

DEPARTMENT OF INSURANCE

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED OCTOBER 16, 2019

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at [www.lla.la.gov](http://www.lla.la.gov).

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.25. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at [www.lla.la.gov](http://www.lla.la.gov). When contacting the office, you may refer to Agency ID No. 3454 or Report ID No. 80190040 for additional information.

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Insurance



October 2019

*Audit Control # 80190040*

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## Introduction

As a part of our audit of the State of Louisiana’s Comprehensive Annual Financial Report (CAFR) and the Single Audit for the fiscal year ended June 30, 2019, 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. We also performed procedures for the period July 1, 2017, through June 30, 2019, to evaluate certain internal controls DOI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds.

## Results of Our Procedures

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### Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2019, we considered internal control over financial reporting and examined evidence supporting DOI’s insurance premium tax revenues and receivables. DOI collects premium taxes from insurers doing business in Louisiana. 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.

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### 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 the Louisiana Insurance Rating Assessment, monitoring activities of the Office of Financial Solvency, and statutory dedications for the Administrative Fund of the Department of Insurance.

Based on the results of these procedures performed, we did not report any findings.

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## **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. DOI annually assesses the insurer up to 1% of the 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, 72.5% of this assessment is allocated among the Municipal Fire and Police Civil Service Operating Funds and various retirement funds, while the remaining assessment is used for DOI's operations.

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.

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## **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.

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## **Statutory Dedications – Administrative Fund of the Department of Insurance**

We performed procedures on certain statutory dedications for fiscal years 2017 and 2018, as described below, to determine if the fees charged cover the costs associated with the service established by statute.

In accordance with R.S. 22:1071, DOI collects annual assessments on health insurance issuers that issue, sell, renew, or offer health insurance coverage in Louisiana. Funds received from these assessments are deposited into the Administrative Fund of the Department of Insurance and are used solely for the expenses in connection with administration and enforcement of the Health Insurance Portability and Accountability Act (HIPAA). Each year, DOI calculates the expenses associated with HIPAA and determines the assessment for each insurer. The assessment cannot exceed five one-hundredths of one percent of the amount of premiums received in Louisiana by the insurer during the preceding calendar year. DOI assessed 0.015%, or \$833,581, for 2017 and 0.023%, or \$923,928, for fiscal year 2018.

We performed procedures to determine whether these assessments cover the costs associated with providing the related services to determine if the agency is adequately collecting and accounting for the established fees and expending the funds in accordance with the relevant revised statutes. The Administrative Fund of the Department of Insurance paid for 100% and 88% of the total cost of services provided during fiscal years 2017 and 2018, respectively. The remaining costs in fiscal year 2018 were funded by self-generated revenues.

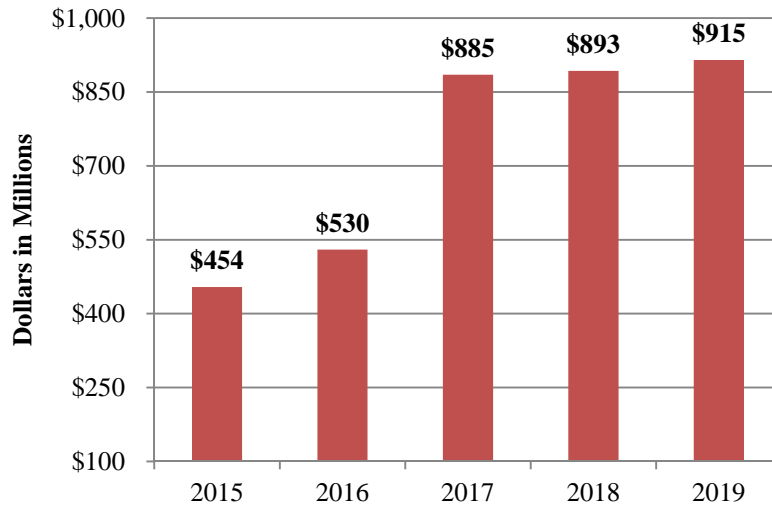
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## **Trend Analysis**

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 the 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 2019 increased by approximately \$22 million, or 2.5%, from fiscal year 2018. 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.

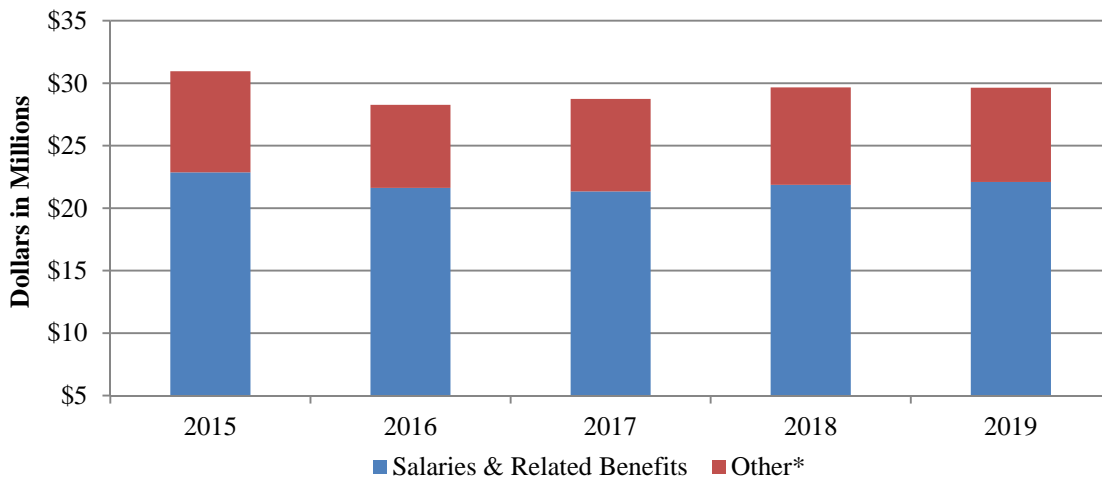
**Exhibit 1  
Premium Taxes Collected, by Fiscal Year**



Source: 2015-2019 Annual Fiscal Reports

We also analyzed DOI’s expenditures over the last five fiscal years (see Exhibit 2). DOI’s largest expenditures are salaries and related benefits. Other expenditures include travel, operating services, supplies, professional services, capital outlay and other charges. Total expenses remained relatively consistent between 2018 and 2019, with salaries and related benefits increasing by 1% and other expenditures decreasing by 3.2%.

**Exhibit 2  
Expenditures, by Fiscal Year**



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

Source: 2015-2019 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

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DOI2019





## APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Insurance (DOI) for the period from July 1, 2018, through June 30, 2019, 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. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2019.

- 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 at DOI for the period July 1, 2017, through June 30, 2019, on the Louisiana insurance rating assessment, monitoring activities of the Office of Financial Solvency, and statutory dedications for the Administrative Fund of the Department of Insurance. 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.