

# CITY OF HARTFORD

## INTERDEPARTMENTAL MEMORANDUM

**Date:** November 4, 2013

**To:** Dr. Christina Kishimoto, Superintendent of Schools  
Matthew Poland, Chair, Board of Education  
Pedro Segarra, Mayor

**From:** Craig S. Trujillo, Deputy Chief Auditor *CS7*

**Telephone:** 860-757-9952

**Subject:** Hybrid Insurance Group

At your request, we reviewed the concerns and questions relating to transactions with Hybrid Insurance Group, presented by the Chief Financial Officer, Hartford Public Schools in a memo to the Superintendent of Hartford Schools dated September 24, 2013.

This memorandum addresses the noted concerns regarding “standard operating protocols and practices were not followed”, “the existence of Fiduciary Liability coverage for the City of Hartford”, “lost a cost savings opportunity for the Fiduciary Liability Policy”, and the questions as to “why funds were wired directly to Hybrid in lieu of H.D. Segur, especially in light of the fact we had pending invoices from Segur?” and “is there a conflict of interest?” All other concerns relating to Hybrid’s misrepresentations and fraudulent or fiscal impropriety is now the subject of a Federal Grand Jury Investigation and we have not proceeded any further with our work in those areas so as not to interfere with the Grand Jury investigation.

We confirmed that \$868,244 for the payment of insurance premiums was wired by the City of Hartford (City) Treasurer’s Office to Hybrid Insurance Group (HIG) with the apparent verbal approvals of the former City Finance Director and City Treasurer on July 18, 2013 without following either existing established operating procedures or complying with existing accounting internal controls. The request by HIG for the payment of insurance premiums to them, instead of H.D. Segur, was sent to the City Treasurer, apparently, under the representation that the insurance would be cancelled by the insurance carriers for non-payment of premium. We found that:

- the wire transfer to HIG was not supported by invoices addressed to the City;
- a “Warrant” was not prepared by the City’s Finance Department which is required by the Treasurer’s Office to make a wire transfer because the accounting department staff was not informed of the transaction by the former Finance Director;
- the City Treasurer’s Office wired the funds to HIG based on a verbal approval between the former Finance Director and the City Treasurer rather than a “Warrant” as required;
- the recipient of the wire transfer, HIG, is not an approved vendor in the City’s financial system vendor data base;
- the wire is currently in an “open status”; there is no accounting entry for the expense side of the transaction; and,
- the City Finance Department and Treasurer’s Office have not produced documentation that there was or is a legal obligation requiring the City to pay HIG directly.

HIG's contractual agent agreement is with the City's insurance carriers and the contractual broker agreement is with the City's contracted insurance agent, H.D. Segur Insurance (HDSI) and not with the City as far as we could determine. The noted insurance premiums should have been remitted to HDSI, the City's agent, in compliance with the City's established operating procedures and internal accounting controls. HDSI, as the City's agent, would then remit the insurance premiums to HIG in accordance with their broker agreement. HIG would then remit the insurance premiums to the City's insurance carriers in accordance with the terms and conditions of HIG's agent agreements with those insurance carriers. Furthermore, the proper invoices received from HDSI by the City's accounting department for the \$868,244 insurance premiums were properly entered into the City's financial system for payment prior to the HIG wire transfer, in compliance with established operating procedures and accounting internal controls. We were informed that the HDSI payment was subsequently aborted by the City's accounting department, reportedly at the verbal direction of the former City Finance Director, who reportedly verbally approved the wire transfer to HIG in a conversation with the City Treasurer. While related operating procedures and accounting controls are in place, they were not adhered to by the former City Finance Director and Treasurer in this case. The payment of \$868,244 to HIG would not have occurred if standard operating procedures and controls were followed by the former Finance Director and the City Treasurer.

With respect to the Fiduciary Insurance policies which cover the Pension Commission members and Treasurer's Office employees directly related to the administration of the pension fund only, the support for the justification of these transactions are noted in the Pension Commission minutes as approved by the voting members of the Commission and with the concurrence of the City's Corporation Counsel. The authority of the Pension Commission to procure goods and services on the pension fund's behalf is stated in - "Pensions (Charter 1946, Chapter XVI, as amended)". It should also be noted that the City Treasurer is a non-voting member of the Pension Commission. With respect to the City having a Fiduciary insurance policy covering City employees, and for the need of such insurance, that responsibility rests with the City/HPS Risk Manager and not the Treasurer's Office or the Pension Commission as far as can be determined.

With respect to the concern about a conflict of interest, there is an appearance of a conflict of interest between the City Treasurer and HIG based on reported business dealings between the Treasurer's family real estate business and HIG as a tenant, the Treasurer's sibling being a lobbyist on behalf of HIG and other dealings between the Treasurer and HIG. We do not have the authority to obtain and examine evidential matter residing with entities other than the City of Hartford, in order to complete a thorough review into the appearance of a conflict of interest. Historically, we have referred conflict of interest reviews to the City's Ethics Commission for their review and appropriate action. Initially, we were going to recommend that this matter be referred to the City's Ethics Commission, which it still can be by us or the Mayor; however, with the new development of a Grand Jury Investigation, it is likely that this matter will be addressed by the Grand Jury in conjunction with their investigation into any commitment of potential criminal activity.

If you need further assistance in this matter, please contact the Internal Audit Department.

Copy: City Council Members  
Internal Audit Commission Members  
P. Campbell, Chief Auditor  
A. Cloud, City Treasurer