

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Insurance
State of Louisiana
Baton Rouge, Louisiana

December 15, 1999



Financial and Compliance Audit Division

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

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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, 1999
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 15, 1999

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1999
With Supplemental Information Schedules

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**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA**
Contents, June 30, 1999

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Financial Reporting Based on an Audit of the Special Purpose
Financial Statements

A



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

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

November 19, 1999

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, 1999, 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.

The agency fund in the special purpose financial statements includes 43 insurance companies and 8 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,

LEGISLATIVE AUDITOR

HONORABLE JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
Audit Report, June 30, 1999

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 contains only information that is known to the Department of Insurance as of June 30, 1999.

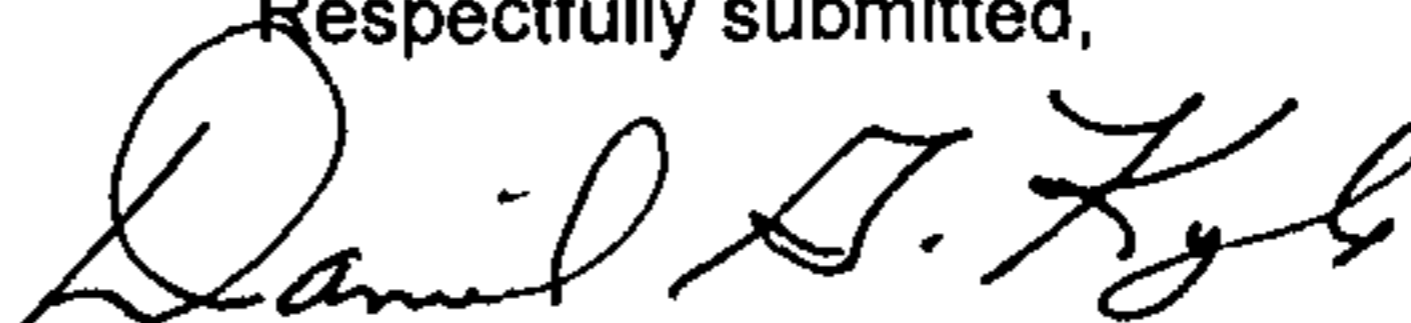
In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the extent and valuation of the assets mentioned previously, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Department of Insurance at June 30, 1999, 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 November 19, 1999, 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.

This report is intended solely for the information and use of the Department of Insurance and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

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

Balance Sheet (Legal Basis), June 30, 1999

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON-APPROPRIATED FUNDS		TOTAL (MEMORANDUM ONLY)
		MAJOR STATE REVENUES AND INCOME NOT AVAILABLE	AGENCY FUNDS	
ASSETS				
Cash and cash equivalents (note 1-C)	\$2,548,625		\$1,108,682	\$3,657,307
Investments (note 1-D)			55,245,417	55,245,417
Receivables (note 2)	1,968,670	\$26,766,342	57,031	28,792,043
Prepaid items			14,014	14,014
TOTAL ASSETS	\$4,517,295	\$26,766,342	\$56,425,144	\$87,708,781
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$2,061,789		\$140,240	\$2,202,029
Payroll payable	512,673			512,673
Payroll deductions and accrued employee benefits payable			181,072	181,072
Advance from state treasury (note 7)	35,000			35,000
Major state revenues and income not available due to state treasury		\$26,766,342		26,766,342
Due to state treasury (note 10)	2,368,290			2,368,290
Amounts held in custody for others			56,103,832	56,103,832
Total Liabilities	4,977,752	26,766,342	56,425,144	88,169,238
Fund Equity - fund balance - unreserved - undesignated (deficit) (note 8)	(460,457)	NONE	NONE	(460,457)
TOTAL LIABILITIES AND FUND EQUITY	\$4,517,295	\$26,766,342	\$56,425,144	\$87,708,781

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, 1999

REVENUES

Appropriated by legislature - state General Fund by fees and self-generated revenues	\$25,388,460
Federal funds	159,580
Total revenues	<u>25,548,040</u>

EXPENDITURES

Administration/fiscal	11,368,887
Market compliance	11,683,253
Total expenditures	<u>23,052,140</u>

EXCESS OF REVENUES OVER EXPENDITURES 2,495,900

OTHER APPROPRIATED FINANCING SOURCES (Uses)

Transfers in (note 10)	465,025
Transfers out (note 10)	<u>(3,053,290)</u>

**EXCESS OF EXPENDITURES AND OTHER USES
OVER REVENUES AND OTHER SOURCES** (92,365)

FUND BALANCE AT BEGINNING OF YEAR (201,154)

ADJUSTMENTS (note 9) (166,938)

FUND BALANCE AT END OF YEAR (\$460,457)

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, 1999

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature - state General Fund			
by fees and self-generated revenues	\$25,039,170	\$25,457,519	\$418,349
Federal funds	175,902	158,057	(17,845)
Statutory dedication	465,025	442,252	(22,773)
Total appropriated revenues	<u>25,680,097</u>	<u>26,057,828</u>	<u>377,731</u>
EXPENDITURES			
Appropriated for:			
Administration/fiscal	12,091,843	11,354,691	737,152
Market compliance	13,588,254	11,607,544	1,980,710
Total appropriated expenditures	<u>25,680,097</u>	<u>22,962,235</u>	<u>2,717,862</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR	<u>NONE</u>	<u>\$3,095,593</u>	<u>\$3,095,593</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, 1999

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 275 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local governments. 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 mutual funds, United States government securities, mortgage and promissory notes receivable, furniture and fixtures, 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.

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

Other Financing Sources and Uses

Transfers made to or received from the state treasury or any other agency are recognized in the year the transfers are authorized, 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	\$947,038
Cash on deposit with the state treasury	<u>2,710,269</u>
Total	<u><u>\$3,657,307</u></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 \$1,699,465 at June 30, 1999, for which the department has control. These deposits are secured from risk by \$674,215 of federal deposit insurance and \$1,025,250 of pledged securities held by the department's agent in the department's name (GASB Risk Category 1).

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	\$1,975,678
ISIS operating	553,519
Payroll clearing	<u>181,072</u>
Total	<u><u>\$2,710,269</u></u>

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

D. INVESTMENTS

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, 1999, the department has the following investments totaling \$55,245,417. All of these investments are for the Office of Receivership from companies in rehabilitation, liquidation, conservation, et cetera, as reported in Schedule 1, and are valued at current market value.

	<u>GASB Category of Risk</u>	<u>Carrying Amount</u>
Categorized:		
U.S. government securities	C	\$119,900
Investments not categorized:		
Mutual fund		54,883,536
Notes receivable		19,837
Real estate		159,268
Furniture and fixtures		<u>62,876</u>
Total investments		<u><u>\$55,245,417</u></u>

Category C, 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, 1999, the department has stewardship responsibility for \$2,731,695 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:

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

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Movable property	<u>\$2,861,737</u>	<u>\$264,542</u>	<u>\$394,584</u>	<u>\$2,731,695</u>

Except for untimely reporting of property acquisitions to the Louisiana Property Assistance Agency, the department complied with the movable property statutes of the State of Louisiana (R.S. 39:321-332).

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, 1999. 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, 1998, as provided by 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 and transfers out relating to statutory dedications are not recognized on Statement C. Also included in revenues on Statement C are transfers in relating to statutory dedications. In addition, salaries and related benefits are recognized when paid and certain cash balances from the previous year have been rebudgeted during 1999 and are included on Statement C. The revenues

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

and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	\$25,548,040
Add transfers in - statutory dedications	465,025
Add prior-year cash carryover for waterproofing	69,059
Less unexpended statutory dedications	(22,773)
Less federal payroll receivable (net)	<u>(1,523)</u>
 Statement C revenues	 <u>\$26,057,828</u>
 Statement B expenditures	 \$23,052,140
Add prior-year payroll payable	404,028
Less current-year payroll payable	<u>(493,933)</u>
 Statement C expenditures	 <u>\$22,962,235</u>

- The department is prohibited by statute from over expending the programs 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	\$25,356,399
Amendments:	
Fees and self-generated revenue - administration	111,893
Fees and self-generated revenue - market compliance	171,343
Federal funds - market compliance	<u>40,462</u>
 Total	 <u>\$25,680,097</u>

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

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

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, 1999, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$822,581 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 State 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, 1999, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be \$14,769. 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, 1999:

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

	Appropriated Fund - General Appropriation	Non-Appropriated Funds		Total
		Major State Revenues and Income Not Available	Agency Fund	
Fees and other self-generated revenues	\$1,821,813	\$26,766,342		\$28,588,155
Federal funds	41,340			41,340
Imprest and clearing account reimbursement	15,616			15,616
Inter/Intra fund transfers	89,901			89,901
Other			\$57,031	57,031
Total	\$1,968,670	\$26,766,342	\$57,031	\$28,792,043

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 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 1999 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, 1999, the cost of retiree benefits totaled \$200,345 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.

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

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>Total</u>
1999-2000	\$384,774	\$90,961	\$475,735
2000-2001	394,085	90,961	485,046
2001-2002	390,117	90,961	481,078
2002-2003	391,461	90,961	482,422
2003-2004	400,772	90,961	491,733
Thereafter	410,083	90,961	501,044
Total	<u>\$2,371,292</u>	<u>\$545,766</u>	<u>\$2,917,058</u>

All lease agreements have non-appropriation exculpatory clauses that allow for 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 1998-99 amounted to \$471,219.

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. FUND DEFICIT

The General Appropriation Fund had a deficit of (\$460,457) for the year ended June 30, 1999. The deficit was the result of the recognition of accrued salaries and related benefits as required by the Office of the Governor, Division of Administration, and the fact that revenues to fund those accruals are appropriated in the subsequent year. The deficit will be resolved by paying for salaries and related benefits from fiscal year 2000 funds appropriated to pay those obligations of the 1998-99 fiscal year.

**9. ADJUSTMENTS TO FUND BALANCE
AT BEGINNING OF YEAR**

Adjustments to the beginning fund balance of the General Appropriation Fund totaling \$166,938, as shown on Statement B, relate to prior-year surplus remitted to the state's General Fund.

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

**10. OTHER APPROPRIATED FINANCING
SOURCES AND USES**

As shown on Statement B, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, other appropriated financing sources (transfers in) totaled \$465,025 while uses (transfers out) totaled \$3,053,290 for the year ended June 30, 1999. The transfers in consist totally of statutorily dedicated funds used for current year disbursements. The transfers out consist of \$2,345,517 in self-generated funds collected but not spent and \$22,773 in statutorily dedicated funds transferred in but not spent, which are due to the State Treasurer's Office at June 30, 1999. The remaining transfer out of \$685,000 was self-generated revenue transferred to the Office of Facility Planning to pay for fees associated with the construction of the new building that will house the Department of Insurance.

11. 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.

12. 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 representing a security deposit from a bank doing business in Louisiana and/or a surety bond. At June 30, 1999, the commissioner of insurance reports deposits and/or surety bonds totaling \$199,308,175. These deposits and surety bonds are not included in the accompanying financial statements.

13. 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 43 insurance companies and their 8 subsidiaries or affiliates for which the department has fiduciary responsibility. Also, transactions to pay the administrative costs, settlements, et cetera, of these insurance estates all flow through the Office of Receivership bank account. These transactions are included in the additions and deletions reported on Schedule 1.

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

14. SUBSEQUENT EVENTS

On September 24, 1999, a federal grand jury indicted Louisiana Insurance Commissioner James H. Brown, Director of the Louisiana Receivership Office Robert A. Bourgeois and others for conspiracy, mail fraud, wire fraud, insurance fraud, false statements, and witness tampering in connection with the settlement of a failed insurance company.

Commissioner Brown has since been successful in his attempt for re-election as insurance commissioner. Director Bourgeois resigned effective November 1999, and was replaced by Barry Karns.

15. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations. The general ledger system of the Louisiana Receivership Office maintains the account balances of the insurance company estates that are in receivership. As of June 30, 1999, that system is not Year 2000 compliant, increasing the risk that data processed after January 1, 2000, may be inaccurate and incomplete.

**DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1999**

SCHEDULE OF CHANGES IN BALANCES

Changes in balances for the non-appropriated funds for the year ended June 30, 1999, presented on Schedule 1, include 43 insurance companies and 8 subsidiaries or affiliated entities that are custodial in nature and are 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 \$1,591,459, 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, 1999

	<u>BALANCE</u> <u>JUNE 30, 1998</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 1999</u>
ASSETS				
Cash and cash equivalents	\$1,041,039	\$53,209,659	\$53,142,016	\$1,108,682
Investments	80,721,936	14,356,124	39,832,643	55,245,417
Accounts receivable	612,049	57,031	612,049	57,031
Prepaid items	12,360	21,653	19,999	14,014
	<u>12,360</u>	<u>21,653</u>	<u>19,999</u>	<u>14,014</u>
TOTAL ASSETS	<u>\$82,387,384</u>	<u>\$67,644,467</u>	<u>\$93,606,707</u>	<u>\$56,425,144</u>
LIABILITIES				
Accounts payable	\$388,391	\$140,240	\$388,391	\$140,240
Payroll deductions and accrued employee benefits payable	157,208	12,607,193	12,583,329	181,072
Amounts held in custody for others	81,841,785	54,897,034	80,634,987	56,103,832
	<u>81,841,785</u>	<u>54,897,034</u>	<u>80,634,987</u>	<u>56,103,832</u>
TOTAL LIABILITIES	<u>\$82,387,384</u>	<u>\$67,644,467</u>	<u>\$93,606,707</u>	<u>\$56,425,144</u>

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

**Schedule of Ending Balances
For the Year Ended June 30, 1999**

Payroll Clearing Fund	<u>\$181,072</u>
Insurance Trust Funds	
Alliance Casualty and Reinsurance Company	531,367
American Funding Service, In Liquidation	799,268
American Lloyds Insurance Company	81,457
ANA Insurance Group	3,946,582
Arist National Insurance Company	333
Automotive Casualty Insurance Company	140,269
Automotive Financial Services, Incorporated	1,010,935
Bell Financial, In Liquidation	779,461
Car Insurance Company	7,449,740
Cascade Insurance Company	4,136,017
Champion Insurance Company	48,666
Colonial Lloyd's	147,253
Denta Care	69,203
Fidelity Life Insurance Company	481,614
First Columbia Life Insurance Company	20,047
First Fidelity Life Insurance Company	125,946
First Republic Life Insurance Company	358,162
Gulf Coast Casualty	614,771
Independence Life Insurance Company	220,654
Liberty Lloyd's, Incorporated	1,639,305
Lloyd's Assurance of Louisiana, In Liquidation	14,261,209
Louisiana Receivership Office Fiduciary Trust Account	704,887
Mid-America Assurance Company of Louisiana	33,040
Midwest Life Insurance Company	1,944,024
New England International Surety	33,440
North American Indemnity Company	3,744,120
Pelican State Mutual	1,358,990
Physicians National Risk Retention Group	3,262,467
Presidential Fire and Casualty, In Liquidation	171,867
Public Investors Life Insurance Company	1,975,740
Savings Life Insurance Company	1,617,780
Superior Life Insurance Company	484,236
United States General Agency, In Liquidation	4,051,222
Total Insurance Trust Funds	<u><u>56,244,072</u></u>
Total Agency Funds	<u><u>\$56,425,144</u></u>

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

Schedule of Non-Appropriated Revenues
For the Year Ended June 30, 1999

<u>NON-APPROPRIATED REVENUE FUND SOURCE</u>	<u>CASH RECEIPTS THROUGH JUNE 30, 1999</u>	<u>ACCOUNTS RECEIVABLE JUNE 30, 1999</u>	<u>TOTAL REVENUES</u>
Income not available	<u>\$7,465</u>	<u>\$1,500</u>	<u>\$8,965</u>
Major state revenues:			
Taxes	85,319,439	26,764,842	112,084,281
Statutory dedicated - Health Insurance Portability Act	300,673		300,673
Assessments - municipal fire and police civil service	859,699		859,699
Retirement insurance proceeds	30,089,457		30,089,457
Subtotal - major state revenues	<u>116,569,268</u>	<u>26,764,842</u>	<u>143,334,110</u>
Total non-appropriated revenues	<u>\$116,576,733</u>	<u>\$26,766,342</u>	<u>\$143,343,075</u>

DEPARTMENT OF INSURANCE
STATE OF LOUISIANASchedule of Per Diem Paid Commission Members
For the Year Ended June 30, 1999

	<u>NUMBER</u>	<u>AMOUNT</u>
David Chozen	26	\$1,300
Robert L. Clayton	6	300
Michael D. Franks	27	1,350
Seth Keener	20	1,000
Elizabeth McKee	13	650
Steven Ruiz	30	1,500
		<hr/>
Total		\$6,100
		<hr/> <hr/>

**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.



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: (225) 339-3800
FACSIMILE: (225) 339-3870

November 19, 1999

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, 1999, and have issued our report thereon dated November 19, 1999. The scope of our audit was limited in that we were unable to determine the existence or valuation of assets that may be held by insurance companies and their subsidiaries and affiliates. This resulted in a qualified opinion on the special purpose financial statements. Except for this scope limitation, 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 those 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*.

**Noncompliance With Movable
Property Regulations**

For the second consecutive year, the Department of Insurance did not timely notify the Louisiana Property Assistance Agency (LPAA) of acquisitions as required by state law. The Louisiana Administrative Code (LAC), Title 34 Part VII Section 307 requires that all movable property acquisitions be tagged and all pertinent information forwarded to LPAA within 45 days after receipt of the property. During fiscal year ended June 30, 1999, the department acquired approximately 210 movable property items totaling

EXHIBIT A

LEGISLATIVE AUDITOR

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

Compliance and Internal Control Report

November 19, 1999

Page 2

\$264,542. A review of 46 of those acquisitions disclosed that 16 items (35%) totaling \$14,511 were not reported to LPAA until 49 to 92 days after the receipt of the property.

The condition relating to untimely reporting of acquisitions to LPAA results from position vacancies in the department's property control section and a lack of sufficient emphasis on the importance of complying with state law. Failure to timely update movable property records increases the risk of loss arising from unauthorized use of property and subjects the department to noncompliance with state laws and regulations.

Management of the department should develop and implement procedures to ensure that all property items acquired are reported to LPAA timely in accordance with state law. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

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 noncompliance with state movable property regulations, as mentioned in the compliance section of this report, that we consider to be a reportable condition. In addition, we noted the matter described below involving the internal control over financial reporting and its operation 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.

Inadequate Planning for Year 2000 Computer Issues

The Department of Insurance has not adequately planned for the potential impact of the Year 2000 on the financial information received from the Louisiana Receivership Office (LRO). The Year 2000 issue is significant in that computer technology is essential to the daily operation of state government. Information systems have typically been designed to store and process the last two digits of the date and, therefore, may read the 2000 date as the year 1900 and process information inaccurately.

LEGISLATIVE AUDITOR

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

Compliance and Internal Control Report

November 19, 1999

Page 3

The general ledger system of LRO maintains the account balances of the insurance company estates that are in receivership. As of November 19, 1999, that system is not Year 2000 compliant, increasing the risk that data processed after January 1, 2000, may be inaccurate and incomplete. Although LRO is under the control of the Nineteenth Judicial District Court system, the Department of Insurance has custodial responsibility for the estate assets and is responsible for accurately reporting these balances in the department's annual financial report. Assets in these estates total \$56,244,072 for the fiscal year ended June 30, 1999.

The department did not include LRO in its Year 2000 implementation plan. The Year 2000 conversion is currently being performed in-house by an LRO Information Systems employee, who is evaluating and analyzing the system. Conversion is expected to be complete by January 1, 2000, which leaves little margin for error.

The department should develop a contingency plan for accurately reporting LRO estate assets in the event that LRO cannot provide the necessary data from its general ledger system. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

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 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 conditions described previously are material weaknesses.

LEGISLATIVE AUDITOR

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

Compliance and Internal Control Report

November 19, 1999

Page 4

This report is intended solely for the information and use of the department and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with a large initial "D" and "K".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

AOE:THC:RCL:dl

[DOI]

EXHIBIT A

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



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

P.O. Box 94397
Baton Rouge, Louisiana 70804-9397
Phone: (225) 342-3900
Fax: (225) 342-3070
http://www.doi.state.la.gov

September 2, 1999

Daniel Kyle, Ph.D., CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

The Department of Insurance accepts the audit finding titled *Noncompliance with Movable Property Regulations* to the extent that the finding cites DOI for failure to timely report acquisitions to LPAA; however, DOI would point out that, although items were not always reported to LPAA within the required time limit, items requiring tags were tagged within 45 days of receipt at this department.

The untimely reporting to LPAA was a result of a shortage of personnel in our property control section. This is a repeat finding. Last year we planned to do an audit early in the calendar year to remedy the finding, but we were not able to fill the position responsible for day-to-day property control activity until late April, 1999.

Since completion of the physical inventory about one month ago, the newly hired office coordinator, Shannon Mitchell, has been reporting acquisitions as received, but no later than weekly. The Administrative Manager within the Office of Management and Finance, Arlene Pellegrin, is monitoring to assure that the reporting continues on a timely basis. Appropriate changes to the Office of Management and Finance Policies and Procedures have been made.

The agency has instituted a program of monitoring the timeliness of reports of acquisitions to LPAA. Our remediation efforts are complete.

Please call me at (225) 342-7276 if you have any questions or would like to discuss the finding or this response to the finding with me.

Sincerely,

A handwritten signature in black ink, appearing to read "C. S. Johnson".

Craig S. Johnson
Deputy Commissioner
Office of Management and Finance

CSJ/CDB/cb



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

November 19, 1999

P.O. Box 94214
BATON ROUGE, LOUISIANA 70804-9214
PHONE (225) 342-5900
FAX (225) 342-3078
<http://www/ldi.lci.state.la.us>

Daniel G. Kyle, PH.D., CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Inadequate Planning for Year 2000 Computer Issues

Dear Dr. Kyle:

We concur that the planning for Year 2000 issues at the Louisiana Receivership Office (LRO) is not adequate; however, it should be noted that LRO is not under the direct control of the Department of Insurance (DOI). While LRO is technically a part of DOI, it was removed some years ago from the direct control of the Department, and placed under the jurisdiction of the 19th Judicial District Court. The court appointed LRO administrator has consistently asserted that the independence of the LRO precludes any administrative supervision or review of LRO by DOI personnel. This has prevented any access by DOI to determine Year 2000 readiness at LRO.

In light of changes in LRO personnel recently ordered by the Court, DOI has every reason to anticipate a much more cooperative attitude by LRO in future matters concerning oversight. DOI Information Technology personnel will now begin a corrective action plan to assist the newly appointed coordinator, Mr. Barry W. Karns, in LRO's Y2K planning effort. This newfound spirit of cooperation should allow adequate Y2K planning to be implemented by year-end.

The department is committed to Year 2000 readiness in all systems and in resolving all concerns expressed by your office.

Sincerely,

Craig S. Johnson
Deputy Commissioner
Office of Management & Finance

CSJ/RC/s

cc: James H. "Jim" Brown, Commissioner