

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Insurance
State of Louisiana
Baton Rouge, Louisiana

December 22, 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, 1997
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.

December 22, 1997

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997
With Supplemental Information Schedules

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Contents, June 30, 1997

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Financial Statements

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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December 15, 1997

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, 1997, 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 the standards applicable to financial audits contained in 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 special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose 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 57 insurance companies and 27 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

LEGISLATIVE AUDITOR

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Audit Report, June 30, 1997

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 contains only information that is known to the Department of Insurance as of June 30, 1997.

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, 1997, 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 15, 1997, on our consideration of the Department of Insurance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

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 special purpose 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 24:5-10, 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. Kyles, CPA, CFC
Legislative Auditor

ACE-BLI-97-01

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

Balance Sheet (Legal Basis), June 30, 1987

	NON-APPROPRIATED FUNDS			TOTAL (MEMORANDUM ONLY)
	APPROPRIATED FUNDS - GENERAL APPROPRIATION	REVENUE AND INCOME NET AVAILABLE	AGENCY FUNDS	
ASSETS				
Cash and cash equivalents (note 1-C)	\$1,000,000		\$2,104,000	\$3,104,000
Investments (note 1-B)			\$2,104,000	\$2,104,000
Receivables (note 1)	1,789,000	\$20,264,700	187,000	22,140,700
TOTAL ASSETS	\$2,789,000	\$20,264,700	\$24,395,000	\$27,448,700
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$10,000		\$44,000	\$54,000
Payroll payable	300,700			300,700
Payroll deductions and accrued employee benefits payable			140,000	140,000
Advances from state treasury (note 2)	0			0
Major state liabilities and income and available due to state treasury		\$20,264,700		20,264,700
Due to state treasury (note 1-D)	1,249,000			1,249,000
Accounts held in custody for others			\$4,441,000	\$4,441,000
Other liabilities	11,000			11,000
Total Liabilities	\$1,570,000	\$20,264,700	\$48,885,000	\$20,619,700
Fund Equity - Surplus/Deficit - unreserved - unexpended (note 2)	1,219,000	0	0	1,219,000
TOTAL LIABILITIES AND FUND EQUITY	\$2,789,000	\$20,264,700	\$48,885,000	\$21,838,700

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, 1997

REVENUES

Appropriated by legislature - state General Fund	
by fees and self-generated revenues	\$28,890,300
Federal funds	151,831
Total revenues	<u>31,255,131</u>

EXPENDITURES

Administration/fiscal	7,331,348
Market compliance	12,113,187
Total expenditures	<u>19,444,535</u>

EXCESS OF REVENUES OVER EXPENDITURES	1,957,100
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OTHER APPROPRIATED FINANCING USES

Transfers out (note 10)	<u>(1,248,682)</u>
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EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	328,198
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FUND BALANCE AT BEGINNING OF YEAR	102,838
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ADJUSTMENTS (note 8)	<u>553,342</u>
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FUND BALANCE AT END OF YEAR	<u>31,248,498</u>
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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, 1987

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Appropriated by legislature - state General Fund by fees and self-generated revenues			
	\$21,525,842	\$15,513,390	(\$6,012,452)
Federal funds	273,441	131,348	(142,093)
Total appropriated revenues	<u>22,099,283</u>	<u>15,644,738</u>	<u>(6,454,545)</u>
EXPENDITURES			
Appropriated for:			
Administrative/official	6,187,708	7,327,268	1,139,560
Market compliance	12,887,898	12,871,373	16,525
Total appropriated expenditures	<u>19,075,606</u>	<u>20,198,641</u>	<u>1,123,035</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR			
	<u>NONE</u>	<u>\$368,087</u>	<u>\$368,087</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

**Notes to the Financial Statements
As of and for the Year Ended June 30, 1997**

INTRODUCTION

The Louisiana Department of Insurance was created in accordance with Title 30, Chapter 17 of the Louisiana Revised Statutes of 1985, 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 176 employees.

Even though the Department of Insurance has fiduciary responsibility over the Office of Receivership, the department has had no jurisdiction over this office since October 5, 1995. The Office of Receivership has operated under the control and administration of the Nineteenth Judicial District pursuant to an order signed by Judge A. Foster Sanders.

I. 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.

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

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. The agency fund 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 (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 investments in subsidiaries, mutual funds, United States government securities, common and preferred stock, mortgage and promissory notes, receivables, 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.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

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 550.105.

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.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

Other Financing Uses

Transfers made to the state treasury are recognized in the year the department is authorized to make the transfers, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

Cash in demand deposits	\$2,048,185
Certificates of deposit	27,593
Cash on deposit with the state treasury	<u>1,828,251</u>
Total	<u>\$3,903,029</u>

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 \$3,128,523 at June 30, 1997, for which the department has control. These deposits are secured from risk by \$274,674 of federal deposit insurance, \$1,271,918 of pledged securities held by the department's agent in the department's name (GA50 Risk Category 1), and \$582,931 of pledged securities held for the department but not in the department's name (GA50 Risk Category 2).

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	\$338,274
OSF operating	1,338,175
Payroll clearing	<u>146,832</u>
Total	<u>\$1,823,281</u>

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

D. INVESTMENTS

R.S. 22:738-1 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 veterans affairs.

At June 30, 1997, the department has the following investments totaling \$82,754,144. All of these investments are for the Office of Receivables from companies in rehabilitation, liquidation, conservation, or others, as reported in Schedule 1, and are valued at current market value.

	Category of Risk	Carrying Amount
Categorized:		
U.S. government securities	3	\$1,862,607
Common and preferred stock	3	500,491
Total		<u>2,363,098</u>
Investments not categorized:		
Mutual fund		68,898,310
Investment in subsidiary		11,494,152
Notes receivable		61,414
Real estate		182,676
Furniture and fixtures		11,421
Other		<u>62,185</u>
Total		<u>80,891,058</u>
Total investments		<u>\$82,754,144</u>

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, 1997, the department has stewardship responsibility for \$2,605,650 in governmental receivable property, valued at cost plus shipping and handling. Generally,

DEPARTMENT OF INSURANCE
 STATE OF LOUISIANA
 Notes to the Financial Statements (Continued)

new inventory purchases valued at \$250 or less are not logged 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, 1987	Adjusted	Retired July 1, 1988	Additions	Deletions	Balance June 30, 1988
Movable property	<u>\$1,331,828</u>	<u>(823,156)</u>	<u>\$1,288,278</u>	<u>3401,828</u>	<u>4311,288</u>	<u>\$1,986,550</u>

In accordance with R.S. 38:321-333, the Department of Insurance has complied with the movable property statutes of the State of Louisiana. The adjustment above represents amounts for four individual property items attributable to the previous fiscal year.

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, 1987. 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, 1987, as provided by R.S. 38:82.

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 transfers out and federal receivables attributable

DEPARTMENT OF INSURANCE
 STATE OF LOUISIANA
 Notes to the Financial Statements (Continued)

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	\$21,012,213
Less transfers out	(1,245,000)
Less federal payroll receivable (net)	<u>(603)</u>
Statement C revenues	<u>\$19,766,738</u>
Statement B expenditures	\$19,440,113
Add prior-year payroll payable	\$21,001
Less current-year payroll payable	<u>(269,003)</u>
Statement C expenditures	<u>\$19,392,041</u>

- The department is prohibited by statute from over expending the program established in the general appropriation act.
- 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	\$20,640,970
Amendments:	
Fees and self-generated revenue - administration	1,420,409
Federal funds - market compliance	<u>135,001</u>
Total	<u>\$22,096,480</u>

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

L. 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

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

sick leave are used to compute retirement benefits. The liability for unused annual leave payable at June 30, 1997, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section 080.905, is estimated to be \$925,129 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, 1997, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section 080.905 is estimated to be \$15,600. 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, 1997:

	Appropriated Fund - General Appropriation	Major State Revenues and Income Not Available	Agency Fund	Total
Fees and other self-generated revenues	\$1,664,840	\$10,364,700		\$12,029,540
Federal funds	845,000			845,000
Unpaid and clearing account reimbursements	20,811			20,811
Other			\$187,248	187,248
Total	<u>\$2,530,651</u>	<u>\$10,364,700</u>	<u>\$187,248</u>	<u>\$13,082,600</u>

3. PENSION PLAN

Substantially all employees of the department are members of the Louisiana State Employees Retirement System, a multiple-employer, defined benefit pension plan. Certain other

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

employees of the department are members of the Louisiana Teachers Retirement System, a multiple-employer, defined benefit pension plan. Required disclosures for the plans for fiscal year 1997 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-0095.

**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, 1997, the cost of retiree benefits totaled \$182,846 for 115 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:

<u>Fiscal Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
1997-98	\$300,341	\$95,676	\$3,526	\$399,543
1998-99	309,582	95,676	3,526	408,784
1999-2000	318,823	95,676	3,526	418,025
2000-2001	328,074	95,676	3,526	427,276
2001-2002	337,325	95,676	3,526	436,527
Thereafter	337,325	95,676	3,526	436,527
Total	<u>\$1,820,700</u>	<u>\$575,686</u>	<u>\$21,756</u>	<u>\$2,418,142</u>

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

All lease agreements have non-appropriation (occupatory) 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 1995-97 amounted to \$371,044.

7. ADVANCE FROM STATE TREASURY

The department received an advance from the state treasury for interest fund operations totaling \$38,000. 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, 1997, the department has an unreserved - undesignated fund balance of \$1,048,488. Under provisions of the annual appropriation act, this amount, after adjustment, should be deposited 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:

Adjustment of prior year revenue	\$1,247,640
Surplus remitted to state treasurer	<u>(199,152)</u>
Total	<u>\$1,048,488</u>

10. OTHER APPROPRIATED FINANCING USES DUE TO STATE TREASURY

As shown on Statement B, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, other appropriated financing uses totaled \$1,246,900 for the year ended June 30, 1997. These transfers, which are due to the State Treasurer's Office at June 30, 1997, resulted primarily from \$284,000 in major repairs that were budgeted, but not expended, and \$550,900 not used by the department as a result of a consent agreement with an insurance company.

11. AGENCY FUND

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

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

insurance. The balance reported by the department at June 30, 1998, is shown below and is restated by the department to record additional transactions related to the prior year and to make reclassifications of cash and cash equivalents, investments, and payables reported in the agency fund.

	Reported Balance at June 30, 1998	Adjustments	Restated Balance at June 30, 1998
ASSETS			
Cash and cash equivalents	\$1,479,949	\$216,398	\$1,696,344
Investments	88,518,685	(216,398)	88,302,287
Receivables	208,644		208,644
Total	<u>\$89,204,085</u>	NONE	<u>\$89,204,085</u>
LIABILITIES			
Payroll deductions and accrued employee benefits payable	\$143,387		\$143,387
Accounts payable		\$516,298	\$516,298
Accounts held in custody for others	<u>\$8,854,320</u>	<u>\$(216,298)</u>	<u>\$8,638,022</u>
Total	<u>\$9,001,014</u>	NONE	<u>\$9,001,014</u>

The restated balances reflect cash and cash equivalents, investments, receivables, and payables 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. STATUTORILY REQUIRED DEPOSITS

As provided by 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

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

representing a security deposit from a bank doing business in Louisiana and/or a surety bond. At June 30, 1997, the commissioner of insurance reported deposits and/or surety bonds totaling \$190,555,894. These deposits and surety bonds are not included in the accompanying financial statements.

14. RELATED PARTY TRANSACTIONS

Related party transactions, as defined by Financial Accounting Standards Board Statement Number 57, occur in the normal course of business between the ST insurance companies and their 27 subsidiaries or affiliates for which the department has fiduciary responsibility. Also, transactions to pay the administrative costs, settlements, or claims, of these insurance entities all flow through the Office of Receivership bank account. These transactions are included in the additions and deletions reported on Schedule 1.

In addition, a collection attorney on contract with the Office of Receivership was allowed to bid on the purchase of a pool of estate assets held by the office and was awarded the bid. Because of a miscommunication, the pool on which he bid did not include all assets that he thought were part of the bid. The attorney then initiated litigation against the office seeking to include additional receivables in his purchase. After applying all expenses related to the sale of these assets and the effect of the subsequent litigation, the office received \$27,648 from the attorney for those assets. The results of litigation were that the attorney purchased assets with a balance of \$275,059 and at least a one-third interest in other receivables with a balance of \$1.1 million.

On October 2, 1998, a certified public accounting (CPA) firm was appointed by the court as Special Master of Financial Matters of the Office of Receivership. The firm has the responsibility for approving and overseeing all financial matters including but not limited to cash receipts, cash disbursements, asset recovery, and disposition of all assets and liabilities. During the audit year, the CPA firm received \$7,669 in compensation for their services as special master. In addition, this firm contracted with the office to perform other accounting services. Invoices for these other accounting services, totaling \$12,978, were submitted by the CPA firm to the office and were then approved and paid by one of the firm's partners in his capacity as special master, resulting in the firm approving its own expenses.

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1997**

SCHEDULE OF CHANGES IN BALANCES

Changes in balances for the non-appropriated funds for the year ended June 30, 1997, presented on Schedule 1, includes 57 insurance companies and 27 subsidiaries or affiliated entities that are controlled in nature and are administered in-house by the Office of Reinsurance. The department prepared the financial statements in accordance with requirements of the Louisiana Office of Statewide Reporting and Accounting Policy. Schedule 1 reflects only those assets that comply with those requirements. In addition, the Office of Reinsurance has other assets (noncurrent) totaling \$0,220,553, 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 expenditures.

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, 1997

	Revised Balance June 30, 1995	Additions	Deletions	Balance June 30, 1997
ASSETS				
Cash and cash equivalents	\$3,892,344	\$45,792,791	\$47,292,651	\$3,392,484
Investments	80,900,287	44,827,119	42,815,182	82,712,224
Accounts receivable	208,544	187,248	208,544	187,248
TOTAL ASSETS	\$84,999,080	\$89,806,158	\$89,316,377	\$85,132,876
LIABILITIES				
Accounts payable	\$519,280	\$144,898	\$519,280	\$144,898
Payroll deductions and accrued employee benefits payable	143,387	4,047,182	4,043,717	146,802
Amounts held in custody for others	83,544,420	85,513,927	88,243,381	83,441,875
TOTAL LIABILITIES	\$84,999,080	\$89,806,158	\$89,316,377	\$85,132,876

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

Schedule of Ending Balances
For the Year Ended June 30, 1987

Payroll Clearing Fund	<u>\$146,800</u>
Insurance Trust Funds	
Alliance Casualty and Reinsurance Company	811,587
American Funding Service, in Liquidation	718,587
American Lloyd's Insurance Company	285,287
American Surety and Fidelity	175,790
American Trust Insurance Company	126,130
AAA Insurance Group	3,941,554
Anglo-American Insurance Company	3,809,965
Artis National Insurance Company	748,114
Associated Agents, Incorporated	18,608
Associated Finance Corporation	27,648
Associated Insurance Consultants, Incorporated	951,978
Automotive Financial Services, Incorporated	811,868
Bell Financial, in Liquidation	842,368
Car Insurance Company	13,398,804
Cascade Insurance Company	2,778,353
Champion Insurance Company	856,824
Colonial Lloyd's	400,935
Continental Service Life and Health Insurance Company	53,158
Delta-Cala	92,861
Dixie Lloyd's	318,844
Eurostat Financial and Mortgage	88,298
Fidelity Fire and Casualty Insurance Company	834,420
Fidelity Life Insurance Company	904,808
First Columbia Life Insurance Company	7,814
First Fidelity Life Insurance Company	368,213
First Republic Life Insurance Company	384,310
Galatia Life Insurance Company	41
Gulf Coast Casualty	61,280
Hunt's Golden State Life Insurance Company	8,828
Independence Life Insurance Company	286,876
Larco Reinsurance United	383,389
Liberty International, in Liquidation	36,877
Liberty Lloyd's, Incorporated	3,098,508
Liberty Underwriting Managers, Inc.	86,798
Life Insurance Company of the South	20,000
Lloyd's Assurance of Louisiana, in Liquidation	6,507,438
Louisiana Receivership Office Fiduciary Trust Account	807,391
Louisiana Security Insurance Company	621,443
Louisiana Underwriters Insurance Company	40,435
Mid-America Assurance Company of Louisiana	118,800
Mid-America Casualty	90,969
Robinet Life Insurance Company	2,225,040

(Continued)

DEPARTMENT OF INSURANCE
 STATE OF LOUISIANA
 NON-APPROPRIATED - AGENCY FUNDS
 Schedule of Ending Balances, June 30, 1997

Insurance Trust Funds (Cont.):	
National Republic Life Insurance Company	917
New England International Surety	4,424,360
North American Indemnity Company	2,249,043
Old Hickory Casualty	913,095
Pacific State Mutual	1,265,856
Physicians Medical Indemnity Association	1,368,313
Physicians National Risk Retention Group	13,761,733
PNIRG Leasing Company	237,924
Presidential Fire and Casualty, In Liquidation	709,249
Public Investors Life Insurance Company	1,873,511
Savings Life Insurance Company	1,257,200
Sovereign Fire and Casualty Insurance Company	300,958
Summit Insurance Plan Trust	176,292
Sunbelt Life Insurance Company	458
Superior Life Insurance Company	297,453
United States General Agency, In Liquidation	3,853,756
World Health Foundation Trust	10,101
Total Insurance Trust Funds	<u>34,356,174</u>
Total Agency Funds	<u>35,137,876</u>

(Continued)

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

Schedule of Non-Appropriated Revenues
For the Year Ended June 30, 1997

<u>NON-APPROPRIATED REVENUE FUND SOURCE</u>	<u>CASH RECEIPTS THROUGH JUNE 30, 1997</u>	<u>ACCOUNTS RECEIVABLE JUNE 30, 1997</u>	<u>TOTAL REVENUES</u>
Income not available	<u>\$13,428</u>	<u>\$15</u>	<u>\$13,444</u>
Major state revenues:			
Taxes	107,471,818	32,384,148	139,855,967
Assessments - municipal fire and police civil service	<u>TOTAL</u>	<u>TOTAL</u>	<u>TOTAL</u>
Subtotal - major state revenues	<u>107,471,818</u>	<u>32,384,148</u>	<u>139,855,967</u>
Total non-appropriated revenues	<u>\$108,225,726</u>	<u>\$32,384,163</u>	<u>\$140,609,889</u>

DEPARTMENT OF INSURANCE
STATE OF LOUISIANASchedule of Per Diem Field Commission Members
For the Year Ended June 30, 1997

	<u>NUMBER</u>	<u>AMOUNT</u>
David Chozen	10	\$900
Robert Clayton	10	500
Michael D. Franko	20	1,150
Seth Keener	14	700
Elizabeth McKee	15	750
Steven Hall	17	850
Total		<u>\$4,850</u>

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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



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December 15, 1987

Report on Compliance and on Internal Control Over Financial Reporting
Based 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, 1987, and have issued our report thereon dated December 15, 1987. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department of Insurance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that, although not material to the financial statements, is required to be reported herein under Government Auditing Standards.

**Improper Earning and Using of Leave
by Unclassified Employees**

The Department of Insurance did not have adequate procedures to ensure compliance with regulations related to the earning of annual, sick, and compensatory leave by some unclassified employees. Executive Order EWC 84-30, effective January 13, 1982, specifically excluded Department Secretaries, Undersecretaries, Deputy Secretaries, Assistant Secretaries, Confidential Assistants, and equivalent positions appointed by elected officials from earning annual, sick, and compensatory leave. Executive Order MUF 96-79, effective January 8, 1986, allowed the earning of annual and sick leave by these employees, but continued to prohibit the earning of compensatory leave. During our test of 17 unclassified employees, we determined that eight of them held equivalent positions mentioned previously, and:

LEGISLATIVE AUDITOR

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

Compliance and Internal Control Report

December 15, 1997

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- Six were allowed to earn and use annual and sick leave under Executive Order (EVO) 64-32. As of January 3, 1998, these employees had an accumulated balance of 3,543 hours of annual and sick leave.
- Seven were allowed to earn and use compensatory leave under both Executive Orders. As of June 30, 1997, these employees had an accumulated balance of 1,363 hours of compensatory leave.

The department did not properly research and interpret those Executive Orders as they apply to its employees. As a result, the department allowed these employees to improperly earn and use annual, sick, and compensatory leave, which subjects the department to noncompliance with state regulations.

The Department of Insurance should develop and implement procedures to ensure compliance with Executive Orders related to the earning of leave by its employees. In addition, all annual, sick, and/or compensatory leave earned by employees in violation of the Executive Orders should be adjusted to the appropriate amounts. In a letter dated November 18, 1997, Ms. Brenda St. Hovain, Assistant Commissioner, Office of Management and Finance, concurred with the finding and described corrective action that already has occurred.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Insurance's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted the matter relating to the improper earning and using of leave, as mentioned in the compliance section of this report, that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of Insurance's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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

Legislative Auditor

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Compliance and Internal Control Report
December 15, 1997
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control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described previously is a material weakness.

This report is intended for the information and use of the department and its 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, CPA, CFE
Legislative Auditor

ADFSJ:sdh

ccc