DEPARTMENT OF INSURANCE

TWO YEARS ENDED JUNE 30, 1999

From The Office Of State Auditor
Claire McCaskill

Report No. 2000-22
April 3, 2000

AUDIT REPORT

Office Of The
State Auditor Of Missouri
Claire McCaskill

April 2000

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the Department of Insurance.

State law provides the director of the Missouri Department of Insurance with the authority to administer Missouri chartered insurance companies requiring rehabilitation or liquidation, commonly referred to as receiverships. At June 30, 1999, there were three Missouri chartered insurance companies in rehabilitation and eleven in liquidation. Many of these receiverships have continued for several years, with three companies in receivership since the 1980's.

For those companies involved in the liquidation process, significant administrative expenses are incurred which decrease the overall assets available at final liquidation. These expenses can include items such as special deputy receiver fees, legal fees, investment fees, payroll, travel, professional services, and office expenses, but do not include payments of claims. Based on reports submitted to the department total administrative expenses for receiverships exceeded $31 million in 1998.

The Missouri Department of Insurance has established regulations regarding reporting requirements for insurance companies in receivership and, based on the reports submitted by the special deputy receivers or agents, the department tracks administrative costs closely. However, insurance department personnel indicated they only sporadically visit the special deputy receivers and agents to review the accounting records which support these reports. In addition, while audit reports are required for insurance companies in rehabilitation, there is no requirement for independent audits of insurance companies in liquidation. Without performing a review of the accounting records maintained by the special deputy receivers or requiring an audit of these records, the Missouri Department of Insurance has less assurance that the reports submitted to the department are accurate and can be relied upon.

The State Auditor recommends the Missouri Department of Insurance require independent audits for all receiverships or perform other monitoring procedures to ensure the information and reports submitted by the special deputy receivers or agents are accurate.

(over)

The Missouri Departments of Insurance and Revenue share responsibilities for assessing and collecting premium taxes. The Missouri Department of Insurance maintains delinquent premium tax listings and also receives delinquent tax listings from the Department of Revenue; however, these listings are not reconciled by the department in a timely manner. In addition, the department's delinquent tax listing requires several reconciling items and manual adjustments to agree to the Department of Revenue's delinquent tax listing. The monitoring of delinquent premium taxes needs improvement.

State law requires health maintenance organizations (HMOs) to file various reports with the department. The department's Managed Care Section has developed written procedures outlining what is to be included in the various HMO reports but not how the organization's reports are to be analyzed. Additionally, reports are frequently filed late by the various HMOs and, while the Managed Care Section does follow-up on these delinquent reports, no fine or fee is assessed to the organizations for filing late reports.

Only ten of the thirty organizations filed the quarterly reports due July 15, 1999 by the due date. Fifteen organizations filed the report late and five organizations still had not filed the report as of September 30, 1999. State law provides for a forfeiture fee not to exceed $100 for each violation.

We noted various concerns regarding insurance examiners' expense accounts, including unreasonable meal claims, inefficient use of automobiles, and unnecessary expenses incurred on non-travel weekends.

Other areas of concern noted in the report included untimely deposits of receipts, the lack of adequate review of supporting documentation for expenditures under a federal insurance counseling service program, the lack of a formal contingency plan for the department's computer system, and the lack of written examination programs for some market conduct examinations.

DEPARTMENT OF INSURANCE

TABLE OF CONTENTS

DEPARTMENT OF INSURANCE

TABLE OF CONTENTS

FINANCIAL SECTION

State Auditor's Reports

CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Mel Carnahan, Governor
and
Keith Wenzel, Director
Department of Insurance
Jefferson City, Missouri 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Department of Insurance as of and for the years ended June 30, 1999 and 1998, as identified in the table of contents. These special-purpose financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Insurance Examiners Fund, Department of Insurance Dedicated Fund, Trans-National Warranty Accounts, and the Rehabilitation Accounts; the receipts of the General Revenue Fund-State, Worker's Compensation Fund, Second Injury Fund, and the State School Moneys Fund; and the appropriations and expenditures of the various funds of the Department of Insurance and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the department.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and

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investments of the General Revenue Fund-Federal, Insurance Examiners Fund, Department of Insurance Dedicated Fund, Trans-National Warranty Accounts, and the Rehabilitation Accounts; the receipts of the General Revenue Fund-State, Worker's Compensation Fund, Second Injury Fund, and the State School Moneys Fund; and the appropriations and expenditures of the various funds of the Department of Insurance as of and for the years ended June 30, 1999 and 1998, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated September 20, 1999, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.

A part of the department's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Claire McCaskill
State Auditor

September 20, 1999 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Alice Fast, CPA, CIA
In-Charge Auditor:	Mike Lemler, CPA
Audit Staff:	LaToya Smith
	Dana Spurgeon
	Jeff Wilson

CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Honorable Mel Carnahan, Governor
and
Keith Wenzel, Director
Department of Insurance
Jefferson City, Missouri 65102

We have audited the special-purpose financial statements of the Department of Insurance as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated September 20, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Department of Insurance are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of noncompliance which are presented in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Department of Insurance, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal

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control over financial reporting that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, and these matters are presented in the accompanying Management Advisory Report.

This report is intended for the information of the management of the Department of Insurance and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Claire McCaskill
State Auditor

September 20, 1999 (fieldwork completion date)

Financial Statements

Exhibit A-1

DEPARTMENT OF INSURANCE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1999

	General Revenue Fund - Federal	Insurance Examiners Fund	Department Of Insurance Dedicated Fund	Trans-National Warranty Accounts	Rehabilitation Accounts	Total (Memorandum Only)
RECEIPTS						
Federal grant	$ 255,523	0	0	0	0	255,523
Examination fees	0	7,160,944	0	0	0	7,160,944
Regulatory fees	0	0	1,878,059	0	0	1,878,059
Agents' licenses	0	0	1,248,676	0	0	1,248,676
Brokers' licenses	0	0	408,311	0	0	408,311
Agency and other licenses and fees	0	0	818,435	0	0	818,435
Appointment and termination fees	0	0	1,608,590	0	0	1,608,590
Filing fees	0	0	861,520	0	0	861,520
Late licensing fees	0	0	173,485	0	0	173,485
Certifications and clearance letters	0	0	372,104	0	0	372,104
Interest	0	0	482,642	6,344	6,352	495,338
Miscellaneous	0	141	73,048	0	0	73,189
Total Receipts	255,523	7,161,085	7,924,870	6,344	6,352	15,354,174
DISBURSEMENTS						
Personal service	0	4,199,151	3,989,019	0	0	8,188,170
Employee fringe benefits	0	1,017,882	1,092,179	0	0	2,110,061
Expense and equipment	0	1,968,592	1,545,991	0	0	3,514,583
State office building rent (Note 4)	0	35,853	296,263	0	0	332,116
Workers' compensation claims	0	272	16,271	0	0	16,543
Insurance counseling contract costs (Note 5)	255,523	0	0	0	0	255,523
Office of Information Technology upgrade (Note 6)	0	0	186,184	0	0	186,184
Lease parking (Note 7)	0	0	7,770	0	0	7,770
Article X refunds (Note 3)	0	0	309,443	0	0	309,443
Other refunds	0	0	32,815	0	0	32,815
Claims	0	0	0	4,398	0	4,398
Payments to Rehabilitation Administrator	0	0	0	0	14,500	14,500
Other	0	0	0	0	768	768
Total Disbursements	255,523	7,221,750	7,475,935	4,398	15,268	14,972,874
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	-60,665	448,935	1,946	-8,916	381,300
CASH AND INVESTMENTS, JULY 1	0	499,251	7,608,108	133,920	121,968	8,363,247
CASH AND INVESTMENTS, JUNE 30	$ 0	438,586	8,057,043	135,866	113,052	8,744,547

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

DEPARTMENT OF INSURANCE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1998

	General Revenue Fund - Federal	Insurance Examiners Fund	Department Of Insurance Dedicated Fund	Trans-National Warranty Accounts	Rehabilitation Accounts	Total (Memorandum Only)
RECEIPTS						
Federal grant	$ 181,387	0	0	0	0	181,387
Examination fees	0	6,620,119	0	0	0	6,620,119
Regulatory fees	0	0	1,914,979	0	0	1,914,979
Agents' licenses	0	0	1,195,260	0	0	1,195,260
Brokers' licenses	0	0	429,245	0	0	429,245
Agency and other licenses and fees	0	0	672,186	0	0	672,186
Appointment and termination fees	0	0	1,657,500	0	0	1,657,500
Filing fees	0	0	858,950	0	0	858,950
Late licensing fees	0	0	138,330	0	0	138,330
Certifications and clearance letters	0	0	336,626	0	0	336,626
Interest	0	0	445,085	6,891	4,269	456,245
Miscellaneous	0	1,184	16,090	0	0	17,274
Total Receipts	181,387	6,621,303	7,664,251	6,891	4,269	14,478,101
DISBURSEMENTS						
Personal service	0	4,154,962	3,722,787	0	0	7,877,749
Employee fringe benefits	0	918,131	922,790	0	0	1,840,921
Expense and equipment	6,720	1,712,972	1,486,529	0	0	3,206,221
State office building rent (Note 4)	0	0	298,550	0	0	298,550
Workers' compensation claims	0	329	14,265	0	0	14,594
Insurance counseling contract costs (Note 5)	174,667	0	0	0	0	174,667
Office of Information Technology upgrade (Note 6)	0	0	71,669	0	0	71,669
Lease parking (Note 7)	0	0	5,653	0	0	5,653
Article X refunds (Note 3)	0	40,000	392,804	0	0	432,804
Other refunds	0	0	20,358	0	0	20,358
Claims	0	0	0	8,327	0	8,327
Payments to Rehabilitation Administrator	0	0	0	0	6,500	6,500
Other	0	0	0	38	210	248
Total Disbursements	181,387	6,826,394	6,935,405	8,365	6,710	13,958,261
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	-205,091	728,846	-1,474	-2,441	519,840
CASH AND INVESTMENTS, JULY 1	0	704,342	6,879,262	135,394	124,409	7,843,407
CASH AND INVESTMENTS, JUNE 30	$ 0	499,251	7,608,108	133,920	121,968	8,363,247

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

DEPARTMENT OF INSURANCE
COMPARATIVE STATEMENT OF RECEIPTS

		Year Ended June 30,	
		1999	1998
GENERAL REVENUE FUND - STATE			
Premium taxes	$	151,259,429	155,669,407
Surplus lines taxes		7,681,185	7,832,194
Total General Revenue Fund - State Receipts	$	158,940,614	163,501,601
WORKERS' COMPENSATION FUND			
Workers' compensation taxes	$	24,412,634	12,890,246
SECOND INJURY FUND			
Second injury assessments	$	33,230,373	17,998,969
STATE SCHOOL MONEYS FUND			
Fines and forfeitures	$	1,245,850	804,505
Miscellaneous		0	500
Total State School Moneys Fund Receipts	$	1,245,850	805,005

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

DEPARTMENT OF INSURANCE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1999			1998		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - FEDERAL						
Purpose of funding programs providing counseling on health insurance coverage and benefits to Medicare beneficiaries	$ 435,674	406,906	28,768	323,624	164,734	158,890
Total General Revenue Fund - Federal	435,674	406,906	28,768	323,624	164,734	158,890
INSURANCE EXAMINERS FUND						
Market conduct and financial examinations of insurance companies - Personal Service and/or Expense and Equipment	6,500,000	6,138,258	361,742	5,881,151	5,852,597	28,554
Total Insurance Examiners Fund	6,500,000	6,138,258	361,742	5,881,151	5,852,597	28,554
DEPARTMENT OF INSURANCE DEDICATED FUND						
Planning grants - Personal Service and/or Expense and Equipment	0	0	0	100,000	0	100,000
Personal Service	4,417,462	4,062,342	355,120	3,978,586	3,724,028	254,558
Expense and Equipment	1,755,651	1,393,176	362,475	1,836,273	1,686,869	149,404
Refunds	35,000	34,806	194	25,000	20,358	4,642
Total Department of Insurance Dedicated Fund	6,208,113	5,490,324	717,789	5,939,859	5,431,255	508,604
Total All Funds	$ 13,143,787	12,035,488	1,108,299	12,144,634	11,448,586	696,048

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

DEPARTMENT OF INSURANCE
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Department of Insurance.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the General Revenue Fund-Federal, Insurance Examiners Fund, Department of Insurance Dedicated Fund, Trans-National Warranty Accounts, and the Rehabilitation Accounts. Except for the Trans-National Warranty Accounts and the Rehabilitation Accounts, appropriations from these funds are expended by or for the department for restricted purposes. The Trans-National Warranty Accounts and the Rehabilitation Accounts are not subject to appropriations.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund-State, Workers' Compensation Fund, Second Injury Fund, and the State School Moneys Fund. Receipts include monies the department collects during its normal activities and remits to the funds. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the department's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the department and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, prepared on the cash basis of accounting, presents amounts when received.

The Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The department administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly, except for the Trans-National Warranty Accounts and the Administrative Supervision Accounts which are controlled entirely by the department.

<u>General Revenue Fund-Federal</u>: The department administers a program financed wholly or partially by federal monies maintained in the state treasury in the Department of Insurance's-Federal Fund. These federal funds may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize the disbursements of the department's federal funds.

<u>Insurance Examiners Fund</u>: This fund is authorized by Sections 374.160 and 374.162, RSMo 1994, to receive all monies paid to the state by insurance companies for the costs incurred by the department in conducting examinations, valuations, or proceedings against such companies. Expenditures, authorized by appropriations, are to be used for the purposes of paying the compensation of insurance examiners and expenses incurred for supervision and support of the examiners. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund.

<u>Department of Insurance Dedicated Fund</u>: This fund is authorized by Section 374.150, RSMo 1994, to receive all fees due the state under the provisions of the insurance laws.

Appropriations from this fund are to be used solely for the payment of expenditures incurred by the department in performing the duties required by law which are not paid for by another source of funds. Any unexpended balances in this fund are perpetually maintained for the purposes of this fund unless the unencumbered balance at the close of the biennium year exceeds two times the total amount appropriated, paid, or transferred to the fund during such fiscal year.

Trans-National Warranty Accounts - The MDI established various accounts to pay claims for an insurance company that had issued vehicle warranty agreements in Missouri but was not licensed to conduct business in the state. These bank accounts were established outside the state treasury and are not state funds.

Rehabilitation Accounts - The MDI established various joint bank accounts and investments outside of the state treasury for the payment of claims and administrative expenses for an insurance company that was placed under rehabilitation by the department. These funds are not state funds.

General Revenue Fund - State: The department does not receive appropriations from this fund and does not maintain a proprietary interest in the fund. Receipts collected by the department and deposited into the General Revenue Fund - State include the following:

1) Premium taxes: In accordance with various provisions of Chapter 148, RSMo 1994 and RSMo Cumulative Supp. 1999, insurance companies licensed in the state are required to pay a two percent tax on direct premiums received during the calendar year. The department certifies to the Department of Revenue the amount of premium taxes due together with the amount of quarterly installments to be paid by the insurance companies. The Department of Revenue collects the premium taxes and deposits them into the General Revenue Fund - State. Some premium taxes deposited into the General Revenue Fund - State are not available for general revenue purposes. The provisions of Chapter 148, RSMo 1994 and RSMo Cumulative Supp. 1999, restrict about 50 percent of such premium taxes for distribution to the various school districts in the state.

2) Surplus lines taxes: In accordance with various provisions of Chapter 384, RSMo 1994, the department collects and deposits into the General Revenue Fund - State a five percent tax on net premiums for high risk insurance which is underwritten by a surplus lines insurer. The department certifies to the Department of Revenue all penalties and interest due as a result of late payments. The Department of Revenue collects the penalties and interest and deposits them into the General Revenue Fund - State.

Workers' Compensation Fund: In accordance with Section 287.690, RSMo 1994, on October 31 each year, the director of the Division of Workers' Compensation estimates the amount of revenue required to administer this chapter and determines the rate of tax for the following calendar year based on that estimate as well as the estimated December 31 balance of the fund. The tax, which is imposed upon all insurance companies providing workers' compensation insurance coverage and authorized self-insurers, shall not exceed two percent in lieu of all other taxes on the workers' compensation net deposits, net premiums, or net assessments. The Department of Revenue collects these taxes and deposits them into the Workers' Compensation Fund.

<u>Second Injury Fund</u>: In accordance with Section 287.715.2, RSMo 1994, on October 31 each year, the director of the Division of Workers' Compensation estimates the amount of benefits payable from the Second Injury Fund during the ensuing calendar year and calculates the total amount of the annual surcharge based on that estimate to be imposed upon all workers' compensation policyholders and authorized self-insurers. The surcharge imposed shall be set at and calculated against a percentage of the policyholder's or self-insured's workers' compensation net deposits, net premiums, or net assessments for the previous policy year. The Department of Revenue collects the surcharges and deposits them into the Second Injury Fund.

<u>State School Moneys Fund</u>: Fines and forfeitures imposed and collected by the department under the Missouri Insurance Code are deposited into the State School Moneys Fund.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the Insurance Examiners Fund and the Department of Insurance Dedicated Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit C.

2. <u>Cash and Investments</u>

The balances of the General Revenue Fund-Federal, Insurance Examiners Fund, and the Department of Insurance Dedicated Fund are pooled with other state funds and invested by the state treasurer.

Deposits

The department's deposits in the Trans-National Warranty Accounts and the Administrative Supervision Accounts at June 30, 1999 and 1998, were entirely covered by federal depositary insurance.

Investments

The Rehabilitation Accounts' only investment at June 30, 1999 and 1998, was a U.S. Treasury note with a reported amount of $85,000 (which approximated fair value).

This investment was held by the custodial bank in the name of the insurance company and the department.

3. Article X Refunds/Refund Replenishments

Article X, Sections 16 through 24 of the Missouri Constitution establishes a revenue limit for Missouri State Government. Total state revenues exceeded this limit in fiscal years 1997, 1996, and 1995 which triggered income tax refund liabilities under provisions of the Constitution. The Office of Administration calculated the proportional share of the liabilities to be allocated to each fund and transfers were made from Insurance Examiners Fund and the Department of Insurance Dedicated Fund to the state's General Revenue Fund to cover each fund's share of the liabilities.

4. State Office Building Rent

The Office of Administration calculated the proportional share of costs for state office building space to be allocated to each fund, and monthly transfers were made from the Insurance Examiners Fund and the Department of Insurance Dedicated Fund to the state's General Revenue Fund to cover each fund's share of the costs.

5. Insurance Counseling Contract Costs

The MDI contracted with the Missouri Patient Care Review Foundation to provide insurance counseling services for senior citizens. This expenditure category represents the costs associated with this contract paid from the General Revenue Fund - Federal.

6. Office of Information Technology Upgrade

The Missouri General Assembly made appropriations from the Department of Insurance Dedicated Fund for the department's proportionate share of the statewide upgrade, replacement, and improvements to information technology systems. These appropriations are administered by the Office of Administration.

7. Lease Parking

The Missouri General Assembly made appropriations from the Department of Insurance Dedicated Fund for the department's proportionate share of lease parking at the state office buildings in St. Louis and Kansas City. These appropriations are administered by the Office of Administration, Division of Facilities Management.

8. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

	Year Ended June 30,					
	1999			1998		
	General Revenue Fund-Federal	Insurance Examiners Fund	Department of Insurance Dedicated Fund	General Revenue Fund-Federal	Insurance Examiners Fund	Department of Insurance Dedicated Fund
DISBURSEMENTS PER EXHIBIT A	$ 255,523	7,546,215	7,475,935	191,843	7,165,749	6,935,405
Employee fringe benefits	0	(1,017,882)	(1,092,179)	0	(918,131)	(922,790)
State office building rent	0	(35,583)	(296,263)	0	0	(298,550)
Workers' compensation claims	0	(272)	(16,271)	0	(329)	(14,265)
Office of Information technology upgrade	0	0	(186,184)	0	0	(71,669)
Lease parking	0	0	(7,770)	0	0	(5,653)
Article X refunds	0	(324,465)	(309,443)	(10,456)	(379,355)	(392,804)
Lapse period expenditures:						
1999	175,179	103,074	193,263	23,796	0	0
1998	(23,796)	(124,560)	(277,669)	(40,449)	124,560	277,669
1997	0	0	0	0	(119,816)	(84,815)
Accounts payable, June 30:						
1999	0	5,706	18,420	0	0	0
1998	0	(13,705)	(11,515)	0	13,705	11,515
1997	0	0	0	0	(33,786)	(2,788)
EXPENDITURES PER EXHIBIT C	$ 406,906	6,138,528	5,490,324	164,734	5,852,597	5,431,255

9. Securities on Deposit

Insurance companies doing business in Missouri are required to deposit securities with the department for the protection of policy holders and creditors in accordance with various provisions of Chapters 354, 376, 379, 381, and 384, RSMo 1994 and RSMo Cumulative Supp. 1999. Only capital securities are required and the requirements are dependent on the type of insurance company.

Securities having a total accepted value of approximately $268.5 and $261.9 million at December 31, 1998 and 1997, respectively, were on deposit with the contracted bank. The accepted value is the market value of each security at year-end. These amounts are not included in the financial statements because the department has no ownership interest in them. Missouri domiciled insurance companies sometimes maintain securities on deposit in excess of Missouri requirements to meet the depository requirements of other states in which they do business. Foreign domiciled insurance companies are frequently not required to deposit securities with the department if securities meeting Missouri requirements are on deposit with the applicable state of domicile.

Supplementary Data

Schedule

DEPARTMENT OF INSURANCE
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,				
	1999	1998	1997	1996	1995
Personal service	$ 8,266,621	7,882,737	7,489,150	6,828,128	6,165,544
Program specific	441,712	185,064	223,775	199,039	185,439
Travel and vehicle expense	1,772,251	1,496,993	1,720,007	1,512,583	1,770,992
Transportation equipment purchases	0	14,514	0	12,329	11,000
Office expense	244,625	242,225	209,414	186,096	193,290
Office and communication equipment purchases	47,470	77,299	56,422	73,622	116,290
Communication expense	265,945	288,177	219,198	151,163	208,161
Institution and physical plant:					
Expense	2,211	1,727	5,112	11,942	9,594
Purchases	2,393	1,149	338	369	1,259
Data processing expense and equipment	580,667	815,141	745,623	633,274	573,147
Professional services	293,931	287,391	493,956	339,886	177,519
Other expense	117,662	156,169	107,232	139,734	134,449
Total Expenditures	$ 12,035,488	11,448,586	11,270,227	10,088,165	9,546,684

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Recommendations

DEPARTMENT OF INSURANCE
SUMMARY OF FINDINGS

1. <u>Receipts</u> (pages 26-27)

   Some receipts are not transmitted to the Department of Revenue for deposit on a timely basis and some checks are not restrictively endorsed immediately upon receipt.

2. <u>Examiners' Expense Accounts</u> (pages 27-29)

   For the expense accounts reviewed, examiners claimed the maximum meal allowance for every meal even though the department's policy indicates the lesser of the meal allowance rate or actual expenses will be reimbursed. In addition, the examiners sometimes use inefficient travel practices causing additional expenses to be incurred.

3. <u>Federal Grant Expenditures</u> (pages 29-30)

   The department is not adequately reviewing the monthly invoices submitted for insurance counseling services for senior citizens and obtaining explanations for items such as overtime hours worked and indirect costs billed.

4. <u>Computer Information Systems</u> (page 30)

   The department does not have a formal contingency plan for the computer system.

5. <u>Receiverships</u> (pages 30-31)

   Reports are submitted by the special deputy receivers or agents for insurance companies in receivership; however, MDI personnel only occasionally visit the special deputy receivers and agents to review the accounting records which support these reports. In addition, while independent audit reports are required for insurance companies in rehabilitation, there is no requirement for audits of insurance companies in liquidation.

6. <u>Delinquent Taxes</u> (pages 31-33)

   The MDI receives a delinquent tax listing from the Department of Revenue; however, these listings are not reconciled with the MDI's delinquent tax listings in a timely manner. In addition, the MDI delinquent tax listing requires several reconciling items and manual adjustments to agree to the Department of Revenue delinquent tax listing.

7. <u>Regulation of Health Maintenance Organizations</u> (pages 33-34)

The MDI has developed written procedures outlining what is to be included in the various health maintenance organization reports but not how the health maintenance organization reports are to be analyzed. Additionally, reports are frequently filed late by the various health maintenance organizations and, while the Managed Care Section does follow-up on these delinquent reports, no forfeiture is assessed to the organizations for filing late reports.

8. Market Conduct Section (page 34)

Written examination programs are sometimes not included in the working papers.

DEPARTMENT OF INSURANCE
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S RECOMMENDATIONS

We have audited the special-purpose financial statements of the Department of Insurance as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated September 20, 1999.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the Department of Insurance's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

1. Receipts

The Missouri Department of Insurance (MDI) collects receipts for various fees, licenses, taxes, and other miscellaneous items; however, some receipts are not transmitted to the Department of Revenue (DOR) for deposit on a timely basis. Frequently, checks are held by the Support Services Section until notification is received from another section of the MDI that the check is for the correct amount. If the check is not for the correct amount, it will be returned to the party submitting it. The Support Services Section records checks being held on a "pending check log" and the date the check is eventually transmitted or returned is recorded on the log.

On September 8, 1999, we counted the receipts being held by the Support Services Section and found 163 checks totaling approximately $460,000 on hand. Forty-five of these checks, totaling approximately $27,000, were dated between February 5, 1999 and July 31, 1999. Furthermore, only one of these checks had been restrictively endorsed. In addition, the "pending check log" is not kept up to date. Several checks which had already been transmitted or returned still remained on the log.

To adequately safeguard monies and reduce the risk of loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt and transmitted to the DOR on a timely basis.

WE RECOMMEND the MDI restrictively endorse checks immediately upon receipt and transmit receipts to the DOR in a timely manner. In addition, the MDI should ensure the "pending check log" is properly updated.

AUDITEE'S RESPONSE

The department agrees in part and will implement the recommendations to the extent possible. The checks in question are those that are not readily attributable to a specific invoice or are for an incorrect amount. They may be categorized into three areas: (1) those ultimately deposited into the Dedicated Fund, (2) those ultimately deposited into the Exam Fund, and (3) those ultimately deposited into funds (General Revenue and the School Fund) supervised by other departments. The MDI can immediately deposit those funds that go into the Dedicated Fund and reconcile the accuracy of the amounts received post-deposit. There is no appropriation, however, for refund of receipts that exceed the amount due when funds are deposited into the Exam Fund. An appropriation will need to be requested. MDI will work with the other departments on the third category of funds to determine their ability to reconcile receipts post-deposit.

2. Examiners' Expense Accounts

The Insurance Examiners Fund was established pursuant to Section 374.162, RSMo 1994, to pay market conduct and financial examiners' salaries and expenses. The fund is reimbursed through payments by insurance companies being examined. These companies subsequently deduct 100 percent of the billing amounts from the premium taxes paid to the state. The MDI computes billings for the companies using the examiners' expense reports, time sheets, and other miscellaneous expense amounts. The MDI adds an additional 15 percent administrative fee to each billing in accordance with Section 374.160(3), RSMo 1994.

Travel expenses are frequently incurred by the examiners since they must travel to the insurance companies to perform the examinations. Travel expenses paid from the Insurance Examiners Fund totaled approximately $1.64 million and $1.38 million for fiscal years 1999 and 1998, respectively. The MDI has developed travel policies which are included in the department's policy manual.

A. During our review of all market conduct and financial examiners' expense accounts for the period from April 15, 1999 to May 15, 1999, we noted the following concerns:

1. All examiners claimed the maximum meal allowances every day ranging from $30 to $46 per day. It does not appear reasonable that every examiner would always spend the maximum amount.

2.a. Two employees working on the same market conduct examination in Des Moines, Iowa drove separate vehicles from Jefferson City on three different occasions and received mileage reimbursements of approximately $540 each rather than only incurring mileage expenses for one vehicle. Additionally, a third examiner flew from St. Louis to Des Moines, and then rented a vehicle while in Des Moines. His airfare and rental car expenses during this same time period were over $1,000.

b. For another market conduct examination in Des Moines, Iowa, one examiner drove from Kansas City, a second examiner drove from Jefferson City, and the third examiner flew from Springfield and then rented a vehicle while in Des Moines. Total mileage, airfare, and rental car costs for this time period totaled over $3,000.

c. Two employees working on the same financial examination drove separate vehicles from Kansas City to Springfield on three different occasions and received mileage reimbursements of approximately $300 each rather than only incurring mileage expenses for one vehicle.

We also reviewed several other months during the audit period and noted similar practices regarding incurring and reporting travel expense. The department's travel policy indicates that the Federal Travel Directory rates will be used as a meal guide; however, the policy also indicates this meal allowance amount is not an entitlement and the lesser of the meal allowance rate or actual expenses will be reimbursed. In addition, the department's travel policies indicate employees traveling to the same location are expected to efficiently use available automobile space. Furthermore, the department's travel policies indicate that employees are expected to exercise the same care in incurring expenses as a prudent person would exercise if traveling on personal business.

The MDI should ensure that employees comply with the department's travel policy and establish adequate controls over business travel to ensure that unnecessary expenses are not incurred or claimed by employees. Any questioned expenses could be denied for reimbursement or the department should request additional documentation to support the charges.

B. The department's travel policies provide for the examiners to return to their domicile every other weekend. On non-travel weekends, the examiners remain at the job site and are reimbursed for expenses just like normal work days. While in many instances it is more cost effective for the MDI to pay hotel and meal expenses than to pay the necessary expenses for the examiners to return to their domicile, we noted an instance where an examiner remained in Kansas City for the weekend rather than returning to his domicile 114 miles away. The examiner incurred hotel and meal expenses of approximately $400 while the mileage expense for a round trip between Kansas City and his domicile would have only been approximately $65.

The MDI should consider changes to the department's travel policies so that examiners would be required to determine if it is more economical to remain at the job site or return to their domicile on non-travel weekends. This would help ensure that unnecessary expenses are not incurred and help reduce examination costs.

Since insurance companies pay for these travel expenses and then receive a credit on their premium taxes thus reducing state revenues, it is especially important for the MDI to ensure expenses are reasonable.

WE RECOMMEND the MDI:

A. Ensure expenses claimed by the examiners are reasonable and in compliance with the department's travel policies.

B. Consider changes to the department's travel policies so that examiners do not remain at the job site over the weekend when it would be more economical to return to their domicile.

AUDITEE'S RESPONSE

A. The department agrees and will implement the recommendation. The department is committed to conducting examinations in as cost-effective a manner as possible. We will continue to seek ways to ensure only reasonable expenditures are made.

B. The department will consider changes to the travel policies.

3. Federal Grant Expenditures

The MDI receives a federal grant from the U.S. Department of Health and Human Services, Health Care Financing Administration, which is used to contract with a not-for-profit foundation to provide insurance counseling services for senior citizens. The foundation submits a monthly invoice listing the hours spent by various personnel and the hourly reimbursement rate for the applicable personnel; an amount for materials, equipment, and supplies; and amounts for indirect costs, fringe benefits, and travel. We reviewed the October and November 1998 monthly invoices and noted the following concerns:

- One employee was billed for 217 work hours for the month of October which would mean the employee would have worked at least 40 hours of overtime.

- The indirect costs for October and November combined was $17,826 of the $47,529 billed (37.5 percent) with no explanation on the invoice or in the contract indicating how the indirect costs were calculated or what expenses they were designed to cover.

- While mileage costs for October and November totaled $1,648, the invoices only indicated the total number of miles for the month. No detail was provided to indicate the destination or the purpose of the travel.

While we requested and reviewed documentation to support these expenditures from the foundation, MDI does not adequately review these expenditures and obtain explanations for unusual items. The grant agreement with the Health Care Financing Administration requires the MDI to closely monitor contractor activities and contractor use of grant funds. Without a thorough review of the foundation's invoices, the MDI has less assurance that grant funds are being expended appropriately in compliance with grant requirements.

WE RECOMMEND the MDI require the foundation to submit adequate supporting documentation and review this documentation for reasonableness. Any undocumented or unusual items should be investigated and explained before approving invoices for payment.

AUDITEE'S RESPONSE

The department agrees and has begun implementation of the recommendation. All grant expenditures will be closely scrutinized by appropriate MDI personnel.

4. Computer Information Systems

The department does not have a formal contingency plan for their computer system. As a result, the department has no formally negotiated arrangements for backup facilities in the event of a breakdown or disaster. All functions presently handled through the computer system, which include licensing, consumer complaints, various accounting processes, and many other systems, would have to be handled manually until repair or replacement was achieved. Failure to develop a formal contingency plan and arrangements for backup facilities increases the risk of prolonged down-time of the computer systems.

Development of contingency plans should include plans for a variety of situations, such as both short- and long-term plans for backup hardware, software, facilities, personnel, and power. Involvement of users in contingency planning is important since users will likely be responsible for maintaining at least a portion of the backup under various contingencies.

The major benefit of thorough contingency planning comes from the ability of the department to recover rapidly from disaster or extraordinary situations that might cause considerable loss or disruption to the department. The department's degree of reliance on the computer function justifies the need for contingency plans and periodic review of the plans .

WE RECOMMEND the MDI develop formal contingency plans and provide a system for periodic review and testing of the contingency plans.

AUDITEE'S RESPONSE

The department agrees and has begun implementation of the recommendation. A large part of the development of a formal contingency plan was completed during Y2K planning activities.

5. Receiverships

Sections 375.1150 to 375.1246, RSMo 1994, provide the director of the MDI with the authority to administer Missouri chartered insurance companies requiring rehabilitation or liquidation, commonly referred to as receiverships. Such companies placed into receivership are under circuit court supervision with the judge appointing the MDI director as receiver. The director may appoint a special deputy receiver or agent. At June 30, 1999, there were three Missouri chartered insurance companies in rehabilitation and eleven in liquidation. Many of these receiverships have continued for several years with three companies in receivership since the 1980s.

For those companies involved in the liquidation process, significant administrative expenses are incurred which decrease the overall assets available at final liquidation. These expenses can include items such as special deputy receiver fees, legal fees, investment fees, payroll, travel, professional services, and office expenses, but do not include payments of claims. Based on reports submitted to the MDI, total administrative expenses for receiverships exceeded $31 million in 1998, with over $26 million being incurred by one receivership.

The MDI has established regulations regarding reporting requirements for insurance companies in receivership and based on the reports submitted by the special deputy receivers or agents, the MDI tracks administrative costs closely. However, MDI personnel indicated they only sporadically visit the special deputy receivers and agents to review the accounting records which support these reports. In addition, while audit reports are required for insurance companies in rehabilitation, there is no requirement for independent audits of insurance companies in liquidation. Without performing a review of the accounting records maintained by the special deputy receivers or requiring an audit of these records, the MDI has less assurance that the reports submitted to the MDI are accurate and can be relied upon.

WE RECOMMEND the MDI require independent audits for all receiverships or perform other monitoring procedures to ensure the information and reports submitted by the special deputy receivers or agents are accurate.

AUDITEE'S RESPONSE

The department agrees and will begin looking at ways to improve oversight of information and reports from special deputy receivers or agents.

6. Delinquent Taxes

In accordance with the provisions of Chapter 148, RSMo 1994, the MDI certifies to the Department of Revenue (DOR) the amount of premium taxes due together with the amount of the quarterly installments to be made by the insurance companies licensed in Missouri. If the taxes are not paid on the dates specified by statute, they become delinquent. Delinquent tax amounts are used by the MDI when preparing premium tax reconciliations. Although the DOR is responsible for keeping the primary record of delinquent taxes, the MDI's listing serves as a means to monitor collections and delinquencies.

A. The MDI receives a delinquent tax listing from the DOR monthly. Current MDI procedures are to perform a reconciliation between the DOR and the MDI listings on a quarterly basis; however, these quarterly reconciliations are not being performed in a timely manner. As of September 30, 1999, MDI personnel were still working on the March 31, 1999 reconciliation.

   Timely reconciliations are necessary to ensure all taxes are properly collected and recorded, and to ensure delinquent taxes are promptly followed up. Only by performing such reconciliations can the MDI detect and correct errors on a timely basis.

B. At March 31, 1999, the MDI computerized delinquent tax listing totaled approximately \$5.47 million while the actual delinquent taxes totaled only approximately \$1.44 million. The MDI delinquent tax listing requires several reconciling items and manual adjustments including the following:

   1) Taxes for 1992 totaling over \$3.5 million that were actually paid are included on the delinquent listing. MDI personnel stated that when reporting requirements changed for some self-insurers from individual to group reporting, the payments were received under the group name and the computer system treated all of the individual self-insurer taxes as delinquent.

   2) Taxes for 1990 totaling approximately \$440,000 that were never due are included on the delinquent listing. MDI personnel indicated this amount relates to prepayments for 1991 taxes for two insurers who were non-taxable in 1990 but became taxable in 1991, and the computer system treated these prepayments as 1990 delinquent taxes.

   It appears that the MDI makes manual adjustments to the delinquent tax totals so that the delinquent tax amounts shown on the premium tax reconciliations are fairly stated. This takes additional time, however, and also increases the possibility that errors would not be discovered, causing delinquent taxes to be overstated and the premium tax reconciliations to be misstated. In addition, all taxes actually delinquent may not be properly identified by the MDI, which could result in a loss of tax monies due to the state.

WE RECOMMEND the MDI:

A. Perform reconciliations between the DOR and the MDI delinquent tax listings in a timely manner.

B. Correct the computer system and work with the DOR to ensure that the delinquent tax listing is accurate.

AUDITEE'S RESPONSE

A. The department agrees and will implement the recommendation.

B. The department agrees and has scheduled the computer software for a rewrite.

7. Regulation of Health Maintenance Organizations

Health maintenance organizations (HMOs) established and operated under Chapter 354, RSMo 1994, are entities which provide or arrange for basic and supplemental health care services to enrollees on a prepaid basis. The MDI has licensed 30 such organizations in the state and has also created a Managed Care Section within the MDI to monitor the activities of these organizations. Chapters 354 and 376, RSMo 1994, require these organizations to file various reports with the MDI. During our review of these reports, we noted the following concerns:

A. The MDI has developed written procedures outlining what is to be included in the various HMO reports but not how the HMO reports are to be analyzed. The various analysts in the Managed Care Section have developed different methods, including checklists, computer reports, and correspondence with the organizations, to document their review of the reports; however, no standard, consistent procedures have been developed.

Documentation of the procedures used in the review process is necessary to ensure that all reports are reviewed using consistent criteria and to ensure that the required information is contained in each report.

B. Reports are frequently filed late by the various HMOs. Only ten of the thirty organizations filed the quarterly reports due July 15, 1999 by the due date. Fifteen organizations filed the report late and five organizations still had not filed the report as of September 30, 1999. While the Managed Care Section does follow-up on these delinquent reports, no fine or fee is assessed to the organizations for reports that are filed late.

Section 354.444, RSMo Cumulative Supp. 1999, provides for a forfeiture fee not to exceed $100 for each violation of Sections 354.400 to 354.636, RSMo 1994 and Cumulative Supp. 1999, for which no specific punishment is provided. The MDI should consider assessing such forfeiture fees to HMOs which do not file statutorily required reports in a timely manner. This would encourage HMOs to file reports on a timely basis and reduce the amount of time necessary for the Managed Care Section to follow-up on reports not filed.

WE RECOMMEND the MDI:

A. Develop standardized, written procedures for the review of health maintenance organizations' reports. These procedures should indicate how the review is to be documented, including the name of the reviewer, date prepared, and the results of the review.

B. Consider assessing fines or fees to HMOs which do not file statutorily required reports in a timely manner.

AUDITEE'S RESPONSE

A. The department agrees and has begun the process of developing standardized, written procedures.

B. The department agrees and will consider assessing fines or fees to HMOs which do not file required reports in a timely manner.

8. Market Conduct Section

The Market Conduct Section is responsible for examining various aspects of insurance companies including licensing of agents, sales and advertising policies, underwriting, rate application, cancellations and renewals, consumer complaints, and claims practices. Market conduct examinations are scheduled based on a number of factors including certain issues the Director deems a priority, the number of complaints received for a company, a rapid increase in the number of complaints, shifts in the lines of insurance offered, information obtained from other states, and prior examinations.

Market Conduct Section personnel indicated that they follow procedures set by the National Association of Insurance Commissioners (NAIC) as outlined in the NAIC Market Conduct Examiners Handbook in performing market conduct examinations; however, written examination programs are sometimes not included in the working papers. The NAIC Market Conduct Examiners Handbook states the examiner-in-charge should provide to the other examiners "specific instructions concerning the conduct and purpose of the examination" and "develop audit trail procedures for the examination". Examination programs should be developed for each examination and filed with the working papers. Use of such programs would provide more assurance that all necessary areas have been reviewed and all examination steps have been completed. Without such programs, there is a greater likelihood that examination objectives and procedures may not be completed.

WE RECOMMEND the MDI require the Market Conduct Section utilize formal written examination programs documenting the procedures performed. A copy of the program should be included in the working papers and an indication of the steps performed as well as the examiner performing the steps should be made.

AUDITEE'S RESPONSE

The department agrees and will implement the recommendation.

This report is intended for the information of the management of the Missouri Department of Insurance and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF INSURANCE
HISTORY, ORGANIZATION
AND STATISTICAL INFORMATION

The Missouri Division of Insurance was created by an act of the Missouri legislature in 1869. With the enactment of the state Omnibus Reorganization Act of 1974, the agency was transferred to the Department of Consumer Affairs, Regulation and Licensing. Constitutional Amendment No. 6, passed in August 1984, changed the name of the Department of Consumer Affairs, Regulation and Licensing, to the Department of Economic Development, effective September 7, 1984. Constitutional Amendment No. 4, passed in August 1990, created a new Department of Insurance (MDI), effective July 1, 1991.

The department operates under the authority of Chapter 374, RSMo. The management and control of the department is vested in a director who is nominated by the governor with the advice and consent of the Senate. Jay Angoff served as Director from February 16, 1993 to October 31, 1998, and A.W. McPherson served as acting Director from November 1, 1998 to May 9, 1999. Keith Wenzel was appointed Director on May 10, 1999, and continues to serve in that capacity.

When the agency was organized in 1869, 51 domestic and 120 foreign insurance companies were licensed in Missouri. As of December 1998, there were 293 domestic and 1,560 foreign insurance companies licensed in Missouri.

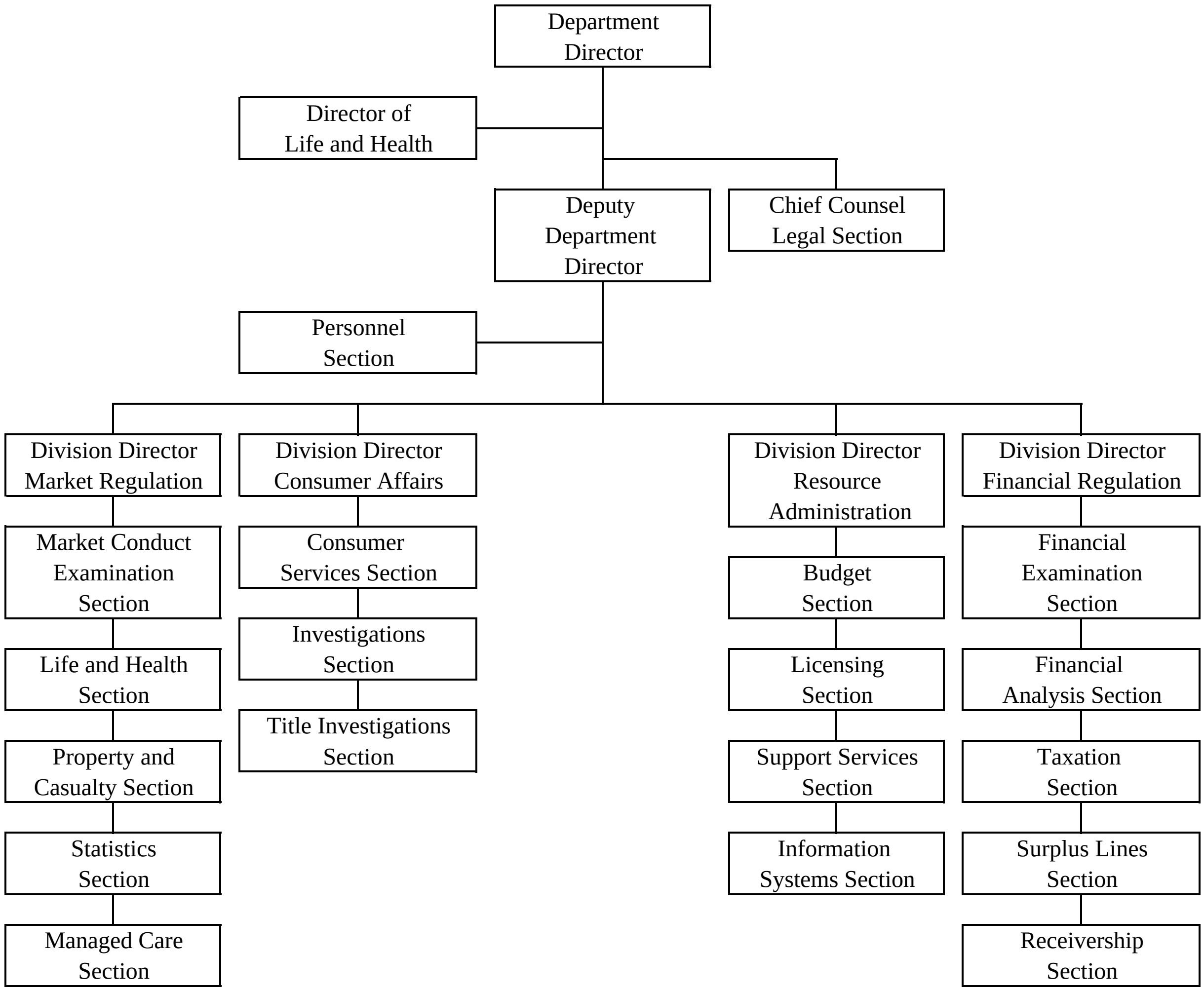
The MDI regulates the insurance industry in the state through enforcement of Chapters 325, 354, and 374 through 385, RSMo. The department regulates and licenses the insurance industry in the state; ensures that the insurance industry is financially sound, trustworthy, competent, and responsive to the insurance-buying public; and ensures that the insurance industry complies with the laws of the state. To fulfill these responsibilities, the department maintains a central office in Jefferson City and branch offices in St. Louis and Kansas City. As illustrated in the following organization chart, the MDI is organized into these functional units: Market Regulation, Financial Regulation, Resource Administration, and Consumer Affairs. The MDI had 209 employees at June 30, 1999.

The following provides a breakdown of the type of companies licensed in the state.

Type of Company	As of December 31, 1998 Missouri Domicile	Foreign
Assessment	2	0
FAIR Plan	1	0
Foreign Fire	0	6
Fraternal Benefit	2	32
Health Maintenance Organization	24	7
Health Service Corporation	2	0
Life	43	637
Malpractice	2	0
Missouri (Farm) Mutuals	42	0
Missouri Mutuals	88	0
Mutual Casualty	7	43
Mutual Fire	0	29
Prepaid Dental Plan	9	6
Reciprocal Inter-Insurance Exchange	9	10
Reinsurer	0	61
Risk Retention Group	0	39
Self-Insured Liability	9	0
Stipulated Premium	1	0
Stock Casualty	45	576
Stock Fire	4	100
Title	3	14
Totals	293	1,560

According to the National Association of Insurance Commissioners (NAIC), for 1998, Missouri ranks tenth nationally in the number of companies incorporated in the state and eighteenth in the amount of premium volume written. The department's budget for fiscal year 1999 ranks seventeenth nationally.

DEPARTMENT OF INSURANCE
ORGANIZATION CHART
JUNE 30, 1999



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