

Audit Highlights



Highlights of Legislative Auditor report on the Division of Insurance, issued on September 21, 2006. Report # LA06-20.

Background

The Division of Insurance (DOI) is charged with protecting the rights of the consumer and the public's interest in dealing with the insurance industry and ensuring the financial solvency of insurers. According to DOI, its mission will be fulfilled by advancing a sound regulatory environment that is responsive to the insurance needs in Nevada.

DOI consists of the Commissioner's Office and eight operating sections. In fiscal year 2005, DOI had a total of 72 authorized full-time equivalent positions and collected approximately \$19 million in assessments, fees, fines, and taxes. Actual expenditures for fiscal year 2005 were about \$10.4 million, which included approximately \$1.7 million in intra-agency transfers.

Purpose of Audit

The purpose of this audit was to evaluate the Division of Insurance's financial and administrative activities, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. This audit focused on the Division's financial and administrative activities during fiscal year 2005, and activities through February 2006 for certain audit issues.

Audit Recommendations

This audit report contains 15 recommendations to improve the Division of Insurance's financial and administrative activities. These recommendations include policies, procedures and other controls to help ensure timely action for required financial reports and adequate monitoring of accounts receivable. We also made recommendations to improve controls over some administrative functions.

The Division accepted the 15 recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due on December 20, 2006. In addition, the six-month report on the status of audit recommendations is due on June 20, 2007.

Division of Insurance

Department of Business and Industry

Results in Brief

The Division of Insurance could improve its oversight of financial solvency for domestic companies. DOI did not always ensure required financial reports were submitted and reviewed timely. If problems related to financial solvency are not detected timely, there is an increased risk the insurer will become insolvent. Claims against an insolvent insurer may be paid by a guaranty fund, which is funded by assessments to licensed insurers. These assessments may be passed on to consumers in the form of higher insurance costs. In addition, accounts receivable processes need strengthening to minimize the risk accounts will not be collected. Further, controls over certain administrative functions were not adequate.

Principal Findings

DOI did not always take timely action for domestic companies that did not submit financial reports or review reports in a timely manner. For example, we found 14 of 20 (70%) annual statements were either not reviewed or had not been reviewed timely. Further, 9 of 17 submitted audited financial statements were either not reviewed or had not been reviewed timely. It is the responsibility of state governments to monitor the financial solvency of insurance companies licensed in their states. Effective solvency regulation provides crucial safeguards for insurance customers related to payment of claims and competitive pricing.

DOI's monitoring process for captive insurers does not provide reasonable assurance all reports significant to financial solvency are submitted and reviewed timely. Captive insurance is a type of self-insurance where a company insures its own risks and exposure to loss. Our review of 15 captive insurers found 5 of 15 annual statements were not submitted, and 9 of 10 submitted annual statements were either not reviewed or had not been reviewed timely. Further, 8 of 15 actuarial opinions were not submitted, and 5 of 7 submitted actuarial opinions were either not reviewed or had not been reviewed timely. DOI procedures for captives do not address timely review for all financial reports, or follow-up for non-submitting companies.

DOI did not always schedule examinations and issue orders accepting or rejecting examination reports as required. Further, monitoring was not performed to ensure examiners complied with laws for timely submittal of examination reports. For all 16 examinations selected, no documents were provided to determine when the examinations were completed. NRS 679B.270 requires the examiner to make a report no later than 60 days after the completion of an examination. DOI does not have a written policy that clearly defines completion of an examination. As a result, DOI does not know if examiners are complying with requirements relative to timely submittal. Financial examinations are conducted to determine a company's financial condition.

DOI's monitoring system does not ensure all examination fees are billed to examinees and paid timely. DOI reported over \$700,000 in accounts receivable from examination fees to the Controller in March 2005, and over 68% of the receivables were over 60 days past due. A majority of this amount represented cash paid by the State that had not been reimbursed. Our review of 20 examinations found untimely billings, payments, and collection efforts. NRS 679B.290 requires the expense of all examinations be borne by the person examined. DOI took corrective action late in fiscal year 2005. The June 2005 report to the Controller shows accounts receivable for examination fees totaling just over \$500,000, and about 55% of the receivables were over 60 days past due.

Collection efforts were not always timely for various user fees. For example, DOI identified 66 companies as delinquent in paying annual continuation fees totaling \$112,488, due March 1, 2005. However, as of November 1, 2005, no collection efforts had been made for these fees. When certain entities do not pay their annual renewal fee timely, they are operating without a license. Further, it is inequitable regulation to allow some companies to operate without paying all fees due the State.

DOI does not have sound record keeping or inventory practices in place to provide adequate safeguarding of fixed assets. DOI did not perform a complete annual physical count of all assets or update the state's records as required. Therefore, we could not locate 3 of 20 assets selected from DOI's inventory list. These included a laptop computer, laser printer, and computer network component. Further, 8 of 20 assets did not have asset tags affixed. In addition, we tested four equipment purchases and found two items had not been added to the state's inventory list.