

DEPARTMENT OF INSURANCE

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED OCTOBER 25, 2021

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
ERNEST F. SUMMERVILLE, JR., CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at www.la.la.gov.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.25. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3454 or Report ID No. 80210060 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Jenifer Schaye, General Counsel, at 225-339-3800.

Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Department of Insurance



October 2021

Audit Control # 80210060

Introduction

As a part of our audit of the State of Louisiana’s Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2021, we performed procedures at the Louisiana Department of Insurance (DOI) to provide assurances on financial information that is significant to the state’s Annual Comprehensive Financial Report; evaluate the effectiveness of DOI’s internal controls over financial reporting and compliance; and determine whether DOI complied with applicable laws and regulations.

We also performed procedures to evaluate certain internal controls DOI uses to ensure accurate financial reporting and compliance with applicable laws and regulations over the Louisiana Insurance Rating Assessment, payroll, monitoring activities of the Office of Financial Solvency, producer licensing fees, professional service contracts, the transition to a new financial system, and the internal audit function. In addition, we determined whether management has taken action to correct the finding reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the DOI management letter dated October 7, 2020. We determined that management has resolved the prior-year finding related to Failure to Certify and Approve Time and Attendance Records.

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the Annual Comprehensive Financial Report for the year ended June 30, 2021, we considered internal control over financial reporting and examined evidence supporting DOI’s insurance premium tax revenues and receivables. These taxes are collected quarterly. Taxes for surplus lines are based on the actual premiums written for each quarter, and taxes for all other premiums are based on the premiums written by the insurer in the previous calendar year.

The account balances and classes of transactions tested are materially correct.

Other Procedures

In addition to the Annual Comprehensive Financial Report procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing DOI's internal control and compliance with related laws and regulations over the Louisiana Insurance Rating Assessment, payroll, monitoring activities of the Office of Financial Solvency, producer licensing fees, professional service contracts, the transition to a new financial system, and the internal audit function.

Based on the results of these procedures performed, we did not report any findings.

Louisiana Insurance Rating Assessment

Approximately 6.6% of DOI's revenue collections consist of the Louisiana Insurance Rating Assessment. DOI collects these assessments from admitted property and casualty insurance companies. The assessments are based on the insurer's self-reported premiums in the prior calendar year for insurance lines that are subject to rate regulation. In accordance with Louisiana Revised Statute (R.S.) 22:1476, the assessment is allocated among the Municipal Fire and Police Civil Service Operating Fund, the Municipal Police Employees' Retirement System, the Sheriffs' Pension and Relief Fund, and the Firefighters' Retirement System. During fiscal year 2021, the DOI collected \$77.5 million from these assessments.

We recomputed assessments based upon premiums reported and the current assessment rate and compared this amount to the amounts reported in the general ledger. We recomputed the statutorily-required percentages of collections required to be transferred to the State Treasury for the Municipal Fire and Police Civil Service Operating Fund, the Municipal Police Employees' Retirement System, the Sheriffs' Pension and Relief Fund, and the Firefighters' Retirement System and agreed this to the amount of transfers out per the general ledger. Based on the results of our procedures, DOI had adequate controls in place to ensure that the Louisiana Insurance Rating Assessment revenues were properly assessed, recorded, and transferred to the appropriate entities.

Payroll

Salaries and related benefits comprised approximately 76% of DOI's expenditures for fiscal year 2021. We obtained an understanding of DOI's controls over the time and attendance function. We analyzed employees' time and attendance records for the period of July 1, 2020, through June 30, 2021, to ensure that employee time sheets were certified by employees and approved by supervisors. Based on the results of our procedures, DOI has implemented and adhered to its internal controls over certification and approval of timesheets.

We also reviewed DOI's controls over termination payments and analyzed leave payouts to terminated employees for the period of July 1, 2020, to June 16, 2021. Based on the results of our procedures, DOI had adequate controls in place to ensure payouts of accrued leave upon employee termination followed Civil Service and DOI policies.

Monitoring Activities – Office of Financial Solvency

The Office of Financial Solvency is responsible for examining and monitoring the financial condition of all insurers approved to conduct the business of insurance in Louisiana. In compliance with NAIC (National Association of Insurance Commissioners) guidelines, desk audits are performed for each company on a yearly basis. Additionally, on-site examinations of the Louisiana-domiciled insurers are conducted at least once every five years, as required by statute.

Desk audits consist of analyzing financial statements and other required filings, regulatory communications, industry reports/news, and consumer complaint data in order to detect financially troubled insurers. Upon conclusion of the desk audit, an Insurer Profile Summary (IPS) is completed and/or updated. It contains information about the company and conclusions reached during the risk-focused analysis.

On-site examinations are generally conducted by outside contractors hired by DOI. Upon completion of the field audit, an examination report is submitted to DOI. It is reviewed by the Deputy Commissioner of the Office of Financial Solvency and submitted to the Commissioner to be accepted, adopted, and filed as an official record of DOI.

We obtained an understanding of these monitoring activities and randomly selected 15 companies to determine if DOI was in compliance with department policy and revised statutes. We obtained and reviewed the most recent IPS and examination reports for each of the companies selected and assessed whether the monitoring was completed timely. Based on the results of our procedures, DOI had adequate controls in place to ensure adequate monitoring.

Producer Licensing Fees

An insurance producer is a person required to be licensed under Louisiana state law in order to sell, solicit, or negotiate insurance. This includes all persons or business entities otherwise referred to in the Louisiana Insurance Code as an insurance agent, broker, solicitor, or surplus line broker.

A company appointment is the method by which an insurance company authorizes an insurance producer, which can be an individual or a business entity, to represent the company to consumers. An insurance producer may submit business to an insurance company and an insurance company may accept business from an insurance producer prior to the submission or approval of an appointment. However, no commissions may be paid to an insurance producer by an insurance company until the appointment of that producer has been recorded with the Producer Licensing Division at DOI.

If a business entity is appointed, the licensed officers, directors, and affiliated individual producers have a right to solicit insurance on behalf of that insurance company. No separate appointment for those individuals is required. However, such solicitation may only be made on behalf of the appointed business entity, and any producer making an independent solicitation will require a separate appointment to the insurance company.

The Producer Licensing Division at DOI is responsible for the licensing of producers and the collection of applicable fees. Effective June 11, 2019, Act 226 of the 2019 Regular Legislative Session amended the fees for producer licensing, specifically company appointments. The initial company appointment of an individual increased from \$20 to \$30 and the renewal company appointment of an individual is \$20. Additionally, the new law establishes a fee for an initial company appointment of a business entity and a renewal fee, both in the amount of \$100 due annually. The additional assessment for business entities accounted for a \$10 million increase in self-generated revenues in fiscal year 2020, and the continued enforcement of the assessment for business entities contributed to an additional \$5.5 million increase in self-generated revenues in fiscal year 2021.

We obtained an understanding of DOI's controls over collection of fees, specifically company appointments, to determine if DOI complied with revised statutes. We obtained and reviewed listings of the initial and renewal company appointment fees for both individuals and business entities. Based on the results of our procedures, DOI complied with R.S. 22:821 as amended by Act 226 of the 2019 Regular Legislative Session.

Professional Service Contracts

DOI expended more than \$2.4 million in fiscal year 2021 for professional services, which includes contracts for information technology services, consulting services, legal services, accounting and auditing, and actuarial services. We obtained an understanding of DOI's controls over professional service contracts and reviewed selected contracts. Based on the results of our procedures, DOI has adequate controls in place to ensure contracts complied with state law, were properly approved by the Office of State Procurement, included defined deliverables and monitoring plans, and payments were recorded properly and were in accordance with the contract terms.

Transition to LaGov Financial System

During fiscal year 2021, DOI began transitioning to a new financial system called LaGov. This transition process is expected to be complete in fiscal year 2022. During the transition period, DOI's transactions are being recorded in both the legacy system and the LaGov system. We obtained an understanding of DOI's controls over the implementation of LaGov, and reviewed management's monthly reconciliations between the legacy system and LaGov. Based on the results of our procedures, DOI has adequate controls in place to ensure that transactions are being properly interfaced and recorded.

Internal Audit Function

We performed certain procedures that included obtaining, documenting, and reviewing internal controls and compliance with related laws and regulations over the internal audit function. Based on the results of the procedures performed, we found no issues or weaknesses that were required to be reported.

Trend Analysis

We compared the most current and prior-year financial activity using DOI's Annual Fiscal Reports and/or system-generated reports and obtained explanations from DOI's management for any significant variances.

We also prepared an analysis of premium taxes over the last five fiscal years (see Exhibit 1). Premium tax revenues have steadily increased each fiscal year due to rising insurance premiums and the addition of new health premiums written through the Medicaid-Enrollment Managed Care Organizations. Premium taxes for fiscal year 2021 increased by approximately \$90 million, or 9.4%, from fiscal year 2020, which was the largest annual increase over the last five fiscal years. This was primarily caused by an \$86 million increase in premium taxes for the Medicaid-Enrolled Managed Care Organizations due to Medicaid expansion.

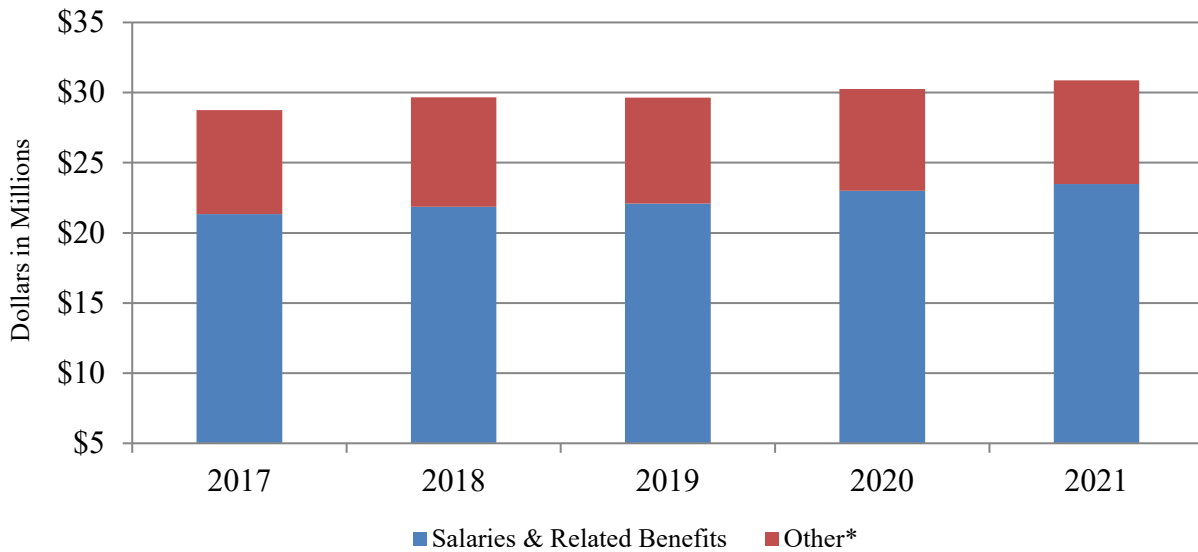
Exhibit 1
Premium Taxes Collected by Fiscal Year



Source: 2017-2021 Annual Reports

We also analyzed DOI's expenditures over the last five fiscal years (see Exhibit 2). As noted previously, salaries and related benefits comprise the majority of the DOI's expenditures. Other expenditures include travel, operating services, supplies, professional services, capital outlay, other charges, and interagency transfers. Total expenditures remained relatively consistent between 2020 and 2021, with salaries and related benefits increasing by 2.1% and other expenditures decreasing by 1.7%.

**Exhibit 2
Expenditures by Fiscal Year**



*Includes travel, operating services, supplies, professional services, capital outlay, other charges, and interagency transfers.

Source: 2017-2021 Business Objects Reports

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

BEM:CR:RR:EFS:aa

DOI2021

APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Insurance (DOI) for the period from July 1, 2020, through June 30, 2021, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana for the year ended June 30, 2021.

- We evaluated DOI's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DOI.
- Based on the documentation of DOI's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- We compared the most current and prior-year financial activity using DOI's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from DOI's management for significant variances.

In addition, we performed procedures on the Louisiana Insurance Rating Assessment, payroll, monitoring activities of the Office of Financial Solvency, producer licensing fees, professional service contracts, the transition to a new financial system, and the internal audit function. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at DOI, and not to provide an opinion on the effectiveness of DOI's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review DOI's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. DOI's accounts are an integral part of the state of Louisiana's Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.