

# STATE OF NEVADA

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## Performance Audit

Department of Business and Industry  
Division of Insurance

2021



Legislative Auditor  
Carson City, Nevada

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# 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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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Business and Industry, Division of Insurance (Division). This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes seven recommendations to improve internal controls and processes over the security of financial assets and personally identifiable information, as well as Division oversight of certain other activities. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel L. Crossman".

Daniel L. Crossman, CPA  
Legislative Auditor

May 6, 2021  
Carson City, Nevada

# Division of Insurance

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# Introduction

## **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 workers' compensation; and provides a means for resolving issues between consumers and insurance entities.

## **Staffing and Budget**

Actual expenditures for fiscal year 2020 were about \$13.3 million, which includes \$1.4 million in intra-agency transfers. Exhibit 1 shows fiscal year 2020 funding sources and expenditures.

**Combined Revenues and Expenditures for  
All Budget Accounts Fiscal Year 2020**

**Exhibit 1**

<b>Revenues</b>	<b>Amounts</b>
Beginning Cash	\$20,716,466
Assessments	10,286,397
Fees and Fines	3,406,689
Miscellaneous <sup>(1)</sup>	587,826
Appropriations	361,890
Transfers	146,914
Grants	96,105
<b>Total Revenues<sup>(2)</sup></b>	<b>\$35,602,287</b>
<b>Expenditures</b>	<b>Amounts</b>
Operating	\$ 8,083,941
Claims	2,730,716
Transfers	1,445,474
Cost Allocations	717,634
Grants	286,005
Research and Education	24,192
Exams and Investigations	15,627
Travel	5,753
<b>Total Expenditures</b>	<b>\$13,309,342</b>
Difference	\$22,292,945
Less: Reversion to Workers' Compensation Fund	(162,936)
<b>Balance Forward to 2021</b>	<b>\$22,130,009</b>

Source: State accounting system.

<sup>(1)</sup> Miscellaneous revenue primarily consists of interest distributions and cost allocation reimbursements.

<sup>(2)</sup> Does not include Division bond and tax budget accounts.

In addition to the revenues reported in Exhibit 1, nearly \$41 million in taxes was also received by the Division for a total of \$55.4 million in revenues during fiscal year 2020.

The Division's main office is in Carson City, with a field office in Las Vegas. As of February 2021, the Division had a total of 73 filled positions.

**Revenues**

The Division is responsible for the collection of premium taxes, licensing fees, and assessments. Premium taxes, fees, and assessments are collected from individuals and businesses including, but not limited to, the following licensees and insurers:

- Adjuster;
- Bail Agent;
- Producer;
- Third-Party Administrator;
- Title and Escrow;
- Property and Casualty Insurers; and
- Life and Health Insurers.

In addition to licensing fees and assessments, the Division bills surplus lines entities for insurance premium taxes based on percentages of premiums written and taxable fees, passed on to insureds. During calendar year 2019, the Division received over 41,000 payments for premium taxes, fees, and assessments.

### **Bail Agencies**

The Division is also responsible for providing oversight of the bail industry in Nevada. The Division has authority to review bail licensee's records and behaviors at any time. Investigations of bail agencies may begin with suspected violations of laws being relayed to the Division, or the Division opening an investigation on its own. If violations are noted, the Division may take administrative action against the bail agency which may result in a fine or the license being suspended or revoked.

## **Scope and Objectives**

The scope of our audit included a review of the Division's activities for calendar years 2018 and 2019. Our audit objectives were to:

- Determine whether controls over revenue billing and collection and certain sensitive information are adequate.
- Determine if certain activities over market regulation protect the public.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The

Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.



# Controls Critical to Improving Division Oversight of Revenues and Personally Identifiable Information

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. Finally, the Division 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.

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 Social Security numbers in the Division's database. Through stronger controls, the Division can better protect financial assets, increase revenue, and protect PII from improper access.

## **Establish Better Financial Oversight Through Monthly Reconciliations**

The Division does not perform comprehensive reconciliations between the state accounting system, bank, and database records. Reconciliations are important because the Division collects a significant amount of fees each year from a multitude of different sources and other weaknesses exist in the revenue collection process. For example, payments were not recorded in

a check receipt log when initially processed. These weaknesses could allow fraud to occur and go undetected.

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 a 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.

During our audit, we reconciled payment activity for March 2019. With the exception of minor recording errors, we were able to account for payments received during this month. However, due to the volume of transactions, with more than 3,700 transactions occurring during the month of March and audit time constraints we could not reconcile all fiscal year 2019 activity. The lack of a comprehensive reconciliation process and other control weaknesses leaves the Division vulnerable to fraud and mistakes.

Standards for internal control specify the importance of reconciliations and other control activities to help entities ensure that all transactions are properly recorded.

#### **Check Receipt Logs Not Maintained**

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 for ensuring all funds received are deposited. In addition, a check receipt log provides those responsible for completing monthly reconciliations with critical supporting documentation.

Standards for internal control indicate an entity should establish controls to secure and safeguard vulnerable assets. Additionally, management should divide duties among different people to reduce the risk of error, misuse, or fraud.

A check receipt log is an essential control related to cash and check collections. This function is also essential to segregating the duties of receipt and deposit of monies that are vulnerable to loss and theft.

### **System Controls Not Adequate**

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.

Standards for internal control indicate management should evaluate information processing objectives to meet information requirements. Objectives include ensuring transactions are recorded, not understated, and processed in the correct account and amount at each processing stage.

Policies and procedures should be enhanced to provide greater assurance that Division assets are adequately safeguarded. The Division indicated they are working on some of these matters as a result of our bringing those to their attention.

## **Implement Controls to Ensure the Equitable Collection of Late Fees**

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.

There are significant differences in consistency of the Division's assessing fines for late payments between revenue sources. For instance, the Division consistently assessed fines on late payments over the renewal of producer licenses, but did not usually assess fines on payments for other revenue received. The following are examples of some of the fines allowable through statute and regulation.

- 10% plus monthly interest of 1.5%.
- 150% of all required registration fees paid within 30 days.
- 50% of all applicable fees paid within 30 days of license expiration.
- \$25 for each day late.

Nevada Administrative Code 680C.220 allows the Division to collect \$25 for each day an administrative and enforcement fee is paid late. In calendar year 2018, 192 of the approximately 2,500 late payments were subject to the \$25 per day administrative and enforcement fee. However, the Division only assessed \$27,000 in late fees from 18 (9.4%) of the 192 licensees. Had the Division equitably assessed all 192 licensees, it could have collected at least an additional \$152,000 in calendar year 2018. Additional revenue is available to the Division by equitably assessing fines and penalties for entities who submit payments past deadlines established in statute and regulation.

Division policies and procedures do not provide adequate direction for identifying, monitoring, and billing of fines. Because of the Division's numerous statutes and regulations governing its varying revenue streams, policies and procedures need to be comprehensive and complete for staff to equitably apply fines for late payments and other violations.

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## **Greater Care in the Handling of Personally Identifiable Information Needed**

The Division lacks adequate controls to ensure the proper safeguarding of PII. Our review found several areas in which PII was not properly secured. Since PII is exploitable, it should be protected from internal and external threats.

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.
- Policy and procedure manuals available to all employees containing unmasked PII.
- 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, generating accounting reports with unmasked PII, and allowing unsecured email to be used as an option when submitting information. The Social Security Administration encourages entities to use alternative identifiers instead of Social Security numbers due to the susceptibility to theft and inappropriate use.

Early in the audit process, auditors brought this issue to the attention of Division management and information technology professionals. As a result, the Division took steps toward limiting access. For example, the Division masked PII in the Division database, and redacted sensitive information in policies and procedures. Further, the Division is working with its database vendor to ensure PII is masked in accounting reports going forward.

### **Recommendations**

1. Develop comprehensive policies and procedures to perform monthly reconciliations between the state accounting system and the Division bank account, database, and receipt logs.

2. Establish a process to ensure staff maintain logs for all payments mailed to the Division. Include receipt logs in reconciliations.
3. Implement controls to include managerial approval and oversight of edits to financial records.
4. Revise policies and procedures regarding the assessment, collection, and tracking of late fees across all income sources to ensure consistent and timely application and adherence to statutes and regulations.
5. Develop policies, procedures, and controls to ensure the safe handling and storage of all personally identifiable information including, but not limited to:
  - a. Limiting staff access to personally identifiable information.
  - b. Ensuring electronic transmissions containing personally identifiable information are done by a secure method.
  - c. Ensuring personally identifiable information is properly secured in current and future information systems.
  - d. Not using a Social Security number as a primary identifier, whenever possible.

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# Additional Actions Needed to Complete Bail Agency Industry Review

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.

## **Follow-Up on Bail Audits Essential to Ensure Compliance**

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.

All 93 licensed bail agencies were included in the bail agency audit process and had identified findings. This was the first time the Division performed this type of activity over bail agencies. Common issues identified included incomplete records, improper charges, and contracts with violations. In addition, during 2019 the Division escalated 15 complaints related to bail agencies for further investigation. Two of these investigations repeated issues previously identified through the bail agency audits. Although the bail audit project highlighted needs for improvement in the bail industry, continual monitoring is necessary for ensuring long term compliance with statutes and regulations.

The National State Auditors Association specifies the importance of the following:

- Tracking inspections conducted, violations found, and actions taken to ensure they are being addressed appropriately.
- Following up with additional enforcement action as needed.
- Performing onsite re-inspections based on the severity of the problems identified.
- Establishing a graduated and equitable system of sanctions.

The Division has the authority to implement administrative fines for continued noncompliance. Statutes authorize the Division to impose administrative fines for bail agency noncompliance. By imposing administrative fines, the Division can compel compliance if warranted.

Without effective oversight, vulnerable populations are at risk for fraud, embezzlement, and other forms of victimization. In fact, the Division noted in its 2019 report that it continues to see a disturbing pattern of predatory practices and abuses used for financial gain that also present serious issues of public safety. While the audits performed by the Division may provide some assurance these practices are less prevalent today than before, continued monitoring and oversight are necessary to prevent these issues in the future.

### **Recommendations**

6. Develop a program for continued oversight of bail agencies including updating policies, procedures, and timelines regarding follow-up activities.
7. Impose penalties in accordance with statute for continued noncompliance.



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# Appendix A

## Audit Methodology

To gain an understanding of the Division of Insurance (Division), we interviewed staff, reviewed statutes and regulations, and policies and procedures relevant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other significant information such as user access and system programs utilized by the Division. In addition, we documented and evaluated internal controls related to revenue collection, handling of personally identifiable information (PII) such as Social Security numbers, and oversight of the bail industry.

Our audit included a review of the Division's internal controls significant to our audit objectives. Internal control is a process effected by an entity's management and other personnel that provides reasonable assurance the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The scope of our work on controls related to collection of revenues, assessment of fines for late fees, security of sensitive information, and oversight of the bail agency industry included the following:

- Performance of monitoring activities (Monitoring);
- Design of control activities (Control Activities); and
- Assessment of fraud risk (Risk Assessment).

Deficiencies and related recommendations to strengthen the Division's internal control systems are discussed in the body of the report. The design, implementation, and ongoing compliance with internal controls is the responsibility of agency management.

To determine the adequacy of controls over its assessment and collection of fees and fines, we documented the reconciliation, penalty assessment, and suspending of license processes. To verify data was accurate and complete, we compared Division database records with the state accounting system and the Division bank account. Based on this reconciliation, we determined database records to be reliable. The reconciliation accounted for 3,704 (9%) of 41,223 transactions for calendar year 2019. We identified differences and discussed these issues with staff and management.

We then reviewed the Division's process for assessing penalties on late payments by judgmentally selecting 32 invoices which were paid at least 5 days past due. Our population consisted of 2,464 calendar year 2018 late payments. We identified applicable laws for late payments and whether the Division assessed late fees. Additionally, we obtained a report of administrative and enforcement invoices that were paid at least 15 days late and calculated the amount the Division could have collected had it assessed fines in accordance with statute and regulation. We discussed our findings and discrepancies with staff.

Next, we reviewed the billing process to identify if the Division correctly charged fees. Our population consisted of 58,762 invoices issued by the Division in calendar year 2019. We randomly selected 50 billing samples. We identified applicable laws or regulations for each invoice and determined whether the amount charged was correct and the appropriate payment remitted by licensees.

Also, we tested whether the Division appropriately deactivated licenses for those who failed to pay required fees. Our population consisted of 20,515 invoices not paid in calendar year 2019. We randomly selected 20 records from voided invoices and reviewed supporting documentation to determine license status.

To evaluate the adequacy of controls in the processing and storage of personally identifiable information, we reviewed the purpose of PII obtained by the Division, discussed processes for protecting PII with staff, reviewed database user access, and

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obtained documentation of unsecured PII. We also reviewed staff training procedures for handling PII.

For our work related to market conduct, we identified if the Division had adequate controls to effectively monitor the bail industry. We reviewed processes and documentation related to bail audits. Additionally, we catalogued issues identified in bail audits and compared issues found to consumer complaint data. We discussed the follow-up process with staff.

Finally, we reviewed enforcement cases from calendar year 2019. First, we tested completeness and accuracy of data by comparing case files to computer reports. We then analyzed the frequency, severity, and impact of specific complaints. In addition, we documented the Division's efforts to address identified issues for 20 judgmentally selected cases. Our population consisted of 181 calendar year 2019 enforcement cases.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient and appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population, because populations related to varying revenue sources or were judgmentally selected and therefore, did not lend to reasonable projections.

Our audit work was conducted from September 2019 to December 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Commissioner of the Division of Insurance. On April 26, 2021, we met with agency officials to discuss the results of the audit and requested a written response

to the preliminary report. That response is contained in Appendix B, which begins on page 17.

Contributors to this report included:

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# Appendix B

## Response From the Division of Insurance

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May 5, 2021

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RE: Division of Insurance Response to LCB Audit Report

Dear Mr. Crossman,

The Department of Business and Industry, Division of Insurance (Division) is in receipt of the audit recommendations proposed by the Legislative Counsel Bureau (LCB). The audit recommendations were provided to the Division on April 28, 2021.

The Division appreciates the thoroughness of LCB staff, as well as the professionalism and cooperation the staff exhibited throughout this audit, especially considering the added complication of the precautions taken due to the COVID-19 pandemic.

As provided below, the Division agrees with all the recommendations. The recommendations provided in the report will assist the Division with fulfilling its mission as the primary consumer protection agency for insurance issues, as well as ensuring a vibrant and competitive insurance market in Nevada. The following are the Division's responses to each of the recommendations.

**Recommendations 1 through 4, Oversight of Revenues.**

The first four recommendations relate to the Division's procedures for revenue management. During 2020, the Division received in excess of \$55 million in revenues, which are attributed to the eight budget accounts administered by the Division. These revenues come into the Division through licensing fees, surplus lines premium taxes, captive insurer premium taxes, administration and enforcement fee

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Legislative Counsel Bureau  
May 5, 2021  
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assessments, fraud assessments, self-insured insolvency fund assessments, filing fees, fines/penalties, and other authorized fees. The Division receives this revenue via thousands of individual transactions, in the form of electronic payments, paper checks, and money orders submitted directly to the Division, as well as electronic payments submitted through the Division's vendors. The Division takes seriously its responsibility to account for this revenue and appreciates the opportunity to improve its processes.

**Recommendation 1:**

**Develop comprehensive policies and procedures to perform monthly reconciliations between the state accounting system and the Division bank account, database, and receipt logs.**

The Division agrees with Recommendation 1. As mentioned above, the Division administers eight budget accounts, including the budget for insurance cash bonds and the fees that are attributed to the general fund. In 2020, the Division received more than \$55 million in revenue. The revenue is deposited in a zero-balance account, which means that the account is swept at the end of each business day, and funds are attributed to the budget account and revenue general ledger to which the funds are coded. Therefore, Division is responsible to record and reconcile all deposits in this account on a daily basis. That being said, the Division recognizes the value of monthly reconciliations between the daily deposits, the Division's databases (Sircon and Access), and the State's accounting system to ensure that all funds are recorded in the proper budget account and revenue general ledger.

Since July of 2019, the Division has been reviewing and revising its fee schedules and working with the Division's Sircon database vendor to improve the use of fee schedules and reports to more efficiently reconcile all revenues received by the Division. To that end, the Division has discontinued the use of a separate Access database to record certain payments received by the Division. Those payments are now recorded in the Division's Sircon database.

Certain revenue comes into the Division via third party vendors: Vertafore, National Insurance Producer Database, and the System for Electronic Rate and Form Filing. The majority of these payments are not receipted through in the Division's Sircon database but are properly deposited, coded, and reconciled to the State's accounting database. Payments from these vendors account for the difference of \$11.5 million between the Division's Sircon database and the State's accounting system, as noted in the audit report. Part of the fee schedule project includes developing the infrastructure in the Division's Sircon database to record these payments and support a monthly reconciliation process.

**Recommendation 2:**

**Establish a process to ensure staff maintain logs for all payments mailed to the Division. Include receipt logs in reconciliations.**

The Division agrees with Recommendation 2. During the 2019 audit period, the Division did not use a daily log of paper payments received. In July 2020, the Division implemented a process to log all funds received by the Division via mail or in-person deliveries each day. This log is verified and used to ensure that all paper payments are receipted, deposited, or otherwise appropriately handled. This check log is an important part of the Division's reconciliation process.

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May 5, 2021  
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**Recommendation 3:**

**Implement controls to include managerial approval and oversight of edits to financial records.**

The Division agrees with Recommendation 3 and has implemented internal controls to ensure that transactions are recorded and processed appropriately.

Beginning July 2020, the Division updated the security roles in the Division's database to ensure that the ability to void, adjust, or otherwise manipulate an invoice may only be exercised by a reviewer or manager that is independent of the staff member processing payments. If a staff member needs to correct an invoice, the staff member must submit a written and documented request to the reviewer or manager, who can verify the accuracy of the information and address the invoice.

**Recommendation 4:**

**Revise policies and procedures regarding the assessment, collection, and tracking of late fees across all income sources to ensure consistent and timely application and adherence to statutes and regulations.**

The Division agrees with Recommendation 4. The Division is updating its policies to ensure that statutorily permitted late payment penalties are consistently and timely applied. With respect to the specific late payments referred to in the audit report, the late administrative and enforcement fees received during calendar year 2018 have been referred for administrative action.

**Recommendation 5, Use of Personally Identifiable Information**

As mentioned in the audit report, in 2019, the Division had approximately 160,000 individual licensees. The licensing records for these individuals include Social Security Numbers and other personally identifiable information (PII). As a licensing and regulatory agency, the Division receives Social Security Numbers and other PII from various sources, including but not limited to individual applications for licensure. This PII is used to initially verify the identity of an individual for licensing and accurately attributing a criminal history record to the appropriate individual. Once an individual applicant's information is recorded in the Division's database, a unique individual identification number is assigned. In addition, once an individual applicant is licensed, the National Insurance Producer Registry assigns a unique identifier to the licensee. These identifying numbers, in addition to a license number, are then used as primary identifiers.

The Division is responsible to protect PII that it receives from applicants and licensees and follows legal and policy requirements to safely handle and store this sensitive information.

**Recommendation 5:**

**Develop policies, procedures, and controls to ensure the safe handling and storage of all personally identifiable information including, but not limited to:**

- a. **Limiting staff access to personally identifiable information**

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- b. Ensuring electronic transmissions containing personally identifiable information are done by a secure method.**
- c. Ensuring personally identifiable information is properly secured in current and future information systems.**
- d. Not using a Social Security number as a primary identifier, whenever possible**

The Division agrees with Recommendation 5. The audit report includes an overview of some of the steps taken by the Division to enhance protection of PII by limiting access to Social Security Numbers to those individuals who need the information to perform their jobs. As noted above, the Division will prevent the use of a Social Security Number as a primary identifier, when possible. The Division will continue to monitor its policies and to educate staff to keep this important responsibility in the forefront.

**Recommendations 6 and 7, Oversight of the Bail Industry**

The Division is responsible for licensing and regulatory oversight of more than 20 license types issued to individuals and firms, including bail agents and agencies. In 2018, the Division commenced a formal education and review process regarding bail agents and bail agencies. The purpose of this program was to educate bail agents regarding their statutory and regulatory requirements in an effort to reduce complaints and improve compliance with respect to the license type, as a whole. The Division kicked off this program with an educational presentation in both northern and southern Nevada, updated its website, and issued bulletins. Then, over a period of several months, the Division conducted initial in-person compliance reviews with representatives of each licensed bail agency. These in-person reviews were completed in February 2019. Upon conclusion of these reviews, a description of the observations was provided to each licensed agency, and bail licensees were given an opportunity to bring their operations into compliance.

Based on the Division's desire to clarify regulatory requirements of the bail industry, the Division also began the process of promulgating regulations. These regulations are important to ensure that both the bail industry and the Division understand the requirements and responsibilities. In fact, due to the lack of clear requirements, the Division decided not to pursue a follow-up compliance review until the regulations are promulgated. The regulations were initially submitted to LCB in June 2018, and, after a workshop was completed and public comment received, revisions were submitted. The final revised draft was submitted to LCB in January 2020. As of the date of this letter, the Division awaits a response to the draft regulation from LCB. When requirements and responsibilities are clarified, the Division will pursue compliance with the law and conclude this project.

It is important to note that a license-type specific education and review project of this nature is not required by law for any license type. The Division commenced this project to educate the bail industry regarding its legal responsibilities pursuant to Title 57 of the Nevada Revised Statutes.

**Recommendation 6:**

**Develop a program for continued oversight of bail agencies including updating policies, procedures, and timelines regarding follow-up activities.**



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The Division agrees with Recommendation 6 in that the education and compliance review project will be most effective if follow-up activities are completed with each bail agency. Given that this is not program required by law, the Division will develop a timeline, rather than policies and procedures, to complete this important project.

**Recommendation 7:**

**Impose penalties in accordance with statute for continued noncompliance.**

The Division agrees with Recommendation 7. The Division understands the importance of taking administrative action and imposing monetary penalties, when permitted by law, to enforce the provisions of Title 57 of the Nevada Revised Statutes for any license type regulated by the Division. In this particular situation, the Division's bail project is an effort to educate bail agents regarding their regulatory requirements. Rather than take a punitive approach based on the initial compliance reviews, the Division plans to pursue follow up reviews and take administrative action where permitted by law. It is important to note that, notwithstanding the bail education project, the Division has taken administrative action against bail licensees for violations of the provisions of Title 57 when a consumer has been harmed.

Once again, I appreciate you and your staff for their cooperation and professionalism throughout this audit. If you have any additional questions, please let me know.

Sincerely,



Barbara D. Richardson  
Nevada Insurance Commissioner

cc: Terry Reynolds, Director, Department of Business & Industry

## Division of Insurance’s Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop comprehensive policies and procedures to perform monthly reconciliations between the state accounting system and the Division bank account, database, and receipt logs .....	<u>X</u>	<u>          </u>
2. Establish a process to ensure staff maintain logs for all payments mailed to the Division. Include receipt logs in reconciliations .....	<u>X</u>	<u>          </u>
3. Implement controls to include managerial approval and oversight of edits to financial records.....	<u>X</u>	<u>          </u>
4. Revise policies and procedures regarding the assessment, collection, and tracking of late fees across all income sources to ensure consistent and timely application and adherence to statutes and regulations.....	<u>X</u>	<u>          </u>
5. Develop policies, procedures, and controls to ensure the safe handling and storage of all personally identifiable information including, but not limited to:		
a. Limiting staff access to personally identifiable information .....	<u>X</u>	<u>          </u>
b. Ensuring electronic transmissions containing personally identifiable information are done by a secure method .....	<u>X</u>	<u>          </u>
c. Ensuring personally identifiable information is properly secured in current and future information systems .....	<u>X</u>	<u>          </u>
d. Not using a Social Security number as a primary identifier, whenever possible .....	<u>X</u>	<u>          </u>
6. Develop a program for continued oversight of bail agencies including updating policies, procedures, and timelines regarding follow-up activities .....	<u>X</u>	<u>          </u>
7. Impose penalties in accordance with statute for continued noncompliance .....	<u>X</u>	<u>          </u>
TOTALS	<u>7</u>	<u>          </u>