

DEPARTMENT OF INSURANCE

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES

MANAGEMENT LETTER

ISSUED OCTOBER 7, 2020

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Insurance



October 2020

Audit Control # 80200027

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Louisiana Department of Insurance (DOI) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of DOI's internal controls over financial reporting and compliance; and determine whether DOI complied with applicable laws and regulations.

In addition, we performed certain procedures to evaluate DOI's internal controls and compliance with related laws and regulations over payroll, the Louisiana Insurance Rating Assessment, monitoring activities of the Office of Financial Solvency, producer licensing fees, professional services contracts, and the internal audit function.

Results of Our Procedures

Current-year Finding

Failure to Certify and Approve Time and Attendance Records

DOI employees did not timely certify and approve time and attendance records. DOI utilizes electronic time sheets in the Cross-Application Time Sheet (CATS) system. For the period between July 1, 2019, and February 23, 2020, we noted the following:

- 391 (10%) of 3,812 time sheets were not certified by the employee or were certified between one and 205 days (or an average of 14 days) after the payroll posting date.
- 1,243 (33%) of 3,812 time sheets were not approved by the employees' supervisors or were approved by the employees' supervisors between one and 209 days (or an average of 13 days) after the payroll posting date.

The DOI payroll policy requires employees to enter all attendance records in CATS by the close of the pay period and certify time sheets in CATS by midnight on the Wednesday following the close of the pay period. Supervisors are responsible for reviewing certified time sheets for

accuracy and immediately approving or rejecting the certified time sheets. Action should be taken on time sheets no later than the Wednesday following the close of the pay period.

DOI employees did not adhere to controls over payroll to certify and approve hours actually worked. As a result, there is an increased risk that errors and/or fraud could occur and not be detected in a timely manner.

Management should ensure employees comply with existing policies and procedures, including properly certifying and approving time sheets in a timely manner. Management agreed with the finding and outlined a plan of corrective action (see Appendix A).

Comprehensive Annual Financial Report – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2020, we considered internal control over financial reporting and examined evidence supporting DOI's insurance premium tax revenues and receivables. These taxes are collected quarterly and are based on the premiums written by the insurer in the previous calendar year.

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

Other Procedures

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

Payroll

Salaries and related benefits comprised approximately 76% of DOI's expenditures for fiscal year 2020. We obtained an understanding of DOI's controls over the time and attendance function. We analyzed employees' time and attendance records for the period of July 1, 2019, through February 23, 2020, to ensure that employee time sheets were certified by employees and approved by supervisors. Based on the results of our procedures, we reported a finding related to the DOI employees' failure to certify and approve time and attendance records, as described previously.

Louisiana Insurance Rating Assessment

Approximately 7% of DOI's revenue collections consist of the Louisiana Insurance Rating Assessment. DOI collects these assessments from admitted property and casualty insurance

companies. The assessments are based on the insurer's self-reported premiums in the prior calendar year for insurance lines that are subject to rate regulation. In accordance with Louisiana Revised Statute (R.S.) 22:1476, the assessment is allocated among the Municipal Fire and Police Civil Service Operating Funds and various retirement funds. During fiscal year 2020, DOI collected \$75.7 million from these assessments.

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

Monitoring Activities – Office of Financial Solvency

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

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

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

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

Producer Licensing Fees

An insurance producer is a person required to be licensed under Louisiana state law in order to sell, solicit, or negotiate insurance. This includes all persons or business entities otherwise

referred to in the Louisiana Insurance Code as an insurance agent, broker, solicitor or surplus line broker.

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

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

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

We obtained an understanding of DOI's controls over collection of fees, specifically company appointments to determine if DOI was in compliance with revised statutes. We obtained and reviewed listings of the initial and renewal company appointment fees for both individuals and business entities. Based on the results of our procedures, DOI is in compliance with R.S. 22:281 as amended by Act 226 of the 2019 Regular Session.

Professional Services Contracts

DOI expended more than \$2.5 million in fiscal year 2020 for professional services, which includes contracts for information technology services, consulting services, legal services, accounting and auditing, and actuarial services. We obtained an understanding of DOI's controls over professional service contracts and examined selected contracts for compliance with state law and to ensure that they were properly approved by the Office of State Procurement. Based on the results of our procedures, DOI had adequate controls in place to ensure that professional services contracts were properly approved and expenditures were in accordance with the terms of the contracts.

Internal Audit Function

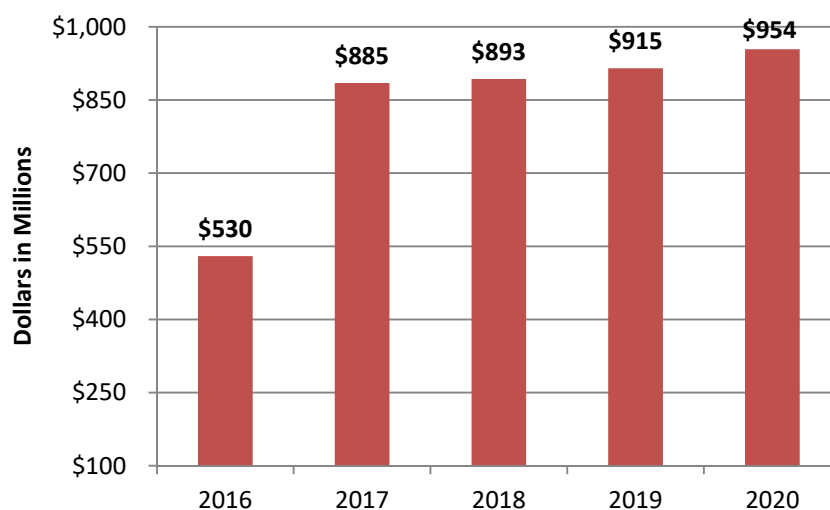
We performed certain procedures that included obtaining, documenting, and reviewing internal controls and compliance with related laws and regulations over the internal audit function. Based on the results of the procedures performed, we found no issues or weaknesses that were required to be reported.

Trend Analysis

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

We also prepared an analysis of premium taxes over the last five fiscal years (see Exhibit 1). Premium tax revenues have steadily increased each fiscal year due to rising insurance premiums and the addition of new health premiums written through the Medicaid-Enrollment Managed Care Organizations. Premium taxes for fiscal year 2020 increased by approximately \$39 million, or 4.3%, from fiscal year 2019. The largest increase occurred between fiscal years 2016 and 2017. During that time, premium taxes increased by approximately \$314 million for the Medicaid-Enrolled Managed Care Organizations due to Medicaid expansion. In addition, the Medicaid tax rate increased from 2.25% to 5.5%. Other increases are attributable to the general growth in Life, Accident & Health and Fire & Casualty premiums.

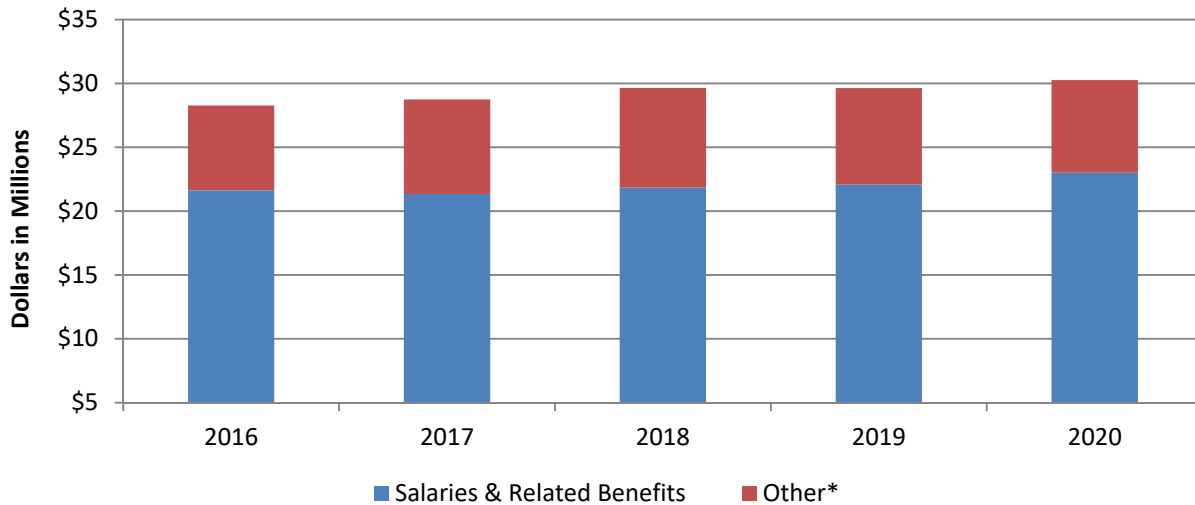
Exhibit 1
Premium Taxes Collected by Fiscal Year



Source: 2016-2020 Annual reports

We also analyzed DOI’s expenditures over the last five fiscal years (see Exhibit 2). As noted previously, salaries and related benefits comprise the majority of the DOI’s expenditures. Other expenditures include travel, operating services, supplies, professional services, capital outlay and other charges. Total expenditures remained relatively consistent between fiscal years 2019 and 2020, with salaries and related benefits increasing by 4.2% and other expenditures decreasing by 3.9%.

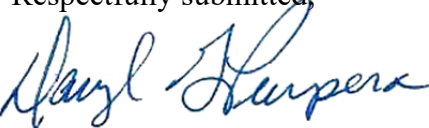
**Exhibit 2
Expenditures, by Fiscal Year**



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

Source: 2016-2020 Annual Fiscal Reports

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

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

JBM:CR:RR:EFS:aa

DOI2020

APPENDIX A: MANAGEMENT'S RESPONSE



LOUISIANA DEPARTMENT OF INSURANCE

JAMES J. DONELON
COMMISSIONER

September 14, 2020

The Honorable Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Failure to Certify and Approve Time and Attendance Records

Dear Mr. Purpera:

The Louisiana Department of Insurance (LDI) concurs that employees did not timely certify and approve time and attendance records during the stated audit period. LDI management recognizes the importance of accurate and timely reported attendance records. In addition, LDI agrees that employees need to comply with time and attendance policies and procedures to reduce the risk of errors and/or fraud.

LDI management understands and fully accepts the responsibility to ensure time and attendance records are timely certified and approved. LDI has already applied the following corrective actions to address this finding:

- Human Resources has updated the PM #53, Time and Attendance Policy, to include recommendations from the prior internal audit and has notified all LDI staff of the changes. They have also developed a PowerPoint presentation to conduct training sessions with relevant staff.
- Human Resources reviews payroll reports each pay period to verify that timesheets have been properly certified and approved and then notify the time administrators of any timesheets that have not been properly certified and/or approved. In addition, random reviews of prior period timesheets are being conducted to ensure that time is being certified and approved.
- Human Resources has revised supervisory Performance Evaluation System (PES) Plans, which now include work expectations to timely submit leave requests and eCertify timesheets in CATS, and to timely approve subordinates request in CATS.
- Human Resources has revised the PM #53, Time and Attendance Policy to require approvers add a note to employee timesheets that were certified late

justifying the reason for late certification and remove the requirement from the employee.

- Human Resources has revised supervisory and nonsupervisory performance evaluation plans to include work expectations for the timely submission and approval of leave and overtime requests in CATS where appropriate, and the timely certification and approval of timesheets in CATS where appropriate.

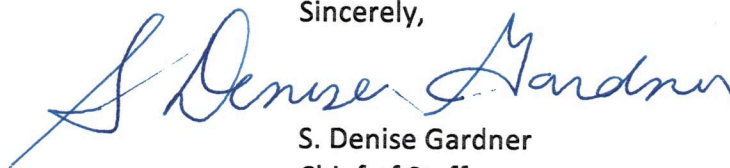
Furthermore, LDI is in the process of implementing these additional corrective actions:

1. Human Resources will conduct training with time administrators and approvers regarding the revised PM #53, Time and Attendance Policy as soon as possible to ensure that all requirements for requesting, certifying, and approving time and attendance in CATS is understood.
2. Human Resources will ensure that time administrators are fully aware of time and attendance monitoring procedures and of the appropriate people to notify for any issues noted during the process.
3. Human Resources will ensure that email notifications are sent to any LDI employee or supervisor that has not certified or approved necessary timesheets and ensure that the time administrator and appropriate management and Deputy Commissioners be included in the notification.
4. Human Resources will conduct training with approvers as soon as possible regarding the new PM #53, Time and Attendance Policy requirements to add an Approver note in the employee's Time Statement indicating the reason leave and/or overtime was auto approved.

Lance Herrin, Deputy Undersecretary, is the person responsible for implementing the corrective actions discussed above. The anticipated completion date of this corrective action plan is November 30, 2020.

Once this corrective action plan is fully executed, LDI is confident that significant improvement regarding this finding will be realized. For additional information regarding this response, you may contact me at 225-342-7276.

Sincerely,



S. Denise Gardner
Chief of Staff

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Insurance (DOI) for the period from July 1, 2019, through June 30, 2020, to provide assurances on financial information significant to the state of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the CAFR and our work related to the Single Audit of the State of Louisiana for the year ended June 30, 2020.

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

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

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

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