Audit Highlights

Highlights of performance audit report on the Division of Insurance issued on May 13, 2021.

Legislative Auditor report # LA22-06.

Background

The Division of Insurance (Division) protects Nevada consumers in their interactions with the insurance industry and verifies the financial solvency of insurers. To carry out this mission, the Division oversees financial and market regulation of the state's $15 billion insurance industry. There are currently over 2,000 insurance companies licensed to engage in the business of insurance in Nevada.

The Division regulates and licenses insurance agents, brokers, and other professionals; sets ethical and financial standards for insurance companies; reviews programs operated by self-insured employers for worker's compensation; and provides a means for resolving issues between consumers and insurance entities.

The Division's main office is in Carson City, with a secondary office in Las Vegas. In fiscal year 2020, the Division recorded $55 million in revenues, and expenditures totaled over $13 million.

Purpose of Audit

The purpose of the audit was to determine if controls over revenue were adequate. We also reviewed certain Division activities over market conduct regulation. This audit included a review of financial and administrative activities during calendar years 2018 and 2019.

Audit Recommendations

This audit report contains four recommendations to improve controls over revenue collection, one recommendation to protect personally identifiable information (PII), and two recommendations to protect Nevada citizens interacting with bail agencies.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 9, 2021. In addition, the 6-month report on the status of audit recommendations is due on February 9, 2022.

Division of Insurance

Department of Business and Industry

Summary

Controls over financial assets can be improved to ensure revenue is adequately monitored and fines are equitably enforced. Specifically, the Division does not reconcile revenue with database records to ensure amounts received are ultimately deposited and properly recorded. For calendar year 2019, we identified $11.5 million in revenues recorded in the state accounting system, but not in the Division's database. The Division does not record all revenue in the database due to limitations with the system. Further, the Division did not maintain a check receipt log and system controls allowed staff to alter financial records without oversight. The Division also does not have an adequate process for equitably assessing late fees. With proper controls, we estimate the Division can collect at least an additional $152,000 per year. Finally, the Division also lacks adequate controls to safeguard personally identifiable information (PII) from unauthorized access. In calendar year 2019, there were over 160,000 unmasked instances of PII in the Division's database.

The Division did not complete activities to ensure bail agencies corrected identified issues of noncompliance. The Division began a more comprehensive program to audit bail agencies in August 2018. This program, with full implementation, has the potential to strengthen confidence in the practices and services provided by the industry. However, the Division did not follow up with agencies to ensure corrective action, nor does it have a program to impose fines for continued noncompliance. Without an ongoing program of follow-up and continuation of the audit process, issues with the industry may again become problematic.

Key Findings

Even though some financial activities are bifurcated between the Division and the Department of Business and Industry, neither entity performs a comprehensive reconciliation of payments received. A reconciliation is important because the Division processes a large volume of transactions from different sources recorded to varying budget accounts and revenue types that total more than $50 million in any given year. As part of our audit, we compared fiscal year 2019 totals and found a variance of over $11.5 million between Division and state accounting system records. This occurred because the Division does not record all transactions in its licensing database due to database limitations that prevent certain transactions from being automatically recorded. (page 6)

The Division lacks a process to ensure checks received are properly accounted for. During calendar year 2019, the Division received over 9,000 checks totaling $10.8 million; however, the checks were not adequately controlled upon receipt. Specifically, the Division did not log the checks when opened and initially processed. Logging checks is critical to ensuring all funds received are deposited. In addition, a check receipt log provides those responsible for completing monthly reconciliations with critical supporting documentation. (page 6)

Accounting staff have greater user rights than necessary for accounting system controls to function as intended. For example, accounting staff are able to make edits, such as voiding payments, to financial records without managerial oversight or approval. During March 2019, we identified more than 50 records totaling $112,000 that were voided or edited without supervisory review. These capabilities along with the lack of check receipt logs make it possible for staff to alter financial records and divert checks for personal use. (page 7)

The Division does not consistently assess fines for late payments. There were nearly 2,500 late payments during calendar year 2018; however, only some licensees were assessed fines even though authority exists, in many instances, to fine entities for late payment. The Division did not correctly assess fines on 15 (47%) of the 32 late payments included in our testing. On average, for our sample, payments were received 47 days late, but one payment was received almost 6 months after the due date. (page 7)

Our review identified the following instances of vulnerability for the Division regarding PII; over 160,000 unmasked PII on Division databases; generating over 200 accounting reports with PII each year; the policy and procedures manual was available to all employees and contained unmasked PII; and, applications not requiring a secure method of transmission when sending documents containing PII. These issues resulted from the Division using PII as a primary identifier for the majority of individual licensees. (page 9)

The Division completed the last bail agency audit in February 2019; however, no other routine follow-up has been conducted on any of the entities audited. As a result, the Division may be allowing some issues to persist in an industry serving a vulnerable population. While the Division sent notifications of violations, it did not ensure corrective action was taken. Furthermore, the audit process has not been standardized as routine by the Division. (page 11)

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