NEW MEXICO
MEDICAL INSURANCE
POOL

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007
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NEW MEXICO MEDICAL INSURANCE POOL

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Independent Auditors' Report

Board of Directors
New Mexico Medical
Insurance Pool

We have audited the accompanying basic financial statements of the New Mexico Medical Insurance Pool (Pool), as of and for the years ended December 31, 2008 and 2007, as listed in the table on contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but no for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of December 31, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2009, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the
Board of Directors
New Mexico Medical
Insurance Pool

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The Pool has not presented management's discussion and analysis, budgetary comparison schedules, and ten year claims development information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Pool. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Mess Adams LLP

Albuquerque, New Mexico
July 28, 2009
NEW MEXICO MEDICAL INSURANCE POOL
BALANCE SHEETS
December 31, 2008 and 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$16,684,088</td>
<td>7,792,874</td>
</tr>
<tr>
<td>Assessments receivable</td>
<td>2,628,204</td>
<td>1,854,548</td>
</tr>
<tr>
<td>Receivable from administrator</td>
<td>1,614,848</td>
<td>1,396,778</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$20,927,140</strong></td>
<td><strong>11,044,200</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES AND NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated claims incurred but not reported</td>
<td>$7,110,000</td>
<td>5,312,000</td>
</tr>
<tr>
<td>Accrued claims processing costs</td>
<td>671,000</td>
<td>508,000</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>588,450</td>
<td>808,472</td>
</tr>
<tr>
<td>Payable to administrator</td>
<td>11,431,802</td>
<td>3,852,855</td>
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<tr>
<td>Accounts payable</td>
<td>52,654</td>
<td>40,718</td>
</tr>
<tr>
<td>Assessment refunds</td>
<td>551,079</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>20,404,985</strong></td>
<td><strong>10,522,045</strong></td>
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<tr>
<td><strong>Commitments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets-unrestricted</strong></td>
<td><strong>522,155</strong></td>
<td><strong>522,155</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$20,927,140</strong></td>
<td><strong>11,044,200</strong></td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.
NEW MEXICO MEDICAL INSURANCE POOL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Years Ended December 31, 2008 and 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$15,687,401</td>
<td>11,590,886</td>
</tr>
<tr>
<td>Assessments</td>
<td>49,018,813</td>
<td>29,397,664</td>
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<tr>
<td>Senior pharmacy assessment</td>
<td>29,887</td>
<td>92,960</td>
</tr>
<tr>
<td>Initial assessments</td>
<td>10,000</td>
<td>3,500</td>
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<tr>
<td>Grant income</td>
<td>950,000</td>
<td>1,121,553</td>
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<tr>
<td>Interest income</td>
<td>268,757</td>
<td>434,808</td>
</tr>
<tr>
<td>Other income</td>
<td>4,045</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>65,968,903</td>
<td>42,649,371</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims</td>
<td>62,538,484</td>
<td>41,423,384</td>
</tr>
<tr>
<td>Claims processing costs</td>
<td>2,618,301</td>
<td>1,892,544</td>
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<tr>
<td>General and administrative</td>
<td>812,118</td>
<td>662,029</td>
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<tr>
<td>Other expense</td>
<td>-</td>
<td>132</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>65,968,903</td>
<td>43,978,089</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating (loss) income</strong></td>
<td>-</td>
<td>(1,328,718)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>522,155</td>
<td>1,850,873</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$522,155</td>
<td>522,155</td>
</tr>
</tbody>
</table>

*See Notes to Financial Statements.*
NEW MEXICO MEDICAL INSURANCE POOL
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from policyholders and insurers</td>
<td>$ 64,089,477</td>
<td>39,206,762</td>
</tr>
<tr>
<td>Proceeds from grants</td>
<td>950,000</td>
<td>1,121,553</td>
</tr>
<tr>
<td>Payments for claims and claims processing costs</td>
<td>(55,676,286)</td>
<td>(40,765,385)</td>
</tr>
<tr>
<td>Payments to providers and suppliers</td>
<td>(740,734)</td>
<td>(552,834)</td>
</tr>
<tr>
<td>Interest received</td>
<td>268,757</td>
<td>434,808</td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td>8,891,214</td>
<td>(555,096)</td>
</tr>
</tbody>
</table>

Net increase (decrease) in cash and cash equivalents                       | 8,891,214     | (555,096)     |

Cash and cash equivalents, beginning of year                                | $7,792,874    | 8,347,970     |

Cash and cash equivalents, end of year                                       | $16,684,088   | 7,792,874     |

Reconciliation of changes in net assets to net cash provided by operating activities

| Change in net assets                                                      | $             | (1,328,718)   |

Adjustments to reconcile change in net assets to net cash provided by operating activities

| Changes in assets and liabilities                                        |               |               |
| Assessments receivable                                                   | (773,656)     | (1,790,811)   |
| Receivables from administrator                                           | (218,070)     | (473,060)     |
| Assessment refunds                                                       | 551,079       | -             |
| Estimated claims incurred but not reported                               | 1,798,000     | 1,633,000     |
| Accrued claims processing costs                                          | 163,000       | 202,000       |
| Unearned premiums                                                        | (220,022)     | 377,623       |
| Payable to administrator                                                 | 7,578,947     | 784,152       |
| Accounts payable                                                         | 11,936        | 40,718        |
| Total adjustments                                                        | 8,891,214     | 773,622       |

Net cash provided (used) by operating activities                            | $8,891,214    | (555,096)     |

See Notes to Financial Statements.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations. The New Mexico Medical Insurance Pool (Pool) was formed as an unincorporated not-for-profit entity by the New Mexico Legislature in 1987. The purpose of the Pool is to provide comprehensive health insurance coverage to eligible individuals.

The funding for the Pool, in addition to premiums received from policyholders, is provided by assessments against "insurers" that includes insurance companies authorized to transact health insurance in New Mexico, not-for-profit health care plans, health maintenance organizations. All insurers are required to be members of the Pool and must pay an initial assessment of $500.

Following the close of each fiscal year, the Board determines the need to levy an assessment and, if necessary, the assessment is made against insurers using a pro rata allocation based on health insurance written in the state of New Mexico during the previous calendar year. The Board may also make interim billings as may be reasonable and necessary for the organizational or interim operating expenses of the Pool. The Pool records assessment revenue at the time the Pool determines a premium deficiency is reasonably estimable, and to the extent the Pool has an enforceable legal claim to the assessments and the collectibility of the assessments is probable and reasonably estimable.

If assessments exceed actual losses and administrative expenses of the Pool, the excess assessments are refunded. Any deficit incurred by the Pool shall be recouped by assessments apportioned among the members as described above. Deficiency assessment revenues in the financial statements are shown net of assessment reversals, if any.

The Pool is administered by Blue Cross and Blue Shield of New Mexico (BCBSNM).

Basis of Presentation. The Pool is presented as an enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, the Pool follows all Government Accounting Standards Board (GASB) statements as well as all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, unless those FASB statements contradict GASB statements. The Pool has also elected to not apply FASB statements issued subsequent to November 30, 1989.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As a state-qualified public risk pool, the principal operating revenues of the Pool are premiums from policyholders, assessments against insurers in the State of New Mexico, and grant proceeds that subsidize the operation of the Pool.

Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All expenses of the Pool are considered operating expenses.

Cash and Cash Equivalents. Cash and cash equivalents consist substantially of cash in banks and repurchase agreements that are collateralized by financial securities at variable interest rates and recorded in the bank’s name. The Pool considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk. The Pool maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Pool has not experienced any losses in such accounts. The Pool’s management believes it mitigates the credit risk by depositing cash with major financial institutions. Management monitors the financial conditions of these financial institutions and does not believe any significant credit risk exists at this time. Cash and cash equivalents exceeding federally insured limits totaled $16,489,005 at December 31, 2008.

Accounts Receivable and Allowance for Doubtful Accounts. The Pool levies assessments against health insurers registered in the state of New Mexico on an annual basis. Interim billings are invoiced as necessary to provide sufficient revenue to continue Pool operation throughout the year. The invoiced amounts are due within 30 days. No allowance is provided for doubtful accounts receivable as management considers all accounts to be collectible based on past experience. Although not expected, in the event management determines an account uncollectible, the balance would be written off to bad debts expense.

Receivable from and Payable to Administrator. The administrator of the Pool, BCBSNM, initially pays for all claims and claims processing costs, and is reimbursed by the Pool. The administrator also bills and receives all premiums on behalf of the Pool, which are then passed onto the Pool. In exchange for all the administration services provided by the administrator, the Pool pays an administration fee on a per member per month basis at a rate of $36.75 and $35.75 for 2008 and 2007, respectively. All such
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

amounts are settled between the Pool and the administrator on a monthly basis. The receivable from administrator is considered fully collectible and accordingly, does not include a provision for bad debts.

Estimated Claims Incurred but not Reported. This liability represents benefits due policyholders and providers for services provided but not yet recorded or paid. The Pool’s actuarial estimate of this liability is based upon historical experience and subjective judgments. Accounting estimates are subject to change and the effects of such changes are recognized in the period in which they can be reasonably estimated.

Earned and Unearned Premium Revenue. Premium revenue is recognized as revenue in the month premiums are earned. Policyholders pay premiums monthly over their contract period, which is determined by the effective date of their policy. Policyholders who do not remit their premiums within 30 days of the monthly due date are eliminated from the plan. Delinquent premium payments are recognized as revenue upon collection and are not accrued.

Grant Revenue. The grant income is considered voluntary non-exchange revenue under governmental accounting standards. Accordingly, revenues are recorded when all underlying eligibility requirements have been met, which occurs when the Pool has incurred an allowable expenditure under the terms of the grant agreement.

Income and Premium Taxes. In management’s opinion the Pool provides an essential governmental function to its members as described in Section 115 of the Internal Revenue Code and, accordingly, the Pool is exempt from such taxes. No provision for such taxes is included in the accompanying financial statements.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
NOTE 2. RELATED PARTY TRANSACTIONS WITH BCBSNM

Included in claims and claims processing costs in the accompanying statements of revenues, expenses and changes in net assets are $2,455,302 and $1,690,545 in expenses associated with administration services provided by BCBSNM, including claims processing, premium billing and collection, and related matters for the years ended December 31, 2008 and 2007, respectively.

For its proportionate share of assessments, BCBSNM paid the Pool $5,371,765 and $2,933,905 in 2008 and 2007, respectively.

NOTE 3. LINE-OF-CREDIT

The Pool has a $2,000,000 line-of-credit from the Bank of Albuquerque, expiring in September 2009. Interest, payable monthly, is variable at the bank’s prime rate (4% at December 31, 2008). The line is secured by general accounts, assessments and premium receivables. There were no balances outstanding as of December 31, 2008 and 2007, respectively.

NOTE 4. LIABILITY FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The liability for claims and claim processing costs includes an amount determined from claims reports and an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of December 31, 2008 and 2007 have been based on an actuarial evaluation of the Pool’s historical claims experience, industry data, and other factors. Estimated claims processing costs are accrued when the related liability for unpaid claims is accrued, and represents the costs of paying the administrator to process all remaining claims, which is estimated at 3 months of typical administrative charges. While management believes that these estimates are adequate, actual incurred but unpaid claims and claim processing costs may vary significantly from the amount provided.
NOTE 4. LIABILITY FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES
(CONTINUED)

Changes in reserves for claims and claims processing costs were as follows for the years ended December 31:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability for claims and claims processing costs, beginning of year</td>
<td>$ 9,502,020</td>
<td>6,951,477</td>
</tr>
<tr>
<td>Incurred claims and claims processing costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years claims</td>
<td>(1,159,330)</td>
<td>(1,380,039)</td>
</tr>
<tr>
<td>Current year claims</td>
<td>66,316,115</td>
<td>44,695,967</td>
</tr>
<tr>
<td></td>
<td>65,156,785</td>
<td>43,315,928</td>
</tr>
<tr>
<td>Claims paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years claims</td>
<td>4,582,761</td>
<td>5,448,289</td>
</tr>
<tr>
<td>Current year claims</td>
<td>51,093,525</td>
<td>35,317,096</td>
</tr>
<tr>
<td></td>
<td>55,676,286</td>
<td>40,765,385</td>
</tr>
<tr>
<td>Liability for claims and claims processing costs, end of year</td>
<td>$ 18,982,519</td>
<td>9,502,020</td>
</tr>
</tbody>
</table>

Incurred claims and claim adjustment expenses for the years ended December 31, 2008 and 2007 includes (1,159,330) and (1,380,039), respectively, in favorable development on prior years' claims. The total liability for claims and claim adjustment expenses includes $11,201,519 and $3,682,020 that is included in the payable to administrator balance in the accompanying 2008 and 2007 balance sheets, respectively.
<table>
<thead>
<tr>
<th>Federal Grantor/ Program Title</th>
<th>Federal Program or CFDA Number</th>
<th>Award Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Health and Human Services</td>
<td>93.780</td>
<td>$ 950,000</td>
</tr>
<tr>
<td>Grants to States for Operation of Qualified High-Risk Pools</td>
<td>93.780</td>
<td>$ 950,000</td>
</tr>
</tbody>
</table>

**Total Department of Health and Human Services**

Note:
The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Board of Directors
New Mexico Medical
    Insurance Pool
Albuquerque, New Mexico

We have audited the basic financial statements of the New Mexico Medical Insurance Pool (Pool) as of and for the year ended December 31, 2008 and have issued our report thereon dated July 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pool's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the
Board of Directors
New Mexico Medical
    Insurance Pool
Albuquerque, New Mexico

Pool’s financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control. We consider the following deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting: 08-01.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The Pool’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Pool’s response and, accordingly, we express on opinion on it.
Board of Directors
New Mexico Medical
   Insurance Pool
Albuquerque, New Mexico

This report is intended solely for the information and use of management, the Board of Directors, and the Superintendent of Insurance at the New Mexico Public Regulation Commission, and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
July 28, 2009
Report On Compliance
With Requirements Applicable to Each
Major Program and Internal Control Over
Compliance in Accordance With
OMB Circular A-133

Board of Directors
New Mexico Medical
Insurance Pool
Albuquerque, New Mexico

Compliance

We have audited the compliance of New Mexico Medical Insurance Pool (Pool) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2008. The Pool’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Pool’s management. Our responsibility is to express an opinion on the Pool’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pool’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Pool’s compliance with those requirements.

In our opinion, the Pool complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.
Board of Directors  
New Mexico Medical  
Insurance Pool  
Albuquerque, New Mexico

Internal Control Over Compliance

The management of the Pool is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Pool’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pool’s internal control over compliance.

A control deficiency in an entity’s internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.
Board of Directors
New Mexico Medical
   Insurance Pool
Albuquerque, New Mexico

This report is intended solely for the information and use of management, the Board of Directors, the Superintendent of Insurance at the New Mexico Public Regulation Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
July 28, 2009
NEW MEXICO MEDICAL INSURANCE POOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 30, 2008

None
A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?
  [ ] Yes [ ] No

• Significant deficiency(s) identified that are not considered to be material weakness (es)?
  [ ] Yes [ ] No

Non-compliance material to financial statements noted?
[ ] Yes [ ] No

Federal Awards

Internal control over major programs:

• Material weakness (es) identified?
  [ ] Yes [ ] No

• Significant deficiency(s) identified that are not considered to be material weakness (es)
  [ ] Yes [ ] No

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?
[ ] Yes [ ] No

Identification of Major Program

CFDA Number Name of Federal Program or Cluster

93.780 Grants to States for Operation of Qualified High-Risk Pools

Dollar threshold used to distinguish between type A and type B programs

$300,000

Auditee qualified as low-risk auditee?
[ ] Yes [ ] No
B. FINDINGS - FINANCIAL STATEMENTS AUDIT

08-01 Segregation of Duties

CONDITION

We noted internal control process cycles in which there appears to be inadequate segregation of duties, including:

1. Cash Receipts Cycle: While cash receipts processed by the administrative staff of the Pool is often infrequent and informally segregated it was noted that the accountant has access to invoice insurance providers, receive checks in the mail, prepare deposit slips, make bank deposits, has access to post cash receipts and issue refunds, post journal entries and reconcile bank accounts.

2. Cash Disbursement Cycle: The accountant cuts checks, posts journal entries and reconciles bank accounts.

While the mitigating control is the review of journal entries and bank reconciliations, we noted the April operating account was not reviewed until July.

CRITERIA

The Pool is responsible for maintaining effective internal controls over financial reporting to reduce the chance of material misstatement due to error or fraud.

EFFECT

Inadequate segregation of duties, especially over cash handling functions, increases the opportunity for fraud to go undetected.

CAUSE

In the past the Pool did not have enough employees to ensure appropriate segregation of duties.
B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

08-02 Segregation of Duties (Continued)

RECOMMENDATION

The Pool has been growing quite rapidly over the past few years and as such several employees have been hired to assist with Pool functions. There does appear to be an adequate amount of staff on hand to ensure appropriate segregation of duties. The Pool should ensure the following functions are segregated:

1. Deposits not received at the lockbox should be made by someone other than the person responsible for receiving cash.
2. Cash receipts should be posted by someone other than the person responsible for issuing refunds.
3. Bank accounts should be reconciled by someone other than the person responsible for preparing checks or making deposits.
4. Journal entries and reconciliations should be reviewed timely.

MANAGEMENT RESPONSE

Blue Cross Blue Shield of New Mexico (BCBSNM) acknowledges the recommendations identified in this audit and agrees that the two internal control process cycles identified will benefit from the additional segregation of duties that may now be achieved by the additional staff in the NMMIP department. Since the beginning of 2008 (the period in review) the NMMIP staffing has doubled in size, increasing from 4 to 8, allowing a reassignment of tasks and allowing for a segregation of duties. The following changes have been made to the two process cycles identified during the audit:

1. Cash Receipts Cycle:
   - As noted within the audit; the majority of checks are mailed directly to a Bank of Albuquerque lockbox where the bank employees prepare and make the deposit. On the infrequent occasion when a check is sent directly to the Pool, the check is re-routed to the Bank of Albuquerque lockbox and a copy of the check and back-up documentation is made for tracking purposes. The NMMIP bank reconciliation is conducted on the first or second business day of the month by the NMMIP accountant and sent to the Secretary/Treasurer of the Pool Board of Directors. An independent reconciliation is conducted by BCBSNM Financial services unit.
B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

08-03 Segregation of Duties (Continued)

MANAGEMENT RESPONSE (CONTINUED)

2. Cash Disbursement Cycle:
   o The cash disbursement cycle is divided into several components:
     i. The NMMIP accountant and Coordinator alternate between the task of cutting the checks and posting the checks to the cash disbursement journal entry
     ii. The NMMIP Director reviews and approves the checks, journal entry and supporting documentation
     iii. The checks are reviewed and signed by one of the authorized individuals
     iv. The BCBSNM Financial Services Manager reviews the journal entry and reconciles bank accounts.
     v. The monthly detail of cash disbursements are presented to the board for review and approval

The mitigating control process currently in place is the review and approval of all journal entries, general ledger account reconciliation and bank reconciliations by the BCBSNM Financial Services Manager. The current process is to have the review conducted within the same month that the financial data are prepared. This review is conducted prior to presentation to the Board of Directors.
C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD

None