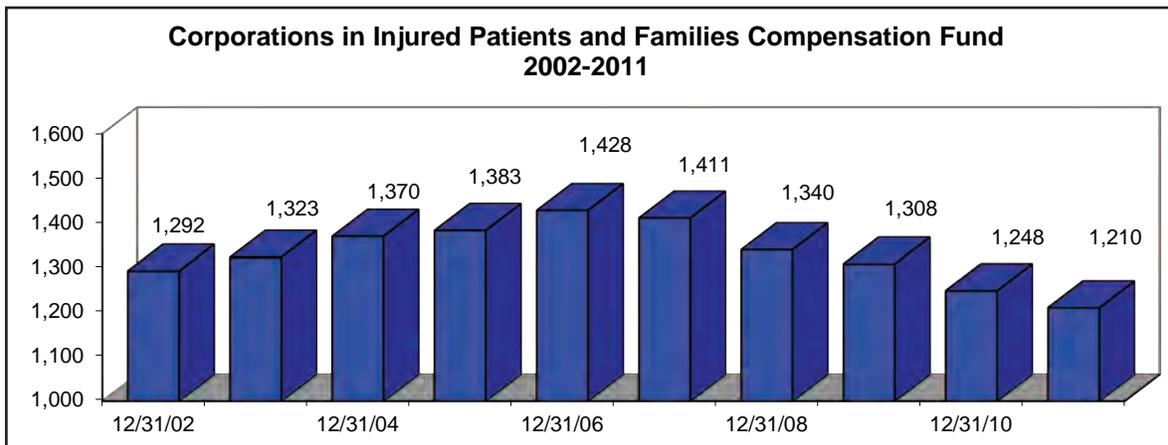
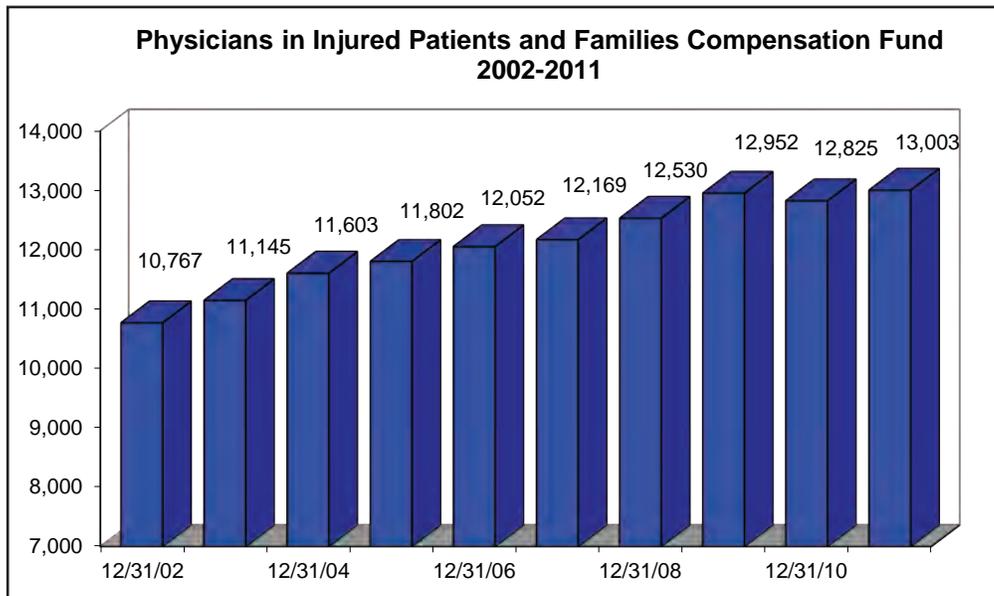
The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Association for Justice, a member named by the State Bar of Wisconsin, 2 members named by the Wisconsin Medical Society, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

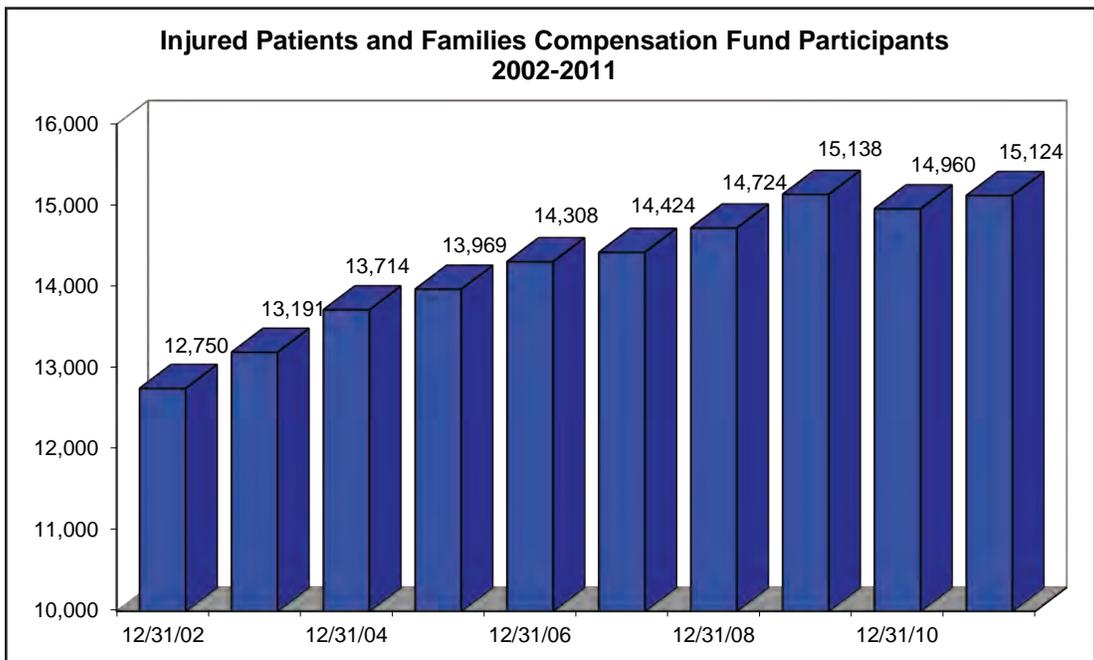
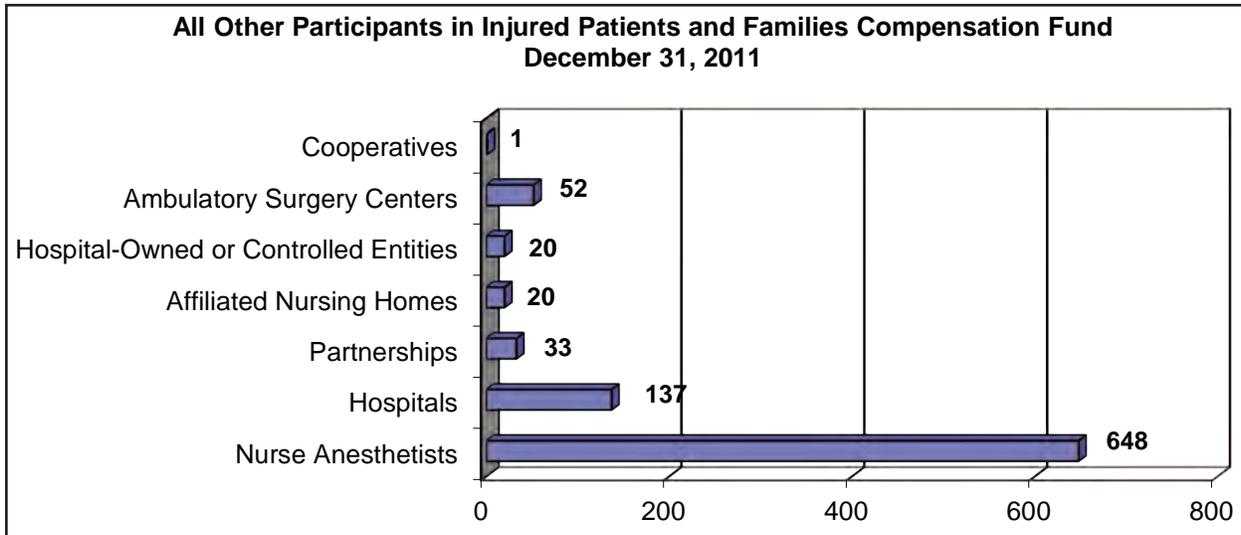
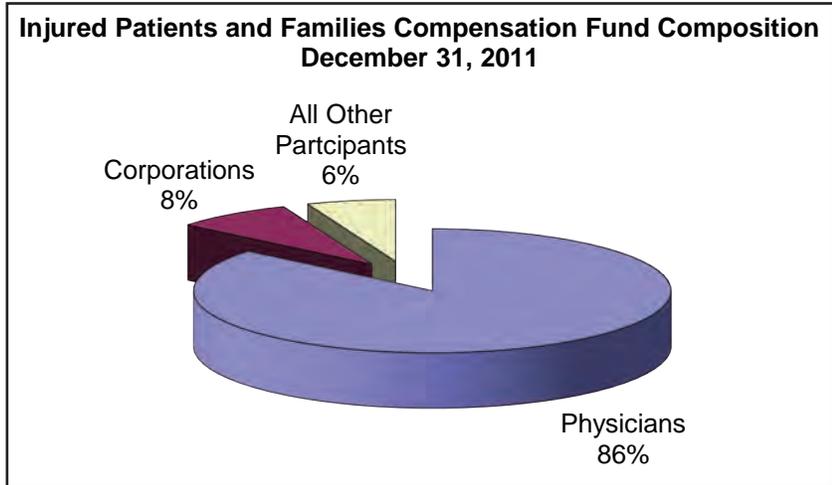
The Board is assisted by an Actuarial and Underwriting Committee, a Legal Committee, a Claims Committee, a Finance/Investment/Audit Committee, a Risk Management and Patient Safety Committee, and a

Peer Review Council. The Board and its committees meet quarterly.

The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

As of December 31, 2011, the vast majority of Fund participants were physicians at 86%, with corporations comprising another 8% and the remaining 6% comprised of various other participant types as illustrated in the charts below. At year-end 2011, Fund participants totaled 15,124 comprised of 13,003 physicians, 1,210 corporations, 648 nurse anesthetists, 137 hospitals with 20 affiliated nursing homes, 52 ambulatory surgery centers, 33 partnerships, 20 hospital-owned or controlled entities, and one cooperative.

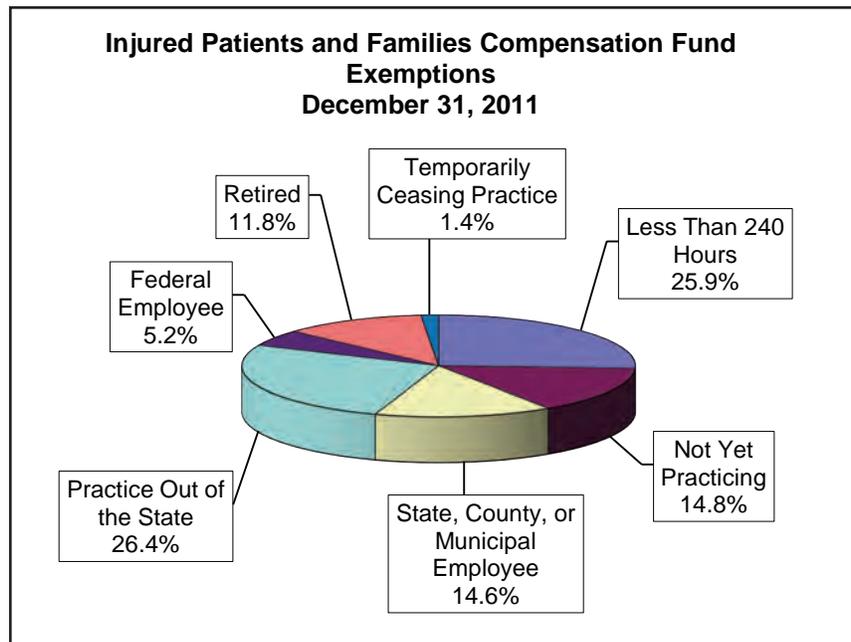




From July 1, 1975, through December 31, 2011, 5,806 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims was 662, totaling \$810,263,234. Of the total number of claims in which the Fund has been named, 5,003 claims have been closed with no indemnity payment.

### 2011 Major Activities

- In 2011 the Fund rolled out the second phase of its newly developed, customized, internet-based system. Implementation allows licensed insurance carriers and authorized self-insurers to interact directly with the Fund system via the internet. Continued development will incorporate further functionality, eventually allowing employers of health care providers and the providers themselves to interact directly with the Fund system.
- Fund administration closely monitors the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of this outside counsel to ensure that, while the Fund receives the necessary representation, legal fees are controlled.
- Pursuant to a Legislative Audit Bureau recommendation and a directive by the Board of Governors, an actuarial audit was performed in 2011 on the analysis performed in 2010 by the outside actuarial firm. This audit opinion concluded that the assumptions and methodologies used by the Fund's actuary and the risk margin of 25% established by the Board were reasonable. A recommendation was made to reduce the discount factor used to discount the claim liability reserves. However, prior to the issuance of the audit report, the Board reduced the discount factor by .5%. This issue will be reviewed further during 2012 and will be addressed in the next year's Functional and Progress Report.
- Extensive work continued during 2011 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for appropriate enforcement action by that board. As of December 31, 2011, there were 10,208 providers exempt from participation in the Fund. The various bases for the exemptions are illustrated in the chart below:



Following are financial statements—statement of net equity and statement of revenues, expenses and changes in Fund equity—for the Fund for the fiscal year ending June 30, 2011.

**Injured Patients and Families Compensation Fund  
Statement of Net Equity  
June 30, 2011, Unaudited**

<b>Assets</b>	<b>Liabilities</b>																																																																																				
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**Injured Patients and Families Compensation Fund**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Equity for the**  
**Fiscal Year Ended June 30, 2011, Unaudited**

**Operating Revenues:**

Assessments	\$ 33,191,145
Assessment Interest Income	330
Administrative Fee Income	<u>35,553</u>
<b>Total Operating Revenues</b>	<u>33,227,028</u>

**Operating Expenses:**

Underwriting Expenses:	
Net Losses Paid	33,587,316
Loss Adjustment Expense Paid	4,874,519
Risk Management Expenses	46,280
Medical Expenses Paid	1,787,542
Change in Liability for IBNR	(45,199,614)
Change in Liability for Reported Losses	(48,878,968)
Change in Liability for Loss Adjustment Expense	(15,338,260)
Change in Amount Representing Interest	22,717,469
Change in Liability for Future Medical Expense	<u>2,131,236</u>
<b>Total Underwriting Expenses</b>	(44,272,480)
General and Administrative Expenses	<u>1,035,197</u>
<b>Total Operating Expenses</b>	<u>(43,237,283)</u>

Operating Income 76,464,311

**Nonoperating Revenues (Expenses):**

Investment Income	54,027,451
Interest Expense	(1,746)
Miscellaneous Revenue	13,608
Court-Ordered Return of Property	<u>31,159,316</u>

Change in Net Assets 161,662,940

**Net Equity**

Net Equity - Beginning of Period 132,802,845

Net Equity - End of Period \$294,465,785

### Local Government Property Insurance Fund (Fund)

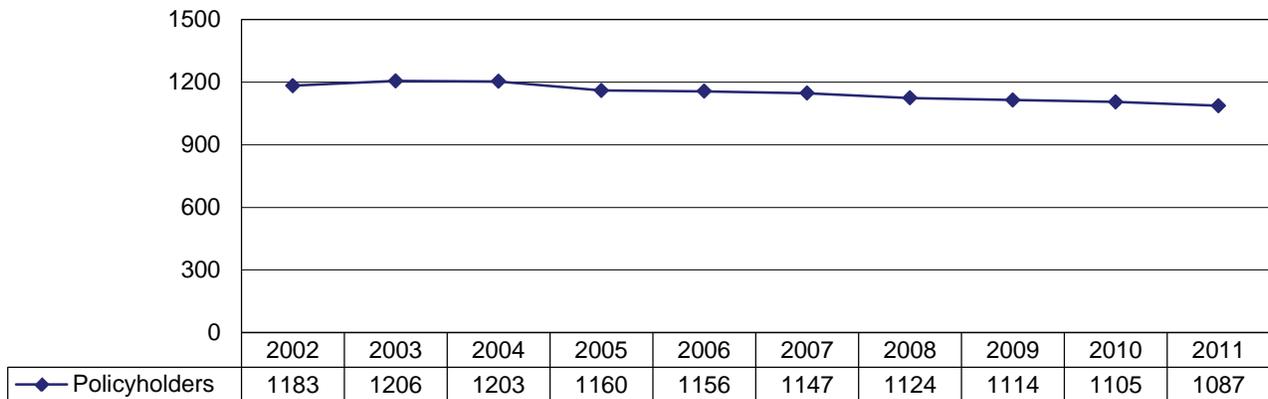
The Fund is established by ch. 605, Wis. Stat. The purpose of the Fund is to make property insurance available for local government units. The Commissioner of Insurance by law is designated as the Fund's manager. The Fund has one state employee who supervises day-to-day operations of the Fund by contracting for specialized services, such as claims and policy administration. The Fund's policy administrator is the ASU Group located in Madison, Wisconsin. The Fund's claim administrator is Crawford & Company located in Brookfield, Wisconsin.

During fiscal year 2011 the Fund continued to enhance program and administrative operations. Consistent with best practices, the Fund started the Request for Proposal process for a valuation contractor to conduct onsite appraisals of all buildings over \$500,000. The Fund

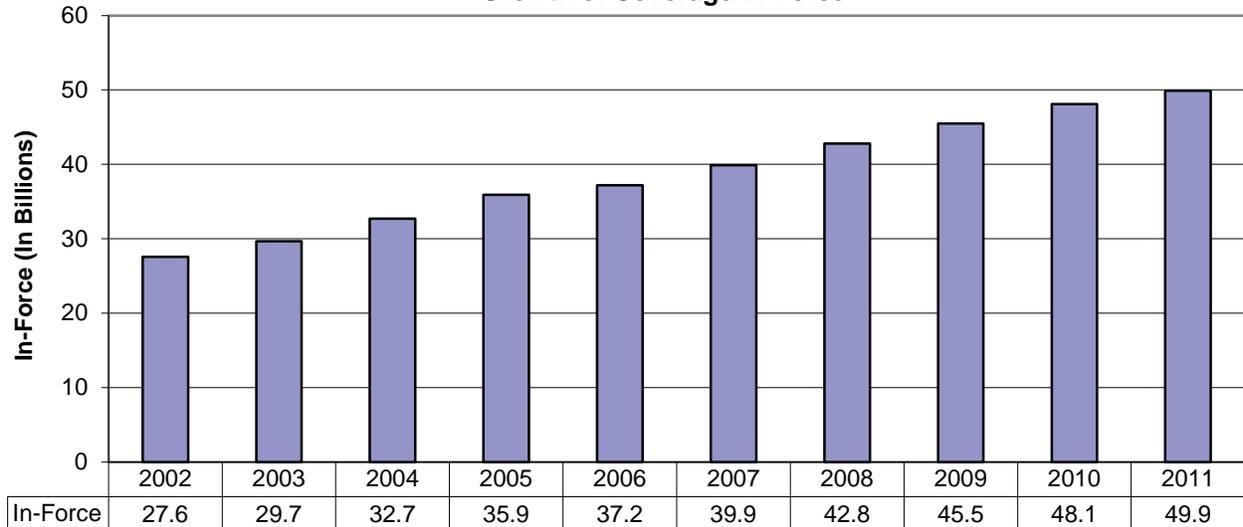
discontinued the coinsurance and standard policy and is now just offering the valuation policy. The Fund also continued working on revisions to its valuation policy and five endorsements.

As of June 30, 2011, the Fund insured 1,087 policyholders: 71 counties, 305 schools, 153 cities, 176 towns, 258 villages and 124 miscellaneous (libraries, etc.) jurisdictions. Combining new business and terminations, the overall number of policyholders decreased by 18 since the previous fiscal year-end. Two graphs are included that reflect changes in the Fund's policyholder base and growth in its insurance coverage in force. The Fund had 37 builder's risk policies at June 30, 2011, versus 3 as of June 30, 2010. The Fund began offering this coverage as a separate policy instead of by endorsement last fiscal year.

**Number of Policyholders  
Fiscal Years 2002- 2011**



**Local Government Property Insurance Fund  
Growth of Coverage In-Force**



The Fund's insurance coverage in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. The total amount of insurance coverage in force as of June 30, 2011, was \$50.0 billion, up from \$49.9 billion as of the previous fiscal year-end.

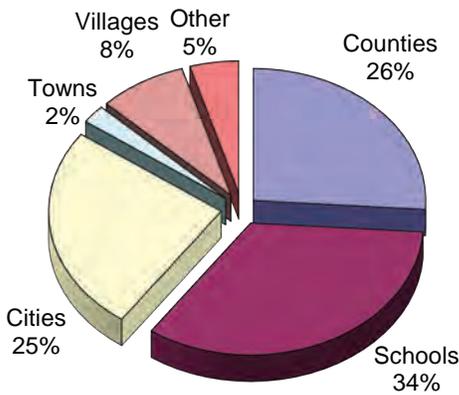
Three pie charts are included in this report reflecting the premium earned, the percent of policies by type of policyholder entity and a breakdown of the type of policy purchased.

The Fund's balance sheet and income statement for the fiscal year ending June 30, 2011, are included with this report. The Fund experienced an underwriting loss of approximately \$12.2 million following an underwriting gain of \$2.4 million the previous year. The underwriting loss is primarily due to claims of \$19.4 million for one

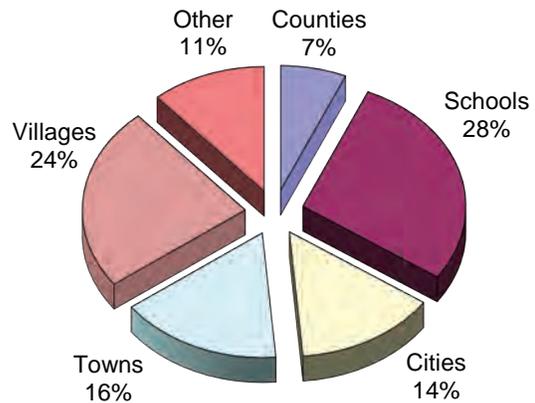
weather-related event that occurred over three days in July 2010 and caused significant damage to properties of multiple units of local government. The Fund maintains excess-of-loss insurance to help limit its exposure in circumstances such as these. After accounting for investment income and the remainder of the dividend issued in calendar year 2011, the Fund reported a net loss of \$11.8 million, putting surplus at \$20.1 million—a 60% decrease from prior year.

Fund management will continue to monitor insurance in force, claims trends and Fund surplus when evaluating the Fund's rating structure. The decline in surplus also affects the Fund's rates. The Fund actuarially determines rate increases or decreases in order to maintain adequate levels of surplus. Claims costs coupled with higher self-insured Fund reinsurance retention levels and reinsurance premium will continue to be factors considered in the rate-setting analysis.

**Direct Premium Earned by Entity Type  
Fiscal Year Ending June 30, 2011**



**Percent of Policies by Entity Type  
Fiscal Year Ending June 30, 2011**



**Percent of Policies by Policy Type  
Fiscal Year Ending June 30, 2011**



*Wisconsin Insurance Report Business of 2011*  
*Funds and Program Management, Local Government Property Insurance Fund*

Following are financial statements—balance sheet and income statements—for the Fund for the fiscal year ending June 30, 2011.

<b>Local Government Property Insurance Fund Balance Sheet—Statutory Basis June 30, 2011</b>	
<b>Assets</b>	
Bonds	\$16,155,618
Investment Fund	21,161,000
Cash at Treasury	533
Premiums Receivable	490,093
Reinsurance Recoverable	598,541
Interest Receivable	<u>72,312</u>
<b>Total Assets</b>	<b><u>\$38,478,097</u></b>
<b>Liabilities and Surplus</b>	
<b>Liabilities</b>	
Net Loss Reserves	\$13,074,718
Loss Adjustment Expenses Payable	299,896
Net Unearned Premiums	3,885,077
Reinsurance Payable	0
Premium Received in Advance	760,785
Dividends Payable	0
Other Expenses Payable	<u>351,625</u>
<b>Total Liabilities</b>	<b>\$18,372,101</b>
<b>Surplus</b>	
Surplus - Beginning of Year	31,971,963
Net Income	<u>(11,865,967)</u>
<b>Surplus - End of Year</b>	<b><u>20,105,996</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$38,478,097</u></b>

<b>Local Government Property Insurance Fund Income Statement—Statutory Basis June 30, 2011</b>	
<b>Premiums Earned</b>	
Direct Premium Earned	\$21,001,576
Reinsurance Ceded	<u>(5,532,836)</u>
<b>Net Premium Earned</b>	<b>\$ 15,468,740</b>
<b>Losses Incurred</b>	
Direct Losses Incurred	43,383,469
Reinsurance Loss Recoveries (Earned) Incurred	<u>18,654,547</u>
<b>Net Losses Incurred</b>	<b>24,728,923</b>
<b>Loss Adjustment Expenses</b>	<b>1,003,820</b>
<b>Other Underwriting Expenses</b>	<b><u>1,911,447</u></b>
<b>Total Net Losses and Expenses</b>	<b><u>27,644,190</u></b>
<b>Underwriting Loss</b>	<b>(12,175,450)</b>
<b>Investment &amp; Other Income</b>	
Investment Fund Earnings	<u>294,024</u>
<b>Net Investment Income</b>	<b><u>294,024</u></b>
<b>Net Income Before Dividends</b>	<b>11,881,426</b>
<b>Dividends to Policyholders</b>	<b><u>15,459</u></b>
<b>Net Loss</b>	<b><u>\$(11,865,967)</u></b>

### State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund has a manager and is supervised by the Commissioner.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low 1.1%. As of December 31, 2011, there were 27,011 policies in force.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of surplus to assets between 7% and 10%. In 2011, a distribution of \$2.1 million was paid to policyholders in the form of dividends.

Following are financial statements—balance sheet and income statements—for the Fund for the year ending December 31, 2011.

<b>State Life Insurance Fund Balance Sheet December 31, 2011</b>	
<b>Assets</b>	
Bonds	\$87,044,134
Policy Loans	3,772,903
Cash and Bank Deposits	2,052,439
Premiums Deferred & Uncollected	91,567
Investment Income Due & Accrued	1,532,805
Recoverable Reins.	<u>0</u>
<b>Total Assets</b>	<b><u>\$94,493,848</u></b>
<b>Liabilities and Surplus</b>	
Reserves for Life Policies & Contracts	\$63,397,206
Interest Maintenance Reserve	50,355
Policy Claims	148,000
Dividends Due and Unpaid (2011)	17,082
Dividends - Provision for 2012	2,127,667
Deposit Type Contracts	18,742,473
Unclaimed Property	37,718
Taxes, Licenses, Fees Accrued	717
Suspense and CANC Drafts	111,232
Expenses Due & Accrued	51,832
Back Up Withholding	684
Premiums Received in Advance	34,486
Asset Valuation Reserve	<u>201,739</u>
<b>Total Liabilities</b>	<b>\$84,921,191</b>
Surplus	<u>9,572,657</u>
<b>Total Liabilities and Surplus</b>	<b><u>\$94,493,848</u></b>

<b>State Life Insurance Fund Income Statement December 31, 2011</b>	
<b>Income</b>	
Premiums	\$1,699,427
Investment Income	5,299,106
Amortization of Interest Maintenance Reserve	47,186
Miscellaneous Income	<u>215</u>
<b>Total Income</b>	<b>\$7,045,934</b>
<b>Expenses</b>	
Death Benefits	1,085,971
Matured Endowments	197,000
Other Policy Benefits	1,112,838
Increase in Reserve	743,682
General Operating Expense	<u>548,075</u>
<b>Expenses before Dividends</b>	<b><u>3,687,566</u></b>
Net Gain before Dividends	<u>3,358,368</u>
Dividends to Policyholders	<u>2,102,603</u>
<b>Net Gain (Loss) from Operations</b>	<b><u>\$1,255,765</u></b>