Audit Highlights

Highlights of Legislative Auditor report on the Division of Insurance issued on September 19, 2012. Report # LA12-20.

Background

The Division has the responsibility to ensure that insurance companies doing business in Nevada are financially solvent and that Nevada policyholders are treated fairly. To carry out this mission, DOI is responsible for financial and market regulation of the state's $12 billion insurance industry. Financial regulation seeks to protect the policyholders from insurers who are unable to meet their financial obligations. Market regulation attempts to ensure that insurers are able to provide products to the consumer in a fair and reasonable marketplace and prevent abusive practices that could harm the consumer.

The Division consists of the Commissioner's Office and the following operating sections: Corporate & Financial Affairs, Legal & Enforcement, Life & Health, Property & Casualty, Producer Licensing, Self-Insured Workers' Compensation, and Consumer Services.

DOI has eight operating budget accounts and also administers four non-operating budget accounts. Seven of the operating accounts are funded by assessments and various user fees, and one account is funded by an appropriation. Actual expenditures for fiscal year 2011 were about $16 million, which includes approximately $2 million in intra-agency transfers. For fiscal year 2012, the Division had a total of 85 authorized positions.

Purpose of Audit

The purpose of this audit was to determine if the Division effectively monitors: (1) revenues and accounts receivable, and (2) required industry reports and examinations. Our audit focused on the Division's activities for the period from July 1, 2010 through March 31, 2012.

Audit Recommendations

This audit report contains 10 recommendations to improve the monitoring of accounts receivable, required industry reports, and examinations.

The Division accepted the 10 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of Insurance

Department of Business and Industry

Summary

The Division of Insurance (DOI) needs to improve its oversight of accounts receivable. We found DOI did not adequately monitor its accounts receivable for certain fees and taxes. For example, collection efforts were often not timely for annual fees and examination fees. Further, accounts were not turned over to the State Controller's Office in a timely manner and some captive insurers did not pay past due premium tax. Improvements to these processes would help ensure prompt payment from active companies, and reduce the risk that delinquent accounts from inactive companies are not paid.

Better monitoring of required industry reports is needed to help ensure adequate financial and market regulation. We found DOI did not always take appropriate action to ensure required industry reports were submitted and reviewed timely. Timely submittal and review of financial and other important reports facilitates timely detection of problems, which helps protect consumers. Further, enforcement efforts were not consistent and timely when entities did not comply with reporting requirements.

Examinations of title companies and self-insured workers' compensation companies were not performed as required. Examinations can identify deficiencies that require corrective action. Timely detection and correction of financial concerns help ensure consumers are adequately protected.

Key Findings

Our review of past due annual fees found: (1) untimely collection efforts, (2) accounts for inactive companies were not sent to collections timely, (3) invoices improperly issued were not voided timely, and (4) payments were not entered in the accounting system timely. All 36 invoices tested had problems. For example, two active companies owe annual fees that were due March 2011. There was no evidence of collection efforts prior to our inquiries in May 2012. NRS 680A.180 requires each insurance company authorized to transact insurance in Nevada to pay an annual continuation fee. If the continuation fee is not paid timely, an insurer's certificate of authority expires at midnight on May 31. (page 6)

The Corporate & Financial Affairs Section did not always perform timely review of reports significant to monitoring financial solvency for domestic companies. For 12 of 20 companies, the audited financial statements and actuarial opinions were either not reviewed or not reviewed timely. As a result, there is an increased risk companies with financial concerns might not be identified prior to problems occurring. (page 12)

Controls need to be improved for required industry reports monitored by the Producer Licensing and Workers' Compensation Sections. We found follow-up was not timely when companies did not submit certain reports and reports were not always reviewed timely. For example, 15 of 20 Producer Licensing reports and 17 of 20 Workers' Compensation reports were not reviewed timely. (page 14)

DOI did not take timely enforcement action when certain reporting requirements were not met. For example, we tested 25 workers' compensation companies and found enforcement was not timely for all 25 companies. It took from 74 to 335 days after the report was due until a Consent to Fine (CTF) was issued. This included 16 instances of no action for 150 days or more. It is inequitable when some companies do not comply with laws and regulations, and enforcement is not timely. In addition, when action was taken to issue a CTF many were issued in error. A CTF involves a matter that has not gone to hearing. For instance, a CTF should be sent when a party has failed to file a required report. It is an offer made to the party to settle for a fine amount that is usually less than the maximum allowed in statute. (page 15)

DOI did not always ensure title companies and workers' compensation companies had timely examinations. According to DOI records, 33 of 53 title companies did not have an examination in 2011. We selected 20 of these companies and found no evidence of an examination. NRS 692A.100 requires annual examinations of title companies, title agents, and escrow companies. The purpose of these examinations is to determine the company's financial condition, fulfillment of contractual obligation, and compliance with law. We also found exceptions for 14 of 30 workers' compensation companies tested. The purpose of these examinations is to determine the adequacy of the company's security deposit; sufficiency of reserves; and the reporting, handling and processing of claims. (page 18)