STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Department of Insurance
State of Louisiana
Baton Rouge, Louisiana

February 12, 1997

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Baton Rouge, Louisiana

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996
With Supplemental Information Schedules

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 has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

February 12, 1997

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Special Purpose Financial Statements
and Independent Auditor's Reports
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With Supplemental Information Schedules

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

December 19, 1996

Independent Auditor's Report
on the Financial Statements

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Department of Insurance, a department within Louisiana state government, as of and for the year ended June 30, 1996, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Department of Insurance. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying special purpose financial statements present only the funds of the Department of Insurance. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. Furthermore, the financial statements have been prepared in accordance with accounting procedures prescribed by the Office of the Governor, Division of Administration, which is a comprehensive basis of accounting other than generally accepted accounting principles, the purpose of which is to reflect compliance with the annual appropriation acts and other state laws and regulations.

As discussed in note 11, the agency fund in the special purpose financial statements referred to previously includes 63 insurance companies and 30 subsidiaries or affiliated entities in the Office of Receivership for which the Department of Insurance has fiduciary responsibility. Because of the nature of these insurance companies and their subsidiaries and affiliates and the reasons they are in liquidation or rehabilitation, some of the assets and their valuation may not be known to the department. The ultimate discovery of these assets and their value cannot presently be determined, and we were unable to extend our procedures to determine the extent and valuation of these assets. Accordingly, the agency fund on Statement A and Schedules 1 and 2 contain only information that is known to the Department of Insurance as of June 30, 1996.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the extent and valuation of the assets mentioned previously, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Department of Insurance at June 30, 1996, and the transactions of the General Appropriation Fund for the year then ended, on the basis of accounting described in note 1-B.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 1996, on our consideration of the Department of Insurance's internal control structure and a report dated December 19, 1996, on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Department of Insurance taken as a whole. The accompanying supplemental information schedules are presented for the purpose of additional analysis and have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the extent and valuation of the assets mentioned previously, are stated fairly in all material respects in relation to the special purpose (legal basis) financial statements taken as a whole.

In accordance with Louisiana Revised Statute 24:516, our report is intended for the information and use of the department and its management and should be used solely as intended by the foregoing statute. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AOE:BJJ:dl

[DOI]

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1996

		NON-APPROPRIATED FUNDS		
	APPROPRIATED FUND - GENERAL APPROPRIATION	MAJOR STATE REVENUES AND INCOME NOT AVAILABLE	AGENCY FUND	TOTAL (MEMORANDUM ONLY)
ASSETS				
Cash and cash equivalents (note 1-C)	$658,036		$3,476,946	$4,134,982
Investments (note 1-D)			80,518,605	80,518,605
Receivables (note 2)	40,557	$36,913,233	208,544	37,162,334
TOTAL ASSETS	$698,593	$36,913,233	$84,204,095	$121,815,921
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	$228,005			$228,005
Payroll payable	321,882			321,882
Payroll deductions and accrued employee benefits payable			$140,366	140,366
Advances from state treasury (note 7)	35,000			35,000
Major state revenues and income not available due state treasury		$36,913,233		36,913,233
Other liabilities	11,668		84,063,729	84,075,397
Total Liabilities	596,555	36,913,233	84,204,095	121,713,883
Fund Equity - fund balance - unreserved - undesignated (note 8)	102,038	NONE	NONE	102,038
TOTAL LIABILITIES AND FUND EQUITY	$698,593	$36,913,233	$84,204,095	$121,815,921

The accompanying notes are an integral part of this statement.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 1996

REVENUES	
Appropriated by legislature - state General Fund by fees and self-generated revenues	$17,632,514
Federal funds	126,722
Total revenues	17,759,236
EXPENDITURES	
Personal services	8,046,209
Travel	248,853
Operating services	1,368,042
Supplies	190,781
Professional services	1,605,118
Other charges (note 10)	4,569,830
Capital outlay	576,562
Interagency transfers	642,802
Total expenditures	17,248,197
EXCESS OF REVENUES OVER EXPENDITURES	511,039
FUND BALANCE (Deficit) AT BEGINNING OF YEAR	(407,868)
ADJUSTMENTS (note 9)	(1,133)
FUND BALANCE AT END OF YEAR	$102,038

The accompanying notes are an integral part of this statement.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and Unexpended Appropriation - Budget Comparison of Current-Year Appropriation - Budget (Legal Basis) and Actual
For the Year Ended June 30, 1996

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature - state General Fund by fees and self-generated revenues	$17,215,514	$17,632,513	$416,999
Federal funds	261,518	126,516	(135,002)
Total appropriated revenues	17,477,032	17,759,029	281,997
EXPENDITURES			
Appropriated for:			
Administration	7,195,066	7,187,748	7,318
Market compliance	10,281,966	10,044,590	237,376
Total appropriated expenditures	17,477,032	17,232,338	244,694
UNEXPENDED APPROPRIATION - CURRENT YEAR	NONE	$526,691	$526,691

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Louisiana Department of Insurance was created in accordance with Title 36, Chapter 17 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. The department is required to adequately supervise and regulate insurance companies transacting business in the state to ensure competitive and available insurance that responsibly serves the insurance needs of Louisiana citizens. The department is operated under the direction of the commissioner of insurance who represents the public interest in the administration of the department and is responsible to the legislature and the public. The commissioner of insurance administers all parts of Title 22 of the Louisiana Revised Statutes (Insurance Code). The department is comprised of two programs and has 228 employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local government. These principles are found in the Codification of Governmental Accounting and Financial Reporting Standards, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles as explained in the following notes.

The State of Louisiana has been determined to be the reporting entity under generally accepted accounting principles. The accompanying financial statements represent activity of a department of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements.

A. FUND ACCOUNTING

The department uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, general fixed assets, and long-term liabilities are reflected in the State of Louisiana's general purpose financial statements.

The funds presented in the special purpose financial statements are described as follows:

GENERAL APPROPRIATION FUND

The General Appropriation Fund is the general operating fund of the Department of Insurance. It administers and accounts for the legislative appropriation provided to fund the general administrative expenditures of the department and those expenditures not funded through other specific legislative appropriations or revenues.

NON-APPROPRIATED FUNDS

Major State Revenues and Income Not Available

The department collects major state revenues that are remitted to the state treasury for deposit to statutorily dedicated funds. In addition, the department collects funds specifically identified by the Division of Administration, State Budget Office, as income not available that are remitted to the state treasury. These amounts are not available to the department for expenditure and, therefore, are not included on Statement B but are detailed on Schedule 3.

Agency Fund

The agency fund includes the Payroll Clearing Fund which accounts for payroll deductions and accrued benefits. It also includes the accounts for funds received from certain insurance companies and their subsidiaries and affiliates placed in rehabilitation or liquidation under the supervision of the court, as provided by Louisiana Revised Statutes (LSA-R.S.) 22:731-764. Disbursements from the fund are made by order of the court. These funds represent cash, cash equivalents, and investments which primarily consist of mutual funds, United States government securities, common and preferred stock, mortgage and promissory notes receivable, municipal bonds, and real estate held for resale. Accounts receivable are short-term receivables collected within 45 days.

The non-appropriated funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.

2. Expenditures are recognized to the extent that appropriation authority has been extended to the department and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures:

Revenues

The state General Fund fees and self-generated revenues and non-appropriated revenues are recognized in the amounts earned, to the extent that they will be collected within 45 days of the close of the fiscal year. Federal funds are recognized as revenue in the period in which they become susceptible to accrual or when the related expenditure is incurred in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section G60.109.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recorded as expenditures when paid. Furthermore, any expenditure of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

Cash in demand deposits	$3,060,727
Certificates of deposit	302,635
Cash on deposit with the state treasury	771,620
Total	$4,134,982

Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts held by the state treasurer. The department has deposit balances (collected bank balances) of $8,267,778 at June 30, 1996, for which the department has control. These deposits are secured from risk by $1,937,013 of federal deposit insurance, and $1,275,705 of pledged securities held by the department's agent in the department's name (GASB Risk Category 1), and $5,055,060 of pledged securities held for the department but not in the department's name (GASB Risk Category 3).

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by generally accepted accounting principles are included within the state's general purpose financial statements. The following is a summary of cash in the state treasury:

Means of finance	$429,188
FACS operating	202,066
Payroll clearing	140,366
Total	$771,620

D. INVESTMENTS

LSA-R.S. 22:739.1 authorizes the commissioner of insurance to invest monies held in any rehabilitation, liquidation, conservation, dissolution, and administrative supervision proceeding. Authorized investments include investments in or loans on United States or state general government obligations; bonds or notes secured by a mortgage or trust deed issued, assumed, guaranteed, or insured by the United States or an agency of the United States; conventional first mortgage loans capable of being securitized into guaranteed Federal National Mortgage Association mortgage backed securities; bonds issued by the Inter-American Development Bank or the African Development Bank; and first mortgage loans guaranteed by the administrator of veteran affairs.

At June 30, 1996, the department has the following investments totaling $80,518,605:

	Category of Risk	Carrying Amount	Market Value
Categorized:			
U.S. government securites	3	$3,838,693	$3,838,693
Common and preferred stock	3	10,100,215	10,101,660
Corporate bonds	3	65,881	65,894
Municipal bonds	3	2,147,214	2,147,201
Commercial paper	3	1	1
Total		16,152,004	16,153,449
Investments not categorized:			
Mutual fund		58,288,337	58,542,767
Notes receivable		4,049,505	4,054,505
Real estate		1,516,422	1,516,422
Furniture and fixtures		137,087	137,087
Other		375,250	433,461
Total		64,366,601	64,684,242
Total investments		$80,518,605	$80,837,691

Category 3, as defined by GASB Statement 3, includes investments unsecured and unregistered with securities held by the counterparty or by its trust department or agent but not in the department's name.

E. GENERAL FIXED ASSETS

At June 30, 1996, the department has stewardship responsibility for $2,331,835 in governmental movable property, valued at cost plus shipping and handling. Generally, new inventory purchases valued at $250 or less are not tagged and added to the movable property inventory. The movable property is not reflected within the accompanying special purpose financial statements. A summary of changes in movable property follows:

	Balance July 1, 1995	Additions	Deletions	Balance June 30, 1996
Movable property	$2,015,533	$442,824	$126,522	$2,331,835

In accordance with LSA-R.S. 39:321-332, the Department of Insurance has complied with the movable property statutes of the State of Louisiana.

F. LONG-TERM OBLIGATIONS

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from lease commitments, judgments, compensated absences, or any other source are not recognized in the accompanying special purpose financial statements.

G. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments relating to unperformed contracts for goods or services. The department employs encumbrance accounting during the year to ensure compliance with the annual appropriation act. The department has no encumbrances outstanding at June 30, 1996. Had there been any outstanding encumbrances, they would not have been reflected in the accompanying financial statements because the department does not have the ability to finance liquidation of encumbrances at June 30, 1996, as provided by LSA-R.S. 39:82.

H. BUDGET PRACTICES

The appropriations made for the general operations of the department are annual lapsing appropriations and are recorded in the General Appropriation Fund.

1. The budget process for the General Appropriation Fund is an annual appropriation valid for one year. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-B, except that federal receivables attributable to the payroll accrual at fiscal year-end are not recognized on Statement C. In addition, salaries and related benefits are recognized when paid on Statement C. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	$17,759,236
Less federal payroll receivable (net)	(207)
Statement C revenues	$17,759,029
Statement B expenditures	$17,248,197
Add prior-year payroll payable	306,023
Less current-year payroll payable	(321,882)
Statement C expenditures	$17,232,338

2. The department is prohibited by statute from over expending the programs established in the general appropriation act.

3. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as follows:

Original approved budget	$16,850,954
Amendments:	
Fees and self-generated revenue - administration	500,000
Federal funds - market compliance	126,078
Total	$17,477,032

4. The non-appropriated funds are not subject to budgetary control.

I. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual leave payable at June 30, 1996, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be $676,698 for the General Appropriation Fund. The leave payable is not recorded in the accompanying special purpose financial statements.

Certain employees of the department are eligible to earn compensatory time as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hours for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another. The liability for accrued compensatory leave at June 30, 1996, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be $16,762. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

J. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position. Neither is such data comparable to a consolidation.

2. RECEIVABLES

The following is a summary of receivables at June 30, 1996:

	Appropriated Fund - General Appropriation	Non-Appropriated		
		Major State Revenues and Income Not Available	Agency Fund	Total
Fees and other self-generated revenues		$36,913,233		$36,913,233
Federal funds	$20,943			20,943
Imprest fund reimbursement	19,614			19,614
Other			$208,544	208,544
Total	$40,557	$36,913,233	$208,544	$37,162,334

3. PENSION PLAN

Substantially all employees of the department are members of the Louisiana State Employees Retirement System (LASERS), a multiple-employer, defined benefit pension plan. Certain other employees of the department are members of the Louisiana Teachers Retirement System (TRS), a multiple-employer, defined benefit pension plan. Required disclosures for the plans for fiscal year 1996 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

4. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The department provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the department's employees become eligible for these benefits if they reach normal retirement age while working for the department. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the department. The department's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 1996, the cost of retiree benefits totaled $150,192 for 110 retirees.

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

6. LEASE OBLIGATIONS

The department has no capital leases but does have operating leases for office space and equipment. The annual rental payments for the next five years are as follows:

Fiscal Year	Office Space	Equipment	Other	Total
1996-97	$258,420	$97,800	$2,475	$358,695
1997-98	258,420	101,224	2,562	362,206
1998-99	258,420	104,766	2,651	365,837
1999-2000	258,420	108,432	2,744	369,596
2000-2001	258,420	112,228	2,841	373,489
Thereafter	258,420	116,156	2,940	377,516
Total	$1,550,520	$640,606	$16,213	$2,207,339

All lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. Total operating lease expenditures for fiscal year 1995-96 amounted to $362,131.

7. ADVANCE FROM STATE TREASURY

The department received an advance from the state treasury for imprest fund operations totaling $35,000. The advance, as reflected in Statement A, represents a liability and must be repaid if not authorized annually.

8. UNRESERVED - UNDESIGNATED FUND BALANCE

As shown on Statement A, at June 30, 1996, the department has an unreserved - undesignated fund balance of $102,038. Under provisions of the annual appropriation act, this amount, after adjustment, should be lapsed in the state treasury.

9. ADJUSTMENTS TO FUND BALANCE AT BEGINNING OF YEAR

Adjustments to the beginning fund balance of the General Appropriation Fund, as shown on Statement B, are detailed as follows:

Surplus remitted to state treasurer	$506
Adjustment of prior year expenditures	627
Total	$1,133

10. OTHER CHARGES

In accordance with the instructions of the Division of Administration, State Budget Office, certain expenditures of the department are designated as other charges. The other charges expenditures, as shown on Statement B, are detailed as follows:

Aid to local government	$4,568,138
Professional services	1,200
Other	492
Total	$4,569,830

Under generally accepted accounting principles, these expenditures would have been recognized within their proper expenditure categories and objects.

11. AGENCY FUNDS

The balance in the agency fund includes the payroll clearing account and the assets of insurance companies and their subsidiaries and affiliates in custody of the Department of

Insurance. The balance reported by the department at June 30, 1995, is shown below and is restated by the department to record additional transactions related to the prior year and make reclassifications of cash and cash equivalents, investments, and receivables reported in the agency fund.

	Reported Balance at June 30, 1995	Adjustments	Restated Balance at June 30, 1995
ASSETS			
Cash and cash equivalents	$46,867,537	$584,278	$47,451,815
Investments	64,529,038	(586,699)	63,942,339
Receivables	307,215	5,000	312,215
Total	$111,703,790	$2,579	$111,706,369
LIABILITIES			
Payroll deductions and accrued employee benefits payable	$133,093		$133,093
Other liabilities	111,570,697	$2,579	111,573,276
Total	$111,703,790	$2,579	$111,706,369

The restated balances reflect cash and cash equivalents, investments, and receivables that are known to the department. Because of the nature of these insurance companies and their subsidiaries and affiliates and the reasons they are in liquidation or rehabilitation, some of the assets and their valuation may not be known to the department and may subsequently be discovered during the liquidation of these various entities.

12. DEFERRED COMPENSATION PLAN

Certain employees of the department participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

13. STATUTORIALLY REQUIRED DEPOSITS

As provided by LSA-R.S. 22:1021-1029, insurance companies doing business in Louisiana are required to provide the commissioner of insurance with a safekeeping or trust receipt representing a security deposit from a bank doing business in Louisiana and/or a surety bond. At June 30, 1996, the commissioner of insurance reported deposits and/or surety bonds totaling

$182,196,908. These deposits and surety bonds are not included in the accompanying financial statements

14. SUBSEQUENT EVENT

On September 23, 1996, the Nineteenth Judicial District Court, State of Louisiana ordered adjudged and decreed that James M. Brown, Commissioner of Insurance, is granted the right to re-assume the performance of certain ministerial functions relative to insurance companies placed in conservation, rehabilitation, and/or liquidation (estates). These functions do not include the role as liquidator in any estate from which he has previously resigned. The decree appointed a special master to oversee the dissolution of the Louisiana Receivership Office as a corporation and another special master to approve and oversee all financial matters regarding all insurance companies presently in or which may be placed in conservation, rehabilitation, and/or liquidation.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1996

SCHEDULE OF CHANGES IN BALANCES

Changes in balances for the non-appropriated funds for the year ended June 30, 1996, presented on Schedule 1 includes 63 insurance companies and 30 subsidiaries or affiliated entities that are custodial in nature and administered in-house by the Office of Receivership. The department prepared the financial statements in accordance with requirements of the Louisiana Office of Statewide Reporting and Accounting Policy. Schedule I reflects only those assets that comply with those requirements. In addition, the Office of Receivership has other assets (noncurrent) totaling $9,203,303, which are not included in Schedule 1.

SCHEDULE OF ENDING BALANCES

The balances of assets for the non-appropriated funds including balances by individual insurance companies and their subsidiaries and affiliates are presented on Schedule 2.

SCHEDULE OF NON-APPROPRIATED REVENUES - MAJOR STATE REVENUES AND INCOME NOT AVAILABLE

Schedule 3 reflects major state revenues and income not available collected by the department during the year that were not available to the department for expenditure.

SCHEDULE OF PER DIEM PAID COMMISSION MEMBERS

The per diem paid Insurance Rating Commission members is presented on Schedule 4, as required by House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. In accordance with Louisiana Revised Statute 22:1401, each member is paid $50 for each day devoted to work of the commission.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED - AGENCY FUNDS

Schedule of Changes in Balances
For the Year Ended June 30, 1996

	Restated Balance June 30, 1995	Additions	Deletions	Balance June 30, 1996
ASSETS				
Cash and cash equivalents	$47,451,815	$27,498,189	$71,473,058	$3,476,946
Investments	63,942,339	82,919,357	66,343,091	80,518,605
Receivables	312,215	208,544	312,215	208,544
TOTAL ASSETS	$111,706,369	$110,626,090	$138,128,364	$84,204,095
LIABILITIES				
Payroll deductions and accrued employee benefits payable	$133,093	$4,023,431	$4,016,157	$140,367
Other liabilities	111,573,276	106,602,635	134,112,183	84,063,728
TOTAL LIABILITIES	$111,706,369	$110,626,066	$138,128,340	$84,204,095

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED - AGENCY FUNDS

Schedule of Ending Balances
For the Year Ended June 30, 1996

Payroll Clearing Fund	$140,366
Insurance Trust Funds	
Affiliated Employees Group, Incorporated	2,946
Alliance Casualty and Reinsurance Company	729,029
Alliance Management Group	7,955
American Funding Service, In Liquidation	680,979
American Lloyds Insurance Company	285,972
American Surety and Fidelity	201,873
ANA Insurance Group	3,526,872
Anglo-American Insurance Company	1,666,904
Arist National Insurance Company	722,815
Asbestos Abatement Purchasing Group	8,907
Associated Agencies, Incorporated	15,529
Associated Finance Corporation	26,254
Associated Insurance Consultants, Incorporated	185,961
Automotive Financial Services, Incorporated	874,573
Bell Financial, In Liquidation	622,889
Car Insurance Company	11,243,090
Cascade Insurance Company	1,901,508
Champion Insurance Company	710,359
Colonial Lloyd's	477,649
Denta Care	81,790
Dixie Lloyd's	106,614
Emerald Financial and Mortgage	84,802
Fidelity Fire and Casualty Insurance Company	685,083
Fidelity Life Insurance Company	595,703
First American Life Insurance Company	95,414
First Columbia Life Insurance Company	236,595
First Fidelity Life Insurance Company	270,579
First Republic Life Insurance Company	349,544
First Security Development	20,000
Galaxia Life Insurance Company	179,462
Gulf Coast Casualty	138,007
Gulf Coast Holding Company	5
Gulf Coast Premium Finance Company	185,853
Hunt's Golden State Life Insurance Company	49,649
Independence Life Insurance Company	433,785
Leme Reinsurance Limited	325,974

(Continued)

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED - AGENCY FUNDS
Schedule of Ending Balances, 1996

Insurance Trust Funds (Cont.)	
Liberty International, In Liquidation	$29,161
Liberty Lloyd's, Incorporated	5,292,914
Liberty Underwriting Managers, Inc.	129,216
Life Insurance Company of the South	20,000
Lloyd's Assurance of Louisiana, In Liquidation	8,297,485
Louisiana Receivership Office Fiduciary Trust Account	1,339,810
Louisiana Security Insurance Company	691,234
Louisiana Security Insurance Company - United Republic	32,417
Louisiana Security Insurance Company - Warranty Investment	20,662
Louisiana Underwriters Insurance Company	50,817
Mid-America Assurance Company of Louisiana	44,296
Mid-American Casualty	924,742
Midwest Life Insurance Company	7,065,090
National Baptist Benefit Society	5,436
National Republic Life Insurance Company	84,556
The National Society of Health	4,648
New England International Surety	1,641,546
North American Indemnity Company	2,636,237
Old Hickory Casualty	299,658
Pelican State Mutual	993,204
Physicians Medical Indemnity Association	3,212,227
Physicians National Risk Retention Group	13,477,733
PNRRG Leasing Company	232,817
Premier General Agency, Incorporated	293
Presidential Fire and Casualty	730,867
Public Investors Life Insurance Company	1,625,975
Savings Life Insurance Company	1,272,690
South Central Insurance Company	1
Sovereign Fire and Casualty Insurance Company	118,682
Standard Benevolent and Burial Association	546,054
Summit Insurance Plan Trust	1,323,347
Sunbelt Life Insurance Company	78,777
Superior Life Insurance Company	580,290
United States General Agency, In Liquidation	3,478,906
World Health Foundation Trust	51,018
Total Insurance Trust Funds	84,063,729
Total Agency Funds	$84,204,095

(Concluded)

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
MAJOR STATE REVENUES AND
INCOME NOT AVAILABLE

Schedule of Non-Appropriated Revenues
For the Year Ended June 30, 1996

NON-APPROPRIATED REVENUE FUND SOURCE	CASH RECEIPTS THROUGH JUNE 30, 1996	ACCOUNTS RECEIVABLE JUNE 30, 1996	TOTAL REVENUES
Income not available	$8,006	$5	$8,011
Major state revenues:			
Taxes	116,065,273	36,913,228	152,978,501
Assessments - municipal fire and police civil service	722,362		722,362
Subtotal - major state revenues	116,787,635	36,913,228	153,700,863
Total non-appropriated revenues	$116,795,641	$36,913,233	$153,708,874

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Schedule of Per Diem Paid Commission Members
For the Year Ended June 30, 1996

	NUMBER	AMOUNT
Carl J. Barbier	8	$400
Thomas Bessleman	15	750
Bryan Briggs	12	600
Doug Foreman	21	1,050
Michael D. Franks	13	650
Charles Kirsh, Jr.	40	2,000
Thomas H. Kronenberger	4	200
William M. Thomason	6	300
Total		$5,950

OTHER REPORTS REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain reports on internal control structure and compliance with laws and regulations required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report on internal control structure is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses. The report on compliance with laws and regulations is, likewise, based solely on the audit of the presented financial statements and presents, where applicable, compliance matters that would be material to the presented financial statements.

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

December 19, 1996

Independent Auditor's Report on Internal Control Structure Based Solely on an Audit of the Special Purpose Financial Statements

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Department of Insurance, a department within Louisiana state government, as of and for the year ended June 30, 1996, and have issued our report thereon dated December 19, 1996. The opinion to the special purpose financial statements was qualified in that there may be some assets relating to insurance companies and their subsidiaries and affiliates that are not known and reported in the agency fund, and we were unable to extend our procedures to determine the extent and valuation of these assets.

Except as discussed in the first paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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.

Management of the Department of Insurance is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of special purpose financial statements in accordance with procedures prescribed by the Office of the Governor, Division of Administration, which is a comprehensive basis of accounting other than generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the special purpose financial statements of the Department of Insurance for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted the matters contained in Exhibit C involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special purpose financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions contained in Exhibit C are material weaknesses.

This report is intended for the information and use of the department's management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AOE:BJJ:dl

[DOI]

EXHIBIT A

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

December 19, 1996

Independent Auditor's Report on Compliance With Laws and Regulations Material to the Special Purpose Financial Statements

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Department of Insurance, a department within Louisiana state government, as of and for the year ended June 30, 1996, and have issued our report thereon dated December 19, 1996. The opinion to the special purpose financial statements was qualified in that there may be some assets relating to insurance companies and their subsidiaries and affiliates that are not known and reported in the agency fund, and we were unable to extend our procedures to determine the extent and valuation of these assets.

Except as discussed in the first paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws and regulations applicable to the Department of Insurance is the responsibility of management of the department. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws and regulations. However, the objective of our audit of the special purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the instances of noncompliance in Exhibit C that, although not material to the financial statements, are required to be reported herein under *Government Auditing Standards*.

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Compliance Report
December 19, 1996
Page 2

We considered these instances of noncompliance in forming our opinion on whether the Department of Insurance's 1996 special purpose financial statements are presented fairly, in all material respects, in conformity with procedures prescribed by the Office of the Governor, Division of Administration, which is a comprehensive basis of accounting other than generally accepted accounting principles, and this report does not affect our report dated December 19, 1996, on those special purpose financial statements.

This report is intended for the information and use of the department's management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AOE:BJJ:dl

[DOI]

EXHIBIT B

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Internal Control and Compliance Comments
As of and for the Year Ended June 30, 1996

In our consideration of the internal control structure of the Department of Insurance as of and for the year ended June 30, 1996, we noted the matters contained in the following paragraphs that we consider to be weaknesses in the department's system of internal control and instances of noncompliance with laws and regulations.

REPORTABLE CONDITIONS

Ineffective Internal Audit Function

The Department of Insurance does not have an effective internal audit function. This function should provide assurances to management that assets of the department are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations as designed by management, and procedures are sufficient to prevent or detect errors and irregularities in a timely manner. The internal auditor completed five special assignments relating to departmental operations. However, these assignments appear to be operational in nature rather than related to internal accounting controls and/or compliance with laws and regulations, and the assignment was not always assigned by the commissioner as prescribed. Examples of these problems included:

1. An operational investigation into the mail and telephone systems in use by the department, and the communication problems between two divisions.

2. A review of statutory deposits assigned by the Assistant Commissioner of Management and Finance, rather than by the Commissioner's Office, to whom the function was designed to report.

3. The internal auditor's files lacked formal audit plans, audit programs, and working papers.

4. The internal auditor performed no audit work at the Office of Receivership representing total assets and additions of approximately $84 million and $106 million, respectively, at June 30, 1996.

Considering that the department has assets totaling approximately $121 million and revenues of approximately $171 million as of and for the year ended June 30, 1996, and has fiduciary responsibility for 93 insurance estates, an effective internal audit function is needed to ensure the safeguarding of assets and compliance with state laws and departmental regulations.

The department should improve the effectiveness of its internal audit function by ensuring that audits are directed toward internal accounting controls and/or compliance and that the audits are properly planned and performed. Detailed audit plans should be developed describing the scope of work necessary to meet the audit objectives. In addition, the initiation and progress of the audits should be supervised by the Commissioner's Office. Finally, audit programs and working papers should adequately document work performed, including evidence of supervision and review. In a letter dated October 28, 1996, Ms. Brenda St. Romain, Assistant Commissioner, Office of Management and Finance, stated, "The Internal Auditor of the Department of Insurance performs his duties in strict conformance with the job description and job specification approved for his position by the Civil Service Commission. The Department of Insurance has found no statute or regulation requiring an Internal Auditor to restrict his activities as described in the Legislative Auditor's report.

"It is the mission of the Internal Auditor for the Department of Insurance to monitor internal controls and identify cost saving measures that will result in greater efficiencies in the operations of this office. The Department acknowledges that it is important to monitor financial accountability, however, in the Department's opinion it is short sighted to ignore management functions and responsibilities which effect [*sic*] the over all operations and ultimately impact the budget of this office.

"Effective October 5, 1995, the Office of Receivership operated under the control and administration of the Nineteenth Judicial District Court pursuant to an order signed and issued by Judge A. Foster Sanders. For this reason, the internal auditor was unable to do audit work at the Office of Receivership."

Additional Comment: Internal controls include the monitoring of financial accountability, which the department acknowledges. The work performed by the internal auditor for the fiscal year did not adequately address controls over financial accountability. Considering the control and compliance findings contained in this report and the dollar magnitude of assets and revenues, we believe that an effective internal audit function is needed.

REPORTABLE CONDITIONS/COMPLIANCE COMMENTS

Inadequate Monitoring of Statutory Deposits

The Department of Insurance did not adequately monitor statutory deposits to ensure compliance with state law. The commissioner of insurance is charged with administering the provisions of the Louisiana Insurance Code and may promulgate rules and regulations that he determines are necessary for implementation of the law. Louisiana Revised Statutes (LSA-R.S.) 22:1021 and 1023 require insurance companies doing business in Louisiana to provide the commissioner of insurance with a safekeeping or trust receipt representing a security deposit from a bank doing business in Louisiana and/or a surety bond. These surety bonds must be renewed annually before the first of March. The purpose of these deposits (securities and surety bonds) is to assure faithful performance of each insurer of its obligations to policyholders. Specific internal procedures have been developed by the department to ensure that all insurance companies are complying with the law; however, these procedures have either not been followed or not been started.

In a review of surety bonds and the statutory deposit system for all active insurance companies, we found that the statutory deposit system contained the following errors and/or instances of noncompliance at June 30, 1996:

- The inclusion of 58 of 62 matured surety bonds totaling $5,050,000, in the department's notes to the financial statements at June 30, 1996, is questionable because company files do not include either a continuation certificate or a cancellation notice on these bonds. In addition, 40 of the bonds, totaling $3,200,000, are for 40 companies that may not have sufficient deposits, ranging in amounts from $20,000 to $100,000, if in fact the surety bonds have been canceled. Also, one of these companies is deficient in deposits by $50,000, even if the surety bond is active, and, therefore, policyholders are at risk for nonpayment of claims. Finally, four bonds, totaling $400,000, were identified as canceled, resulting in an overstatement in the note.

- Three surety bonds, totaling $450,000, were not reported by the department, resulting in an understatement of the note.

- Deposits for five companies that have sufficient deposits, totaling $340,000, were not included, resulting in an additional understatement in the note.

- One company did not have any deposits even though it was required to have $150,000. Again, the policyholders of this company are at risk for nonpayment of claims.

We have proposed an adjustment for the known errors netting to $390,000, which has been accepted by the department as a correction to the note.

Management should ensure that departmental procedures for surety bonds are followed so that all insurance companies will maintain deposits at the required amounts. The notes to the financial statements should reflect current amounts. Management should seek a legal opinion to resolve the apparent statutory conflict between the statute that requires the surety bonds to be renewed annually and the statute that provides that the last bond filed remains in effect until a new bond is filed. In a letter dated December 9, 1996, Ms. Brenda St. Romain, Assistant Commissioner, Office of Management and Finance, stated that the Office of Financial Solvency has established procedures for monitoring statutory deposits and the employee that failed to follow these procedures is no longer responsible for this function. Also, it is the department's opinion that there is no statutory violation where there are surety bonds on deposit with the department since the last bond remains in effect until the bond is renewed or canceled. In addition, the department is correcting the situation for the two companies that did not have the required deposits. Finally, enhancements have been made to the automated system to produce additional reports that will provide for better checks and balances to ensure that all insurers have a current statutory deposit on file with the department.

Undersecured Bank Deposits

The Department of Insurance, Office of Receivership, did not ensure that adequate securities were pledged for all deposits in its bank accounts. Louisiana Revised Statute (LSA-R.S.) 49:321(C) provides in part that the market value of securities held by any depositing authority together with government deposit insurance (FDIC) shall be equal to 100 percent of the amount on deposit. Although LSA-R.S. 49:321(D) provides a grace period of five days for collateralization, frequent, short periods of uncollateralized balances result in the risk of loss due to bank failure. Our examination disclosed that, at different times during the year, uncollateralized demand deposits ranging in amounts from $18,829 to $698,831 were held by Hancock Bank. This condition occurred because the Office of Receivership has not developed detailed monitoring procedures for securities pledged by banks to guarantee deposits.

The Office of Receivership should establish detailed procedures to monitor the adequacy of securities pledged by banks on deposit balances. In a letter dated October 14, 1996, Ms. Brenda St. Romain, Assistant Commissioner, Office of Management and Finance, stated, "Effective October 5, 1995, the Office of Receivership operated under the control and administration of the Nineteenth Judicial District Court pursuant to an order signed and issued by Judge A. Foster Sanders.

"The Office of Receivership has established procedures to monitor the adequacy of securities pledged by banks on deposit balances. The employee that failed to follow these procedures is no longer with the Department."

Inadequate Controls Over Licensing and Noncompliance

The Department of Insurance, Licensing Division, did not have adequate controls and documentation over revenues from agent licenses and related penalties and company appointments (authorizations to represent an insurer). An adequate control system requires that policies and procedures be established and implemented that provide for the reconciliation of licenses issued and company appointments to receipts, as well as the maintenance of complete and orderly records to support those transactions.

LSA-R.S. 22:1113(E)(3) requires a $25 late fee for any licensee who fails to file timely for renewal. The department defines a late application as postmarked after the filing due date.

Our tests of revenues disclosed the following:

- Our test of one day's receipts (a batch) totaling $14,096 could not be completed because the department lost the licensing documents. Although the receipts were deposited, the supporting documents were never located.

- Five of 20 (25 percent) company appointments tested did not have their company's schedule of agents in the department's file. The schedule is used to determine that an agent is authorized to sell insurance for a particular company and that the appropriate fee has been paid to the department.

- Four of 61 (7 percent) agent renewal applications tested were not received in a timely manner and the agents/companies were not charged a penalty. In addition, another 11 applications did not include documentation of the postmark. Without the postmark, we could not determine the timeliness of the receipt of the application or whether a late penalty should have been assessed.

These exceptions resulted from the lack of comprehensive written policies and procedures and from employee errors. Failure by the department to maintain an adequate control structure within the Licensing Division increases the risk that errors and/or irregularities could occur and not be detected in a timely manner and subjects the department to noncompliance with state law.

The department should review the organizational structure of the Licensing Division, establish written policies and procedures for licenses, maintain records to support the transactions, and ensure that all fees and penalties have been assessed and subsequently collected in a timely manner. Renewal applications should be date stamped upon receipt. In a letter dated December 4, 1996, Ms. Brenda St. Romain, Assistant Commissioner, Office of Management and Finance, stated that as a result of the department's own internal audit earlier this year, the department had already implemented a new organizational structure and new policies that address our audit recommendations.

Inadequate Payroll Controls

The Department of Insurance did not comply with Civil Service Rule 15.2, the department's policies and procedures, or the Office of State Uniform Payroll On-Line System User's Manual relating to the certification and verification of employee time and attendance records. During our review of payroll documents for 24 employees covering 15 pay periods, we noted the following:

- Two employees' time sheets were processed without a supervisor's approval. As a result, we expanded our test and reviewed all time sheets in one pay period, which indicated an additional seven employees' time sheets were processed without a supervisor's approval.

- Five employees had prior period adjustments for leave processed without evidence that the Uniform Payroll System's Prior Pay Period Adjustment Form was completed. Although other supporting documentation was available for the adjustments, the Prior Pay Period Adjustment Form is required to be completed by the Office of State Uniform Payroll.

Because management has not placed sufficient emphasis on compliance with applicable payroll policies and regulations, the risk increases that errors and/or irregularities could occur and not be detected in a timely manner.

The department should re-emphasize all payroll policies and procedures regarding the certification and verification of time and attendance records to its employees. In a letter dated December 4, 1996, Ms. Brenda St. Romain, Assistant Commissioner, Office of Management and Finance, expressed that in each case the department felt that it met all rules and regulations. However, she stated that the time reports for the nine employees in question, who are top level supervisors, will now be approved by the Assistant Commissioner/Deputy

Commissioner of their respective divisions. Also, the Prior Period Adjustment Form will now be used.