

REPORT HIGHLIGHTS



CAKE INSURE, INC. A SUBSIDIARY OF PINNACOL ASSURANCE
PERFORMANCE AUDIT, AUGUST 2018

PINNACOL ASSURANCE
CAKE INSURE, INC.

CONCERN

Pinnacol Assurance lacks written policies and procedures for tracking of expenses and aligning the estimated costs with actual costs related to services it provides to its subsidiary, Cake Insure, Inc. Without following consistent procedures, it is difficult for Pinnacol to determine whether it is over- or undercharging Cake Insure, Inc., for the costs of services.

KEY FACTS AND FINDINGS

- In November 2016 Pinnacol Assurance (Pinnacol) created a new internal division named Destiny. Destiny was created to develop a digital platform that would allow Pinnacol to offer insurance to the small business market in a quick and easy format. The development of the digital platform began in January 2017 and was completed in September 2017.
- As work continued on the digital platform, Pinnacol management began exploring the idea of creating a separate for-profit subsidiary for Destiny operations. Although Destiny and the digital platform could have remained within Pinnacol as a separate division, Pinnacol management determined that operating as a separate wholly-owned subsidiary with outside investors would be more beneficial to the company.
- In September 2017, Pinnacol created a for-profit subsidiary named Cake Insure, Inc., (Cake Insure). Cake Insure was created to market, sell, and service workers' compensation insurance for small business policies with less than \$10,000 in annual premiums that are not considered to be high risk.
- Cake Insure is not an insurance company and all policies sold by Cake Insure are carried by Pinnacol. Cake Insure was initially rolled-out in October 2017 and fully launched by January 2018.
- Cake Insure pays Pinnacol a monthly fee for providing management services. Pinnacol staff estimated the monthly fee based on a cost calculation of employees' predicted time for providing services; however, Pinnacol did not require employees to track the actual time they spent providing services to Cake Insure. Since Pinnacol has not established written policies and procedures for the calculation of the monthly fee, or performed a detailed review of its cost calculation, it cannot determine if it is adequately recovering its costs. Any gains or losses from the services could have financial reporting or tax obligations for Pinnacol and Cake Insure.

BACKGROUND

- Pinnacol Assurance is a political subdivision of the State that serves to ensure that Colorado employers have access to workers' compensation insurance coverage and the means to cover the cost of compensating injured workers and their dependents.
- As a quasi-governmental entity, Pinnacol is unique from other workers compensation entities in that statutes indicate that it is to operate like a mutual insurance company, yet it has the benefit of being exempt from certain state and federal taxes under the Internal Revenue Service.
- Pursuant to statute, Pinnacol is not allowed to provide any other type of insurance except workers compensation, and cannot own or operate another insurance company. Pinnacol may sell services and may enter into agreements with public or private entities for the purpose of carrying out its duties and functions.

KEY RECOMMENDATIONS

- Establish and implement written policies and procedures for calculating the monthly fee charged to Cake Insure.
- Require employees to track actual time worked on Cake Insure.
- Recalculate the fees charged to Cake Insure during Calendar Year 2017 and adjust the fees, as appropriate, to ensure that the fees align with the cost of services provided to Cake Insure during the year.