

LBA Financial Audit Report Summary:

Insurance Department Audit Report For The Year Ended June 30, 2000

Organization

The Insurance Department (Department) was established as an independent regulatory agency in 1851. The Department is under the executive direction of a commissioner who is appointed by the Governor, with the advice and consent of the Council, to a five-year term. In addition, the commissioner is authorized to appoint a deputy commissioner, subject to the approval of the Governor, to a five-year term. An assistant commissioner, director of examinations, actuary, workers' compensation analyst, health care policy analyst, health care statistician, and legal counsel are appointed by the commissioner to aid in the enforcement and execution of the insurance laws of the State.

At June 30, 2000, the Department employed 51 classified and seven unclassified employees and was organized into the following four divisions: Administration, Consumer Services, Regulatory Compliance, and Licensing and Examinations. At June 30, 2000, the Department also had oral agreements with 14 insurance examiners whom the Department regards as independent contractors. The Department underwent a reorganization during the fiscal year ended June 30, 2000. Prior to January 3, 2000, the Department was organized into seven divisions including: Administration, Consumer Services, Licensing, Examination, Life Accident and Health, Property and Casualty, and Fraud.

Responsibilities

The Department's responsibilities are enumerated in Title 37 of the Revised Statutes Annotated (RSA) and include, but are not limited to, the following:

- processing annual insurance company financial statements, premium tax returns, and collecting related premium tax revenues;
- processing new and renewal license applications for insurance companies, agents, brokers, adjusters, and consultants, and collecting the related licensing revenues;
- determining and enforcing statutory compliance with insurance laws, rules, and regulations;
- performing financial and market conduct examinations of licensed insurance companies to determine the company's financial condition, fulfillment of contractual obligations, and/or compliance with applicable laws;
- providing consumer assistance with complaints, inquiries, and resolutions; and
- regulating all segments of the insurance industry as it performs in the marketplace, particularly in the treatment of policyholders and claimants.

Funding

The Department is funded by appropriations in the State's General Fund. The cost of administering the Department is recovered through an administrative assessment and examination billings. The assessment is levied on insurance companies domiciled in the State and covers the administrative costs of operating the Department. The assessment is collected in advance on May 1 of each year. Examination costs are billed directly to the companies examined during the year. Fiscal year 2000 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$4,119,380 in the General Fund. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 2000 restricted revenue of \$3,689,211 in the General Fund. Fiscal year 2000 estimated unrestricted revenue totaled \$63,005,500. The following table summarizes the financial activity of the Department for the year ended June 30, 2000:

**Summary Of Revenues And Expenditures
For The Year Ended June 30, 2000**

	General Fund
Unrestricted Revenues	\$ 59,162,224
Restricted Revenues	<u>4,345,372</u>
Total Revenues	<u><u>\$63,507,596</u></u>
Expenditures	<u><u>\$ 4,297,383</u></u>
Excess (Deficiency) Of Revenues Over(Under) Expenditures	<u><u>\$59,210,213</u></u>

The auditor's report on the Insurance Department's financial statement was qualified with respect to the lack of presentation of the financial position of the Department in the General Fund and a limitation on the scope of our audit caused by the lack of documentation to support the amounts reported for fixed assets.

The audit report included auditor's reports on compliance and on internal control over financial reporting and on management issues. The following is a list of the comments in the report.

Internal Control Comments

Material Weakness

Examination Division

- Inadequate Review Of Premium Tax Returns Demonstrates Need For Additional Staff And Audit Function

Other Reportable Conditions

Examination Division

- Examiner Hours Worked And Travel Expenses Should Be Subject To A Documented Review Procedure
- Administrative Assessment And Examination Billing Processes Should Be Improved
- Written Policy Needed For Late Premium Tax Filers

Licensing Division

- Licensing Receipts Should Be Recorded And Deposited More Timely And Handling Of Receipts Should Be Limited
- Duties Should Be Properly Segregated In Licensing Process
- Licensing Employee Access Levels Should Be Reviewed

Administrative Division

- Formal Fraud Deterrence And Detection Program Should Be Established
- Formal Fraud Reporting Policy Should Be Established
- Equipment Should Be Surplused In A Timely Manner
- Date-Stamping Policy Should Be Adhered To
- Expenditure Allocation Methods Should Be Improved
- Standard Operating Procedure Manuals Should Be Established And Updated Regularly
- Accounting For Equipment Should Be Improved

Compliance Comments

State Compliance

- Compensation Payments To Contract Examiners Should Be Made In Compliance With State Statute
- Rules And Regulations Should Be Adopted As Required
- Organizational Rules Should Be Revised To Reflect Current Operating Structure
- Insurance Vending Machine Fees Should Be Reviewed

Management Issue Comments

- Independent Contractors Should Be Classified As Employees For Tax Purposes
- Written Contracts Should Be Required For Independent Contractors

- Part-Time Contract Examiner Health Insurance And State Holiday Pay Should Be Reviewed
- Fraud Prosecutor Should Be Treated More Like A Department Employee
- Automated Timekeeping/Billing System Needed For Examination Billings