Susan Montee, CPA
Missouri State Auditor

December 2007

INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION

Insurance

Three Years Ended June 30, 2007

Report No. 2007-84

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Office of
Missouri State Auditor
Susan Montee, CPA

December 2007

YELLOW SHEET

The following findings were included in our audit report on the Department of Insurance, Financial Institutions, and Profession Registration - Insurance.

The Department of Insurance, Financial Institutions, and Profession Registration – Insurance (DIFP-Insurance) does not adequately document all reconciliations of receipt and disbursement transactions. In addition, the DIFP-Insurance does not have adequate procedures in place to help ensure travel costs directly billed to the department were actually incurred prior to payment. Direct billed travel costs generally include commercial airfare and hotel expenses, and totaled approximately $200,000, $250,000, and $270,000 during the years ended June 30, 2007, 2006, and 2005, respectively. Also, the DIFP-Insurance does not transmit all receipts to the Department of Revenue (DOR) on a timely basis. A review of the February 2007 log noted 293 checks totaling approximately $308,000 were held an average of three days for checks that were returned to the payee and eight days for checks that were transmitted to DOR.

State laws provide the director of the DIFP with the authority to administer Missouri chartered insurance companies requiring rehabilitation or liquidation, commonly referred to as receiverships. As of June 30, 2007, there were two Missouri chartered insurance companies in rehabilitation and eleven in liquidation. Many of these receiverships have continued for several years with seven companies in receivership for at least 10 years. For those companies involved in the liquidation process, various expenses are incurred which decrease the overall assets available at final liquidation. Total disbursements for receiverships administered by the DIFP-Insurance or its contracted vendors exceeded $11 million for the three years ended June 30, 2007. We noted the following concerns during our review of expenditures of the receiverships:

- Contracts were not maintained to support some monthly expenditures.
- Rates were paid in excess of those allowed by court order.
- Supporting documentation did not always contain proper approval.
- Receipt and disbursement records were not always complete.
- An agent of the department was able to write checks to himself for services rendered without prior approval by the department.

A similar condition was noted in our prior report.

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The department does not have adequate procedures in place to track and monitor compliance with reporting requirements for guarantee associations and self-insurers. Additionally, the department does not have procedures in place to document the review of reports received from self-insurers.

The DIFP-Insurance did not perform market conduct examinations of Health Maintenance Organizations (HMOs) as required by state law. During our audit period, 7 of 23 HMOs were not reviewed once every three years as required by state statute. In addition, adequate procedures are not in place to ensure companies are submitting required action plans to correct violations noted during examinations, or to reexamine companies who were issued fines or cure orders exceeding the tolerance ranges established by the National Association of Insurance Companies.

Missouri is one of only five states to allow insurance companies to receive tax credits for examination costs. For the tax years 2006 and 2005, examination tax credits claimed were approximately $2.1 and $1.9 million, respectively. For the tax year 2006, available credits were $13.4 million with a carryover of approximately $6.9 million. In essence, the state's General Revenue Fund is paying a significant portion of the examination costs instead of charging all costs to insurance companies as a part of doing business in Missouri. A similar condition was noted in our prior report.

The DIFP-Insurance receives a federal grant from the U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services to contract with a not-for-profit foundation to provide insurance counseling services for senior citizens. As similarly noted in prior audits, the DIFP-Insurance does not always require the foundation to provide detailed documentation supporting amounts claimed for reimbursement under the grant agreement. Amounts paid to the foundation totaled approximately $600,000, $558,000, and $439,000 for the years ended June 30, 2007, 2006, and 2005, respectively.

State law allows the DIFP-Insurance to assess up to $1,000 for the first offense on late filings for surplus lines policies issued, and up to $2,000 for additional offenses. However, no penalties were assessed during our audit period. Due to the lack of tracking procedures, we were unable to determine the extent late filings occurred. Failure to track late filings and assess penalties could result in an increased number of surplus lines tax forms not being filed in a timely manner. A similar condition was noted in our prior report.

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DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
PROFESSIONAL REGISTRATION - INSURANCE

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DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
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SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Matt Blunt, Governor
and
Douglas M. Ommen, Director
Department of Insurance, Financial Institutions,
and Professional Registration
Jefferson City, MO

We have audited the accompanying Combined Statements of Receipts, Disbursements, and Changes in Cash and Investments of the Federal Missouri Department of Insurance (MDI) Fund, Insurance Dedicated Fund, Insurance Examiners Fund, and Receivership Accounts; Comparative Statement of Receipts of the General Revenue Fund, Workers Compensation Fund, and State School Moneys Fund; and Comparative Statement of Appropriations and Expenditures of the various funds related to the regulation of insurance of the Department of Insurance, Financial Institutions, and Professional Registration (DIFP-Insurance) as of and for the years ended June 30, 2007, 2006, and 2005. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

As discussed more fully in Note 1, these financial statements were prepared using accounting practices prescribed or permitted by Missouri law, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the DIFP-Insurance as of June 30, 2007, 2006, and 2005, or the changes in its financial position for the years then ended.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Federal MDI Fund, Insurance Dedicated Fund, Insurance Examiners Fund, and Receivership Accounts; the receipts of the General Revenue Fund, Workers Compensation Fund, and State School Moneys Fund; and the appropriations and expenditures of the various funds of the DIFP-Insurance as of and for the years ended June 30, 2007, 2006, and 2005, on the bases of accounting discussed in Note 1.

In accordance with *Government Auditing Standards*, we also have issued our report dated August 24, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the 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 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole, that were prepared on the bases of accounting discussed in Note 1.

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 financial statements referred to above. Accordingly, we express no opinion on the information.

A portion 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Susan Montee, CPA
State Auditor

August 24, 2007

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Keri Wright
Audit Staff:	Matthew Schulenberg
	Brian Huff
	Kimberly Shepard

SUSAN MONTEE, CPA
Missouri State Auditor

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

Honorable Matt Blunt, Governor
and
Douglas M. Ommen, Director
Department of Insurance, Financial Institutions,
and Professional Registration
Jefferson City, MO

We have audited the financial statements of the various funds related to the regulation of insurance of the Department of Insurance, Financial Institutions, and Professional Registration (DIFP-Insurance) as of and for the years ended June 30, 2007, 2006, and 2005, and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the DIFP-Insurance, we considered the department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of providing an opinion on the effectiveness of the department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or

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detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with applicable accounting principles such that there is more than a remote likelihood that a misstatement of the department's financial statements that is more than inconsequential will not be prevented or detected by the department's internal control. We consider the deficiency described as finding number 1 in the accompanying Management Advisory Report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency referred to above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the DIFP-Insurance are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters which are described in the accompanying Management Advisory Report.

The responses of the DIFP-Insurance to the findings identified in our audit are described in the accompanying Management Advisory Report. We did not audit the department's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management of the DIFP-Insurance and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.

Susan Montee

Susan Montee, CPA
State Auditor

August 24, 2007

Financial Statements

Exhibit A-1

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION - INSURANCE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 2007

	Federal MDI Fund	Insurance Examiners Fund	Insurance Dedicated Fund	Receivership Accounts	Total (Memorandum Only)
RECEIPTS					
Federal grant	$ 600,000	0	0	0	600,000
Examination fees	0	7,649,074	0	0	7,649,074
Brokers	0	0	6,026,145	0	6,026,145
Merchant licenses	0	0	1,211,091	0	1,211,091
Regulatory fees and renewals	0	0	1,425,228	0	1,425,228
Contract service fees	0	0	62,500	0	62,500
Miscellaneous fees	0	0	438,055	0	438,055
Filing fees	0	0	750,198	0	750,198
Interest	0	0	535,197	0	535,197
Premium/investment income	0	0	0	134,519	134,519
Appropriated transfers in	0	0	960	0	960
Other	0	25	66,653	0	66,678
Total Receipts	600,000	7,649,099	10,516,027	134,519	18,899,645
DISBURSEMENTS					
Personal service	0	4,857,323	4,564,652	0	9,421,975
Employee fringe benefits	0	1,696,611	1,972,573	0	3,669,184
Expense and equipment	0	1,000,177	958,682	0	1,958,859
Workers' compensation claims	0	713	2,770	0	3,483
Insurance counseling contract costs	600,000	0	200,000	0	800,000
Lease parking	0	0	8,930	0	8,930
Other refunds	0	5	35,373	0	35,378
Unemployment benefits	0	1,153	10,735	0	11,888
Cost allocation plan	0	113,694	127,388	0	241,082
Claims/distributions	0	0	0	27,150	27,150
Administration/legal fees	0	0	0	23,098	23,098
State office building rent, maintenance, and repair	0	65,287	342,900	0	408,187
Other	0	0	0	8,856	8,856
Total Disbursements	600,000	7,734,963	8,224,003	59,104	16,618,070
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	(85,864)	2,292,024	75,415	2,281,575
CASH AND INVESTMENTS, JULY 1	0	1,101,457	11,126,857	2,329,238	14,557,552
CASH AND INVESTMENTS, JUNE 30	$ 0	1,015,593	13,418,881	2,404,653	16,839,127

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

Exhibit A-2

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION - INSURANCE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 2006

	Federal MDI Fund	Insurance Examiners Fund	Insurance Dedicated Fund	Receivership Accounts	Total (Memorandum Only)
RECEIPTS					
Federal grant	$ 558,594	0	0	0	558,594
Examination fees	0	7,660,768	0	0	7,660,768
Brokers	0	0	5,989,510	0	5,989,510
Merchant licenses	0	0	1,081,396	0	1,081,396
Regulatory fees and renewals	0	0	2,451,504	0	2,451,504
Miscellaneous fees	0	0	514,125	0	514,125
Filing fees	0	0	790,125	0	790,125
Interest	0	0	347,747	0	347,747
Premium/investment income	0	0	0	108,985	108,985
Appropriated transfers in	0	3,826	0	0	3,826
Other	0	4,581	66,370	0	70,951
Total Receipts	558,594	7,669,175	11,240,777	108,985	19,577,531
DISBURSEMENTS					
Personal service	0	4,595,556	4,369,224	0	8,964,780
Employee fringe benefits	0	1,534,776	1,793,571	0	3,328,347
Expense and equipment	0	1,287,125	1,039,563	0	2,326,688
State office building rent, maintenance and repair	0	53,639	297,187	0	350,826
Workers' compensation claims	0	10,501	33,588	0	44,089
Insurance counseling contract costs	558,594	0	200,000	0	758,594
Lease parking	0	0	6,900	0	6,900
Other refunds	0	0	23,648	0	23,648
Unemployment benefits	0	0	24,750	0	24,750
Cost allocation plan	0	110,966	186,332	0	297,298
Claims/distributions	0	0	0	31,600	31,600
Administration/legal fees	0	0	0	57,917	57,917
Other	0	0	0	8,835	8,835
Total Disbursements	558,594	7,592,563	7,974,763	98,352	16,224,272
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	76,612	3,266,014	10,633	3,353,259
CASH AND INVESTMENTS, JULY 1	0	1,024,845	7,860,843	2,318,605	11,204,293
CASH AND INVESTMENTS, JUNE 30	$ 0	1,101,457	11,126,857	2,329,238	14,557,552

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

Exhibit A-3

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION - INSURANCE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 2005

	Federal MDI Fund	Insurance Examiners Fund	Insurance Dedicated Fund	Receivership Accounts	Total (Memorandum Only)
RECEIPTS					
Federal grant	$ 439,248	0	0	0	439,248
Examination fees	0	7,828,554	0	0	7,828,554
Brokers	0	0	5,335,420	0	5,335,420
Merchant licenses	0	0	1,120,525	0	1,120,525
Regulatory fees and renewals	0	0	1,718,125	0	1,718,125
Miscellaneous fees	0	0	601,590	0	601,590
Filing fees	0	0	846,646	0	846,646
Interest	0	0	161,804	0	161,804
Premium/investment income	0	0	0	69,393	69,393
Other	0	1,210	22,753	0	23,963
Total Receipts	439,248	7,829,764	9,806,863	69,393	18,145,268
DISBURSEMENTS					
Personal service	0	4,841,499	4,597,131	0	9,438,630
Employee fringe benefits	0	1,519,151	1,774,859	0	3,294,010
Expense and equipment	0	1,301,238	993,334	0	2,294,572
State office building rent, maintenance and repair	0	36,992	366,758	0	403,750
Workers' compensation claims	0	0	48,273	0	48,273
Insurance counseling contract costs	439,248	0	200,000	0	639,248
Lease parking	0	0	8,280	0	8,280
Other refunds	0	0	34,979	0	34,979
Unemployment benefits	0	3,386	1,683	0	5,069
Cost allocation plan	0	113,873	127,276	0	241,149
Claims/distributions	0	0	0	614,328	614,328
Administration/legal fees	0	0	0	73,547	73,547
Other	0	0	0	8,639	8,639
Total Disbursements	439,248	7,816,139	8,152,573	696,514	17,104,474
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	13,625	1,654,290	(627,121)	1,040,794
CASH AND INVESTMENTS, JULY 1	0	1,011,220	6,206,553	2,945,726	10,163,499
CASH AND INVESTMENTS, JUNE 30	$ 0	1,024,845	7,860,843	2,318,605	11,204,293

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

Exhibit B

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
PROFESSIONAL REGISTRATION - INSURANCE
COMPARATIVE STATEMENT OF RECEIPTS

		Year Ended June 30,		
		2007	2006	2005
GENERAL REVENUE FUND				
Premium taxes	$	204,261,768	194,892,611	175,354,100
Surplus lines taxes		25,208,756	21,988,619	24,929,502
Total General Revenue Fund	$	229,470,524	216,881,230	200,283,602
WORKERS' COMPENSATION FUND				
Workers' compensation taxes	$	6,333,807	2,070,358	23,545,506
STATE SCHOOL MONEYS FUND				
Fines and forfeitures	$	636,617	1,310,956	1,711,248

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

Exhibit C

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
PROFESSIONAL REGISTRATION - INSURANCE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2007			2006			2005		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Laps Balan
FEDERAL - MDI FUND									
Health Insurance Counseling	$ 600,000	600,000	0	600,000	558,594	41,406	450,000	439,248	10
Total Federal - MDI Fund	600,000	600,000	0	600,000	558,594	41,406	450,000	439,248	10
INSURANCE EXAMINERS FUND									
Personal Service	5,384,531	4,857,323	527,208	5,177,435	4,595,556	581,879	5,177,435	4,841,499	335
Expense and Equipment	1,895,189	911,748	983,441	1,895,189	1,213,435	681,754	2,051,817	1,301,238	750
IT Consolidation - Expense and Equipment	156,628	88,428	68,200	156,628	73,690	82,938	0	0	
Refunds	500	5	495	1	0	1	1	0	
Insurance - State Owned	65,287	65,287	0	0	0	0	0	0	
Unemployment Benefits	2,802	1,154	1,648	0	0	0	6,000	3,386	2
Total Insurance Examiners Fund	7,504,937	5,923,945	1,580,992	7,229,253	5,882,681	1,346,572	7,235,253	6,146,123	1,089
INSURANCE DEDICATED FUND									
IT Consolidation - Personal Service	465,644	441,988	23,656	532,388	480,427	51,961	0	0	
IT Consolidation - Expense and Equipment	467,839	390,109	77,730	379,339	377,133	2,206	0	0	
Insurance - State Owned	342,900	342,900	0	0	0	0	0	0	
Unemployment Benefits	16,242	10,735	5,507	30,000	24,750	5,250	15,000	1,684	13
Insurance Leasing	9,194	8,930	264	8,461	6,900	1,561	18,342	8,280	10
Health Insurance Counseling	200,000	200,000	0	200,000	200,000	0	200,000	200,000	
Personal Service	4,509,107	4,122,664	386,443	4,403,264	3,888,797	514,467	5,032,976	4,597,131	435
Expense and Equipment	1,049,865	568,574	481,291	1,154,265	662,430	491,835	1,422,704	993,334	429
Refunds	75,000	35,373	39,627	75,000	23,648	51,352	35,000	34,978	
Total Insurance Dedicated Fund	7,135,791	6,121,273	1,014,518	6,782,717	5,664,085	1,118,632	6,724,022	5,835,407	888
Total All Funds	$ 15,240,728	12,645,218	2,595,510	14,611,970	12,105,360	2,506,610	14,409,275	12,420,778	1,98

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statements present only selected data for each fund related to the regulation of insurance of the Department of Insurance, Financial Institutions, and Professional Registration (DIFP-Insurance).

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Federal Missouri Department of Insurance (MDI) Fund, Insurance Dedicated Fund, Insurance Examiners Fund, and Receivership Accounts. Appropriations from these funds are expended by or for the department for restricted purposes. The Receivership Accounts are controlled entirely by the department and are not subject to appropriations.

The DIFP-Insurance takes control of the assets and operations of insurance companies ordered into rehabilitation or liquidation by the courts, commonly referred to as receiverships. At June 30, 2007, thirteen insurance companies were in rehabilitation or liquidation. Department officials or employees control the operations and assets of three of these companies, which are included in the Receivership Accounts on Exhibit A. The department has appointed special deputy receivers to control the operation and assets of five companies and has contracted with vendors in the Kansas City area to oversee the operations and assets of five companies. The special deputy receivers and vendors are not officials or employees of the department, therefore, the financial activities of these companies are not presented in the financial statements. However, the financial activities of the companies administered by vendors under contract with the DIFP-Insurance have been presented in the Statistical Section.

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, Workers' Compensation Fund, and State School Moneys Fund. Receipts include monies the DIFP-Insurance 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 fund balances or net assets 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 Combined 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 Comparative Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Comparative Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting. Expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the 2-year period are reappropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles 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.

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

<u>Insurance Examiners Fund</u>: This fund is authorized by Sections 374.160 and 374.162, RSMo, 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 purpose 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.

Insurance Dedicated Fund: This fund is authorized by Section 374.150, RSMo, to receive all fees due to the state under the provision of the insurance laws. Appropriations from this fund are to be used solely for 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 balance in this fund is 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.

Receivership Accounts: The DIFP-Insurance established various joint bank accounts and investments outside of the state treasury for the payment of claims and administrative expenses for insurance companies that were placed under rehabilitation or liquidation by the department. These funds are not state funds.

General Revenue Fund: The DIFP-Insurance 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 state's General Revenue Fund include the following:

1) Premium Taxes: In accordance with various provisions of Chapter 148, RSMo, 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. Some premium taxes deposited into the General Revenue Fund are not available for general revenue purposes. The provisions of Chapter 148, RSMo, restrict about 50 percent of such premium taxes for distribution to the various school districts in the state.

2) Surplus Lines: In accordance with various provisions of Chapter 384, RSMo, the department collects and deposits into the General Revenue Fund a five percent tax on net premiums for high risk insurance that 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.

Workers' Compensation Fund: In accordance with Section 287.690, RSMo, 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.

State School Moneys Fund: 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, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least 1 year.

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; employee and retiree health care premiums; and the deferred compensation incentive amount.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the Insurance Dedicated Fund and Insurance Examiners 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 statements at Exhibit C.

2. Cash and Investments

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

The balances of the Receivership Accounts are held outside the state treasury and are not considered state funds.

3. State Office Building Rent, Maintenance, and Repair

The Office of Administration calculated the proportional share of operating costs and maintenance and repair, and renovation costs for the department's occupancy in state-owned buildings. Monthly transfers were made from the Insurance Examiners Fund and Insurance Dedicated Fund to the state's General Revenue Fund to cover each fund's share of the costs.

4. Insurance Counseling Contract Costs

The department contracted with Primaris, formerly the Missouri Patient Care Review Foundation, to provide insurance counseling services for senior citizens. This expenditure category represents the costs associated with the contract paid from the Federal MDI fund.

5. Lease Parking

The Missouri General Assembly made appropriations from the 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.

6. Cost Allocation Plan

The Office of Administration calculated the state's costs of services provided by the Office of Administration, Department of Revenue, State Auditor, State Treasurer, and retiree health care to be allocated to the various funds based on how the various funds create work for agencies in the pools. Transfers were made from the Insurance Examiners Fund and Insurance Dedicated Fund to the state's General Revenue Fund to cover each fund's share of the costs.

7. 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. Only capital securities are required and the requirements are dependent on the type of insurance company.

Securities having a total accepted value of approximately $255 million, $261 million, and $276 million at June 30, 2007, 2006, and 2005, 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.

8. Reconciliation of Total Disbursements to Appropriated Expenditures

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

Insurance Examiners Fund

	Year Ended June 30,		
	2007	2006	2005
DISBURSEMENTS PER EXHIBIT A	$ 7,734,963	7,592,563	7,816,139
Employee fringe benefits	(1,696,611)	(1,534,776)	(1,519,151)
Cost Allocation Plan	(113,694)	(110,966)	(113,873)
Workers' Compensation Claims	(713)	(10,501)	0
Rent	0	(53,639)	(36,992)
EXPENDITURES PER EXHIBIT C	$ 5,923,945	5,882,681	6,146,123

Insurance Dedicated Fund

	Year Ended June 30,		
	2007	2006	2005
DISBURSEMENTS PER EXHIBIT A	$ 8,224,003	7,974,763	8,152,573
Employee fringe benefits	(1,972,573)	(1,793,571)	(1,774,859)
Cost Allocation Plan	(127,388)	(186,332)	(127,276)
Workers' Compensation Claims	(2,770)	(33,588)	(48,273)
Rent	0	(297,187)	(366,758)
EXPENDITURES PER EXHIBIT C	$ 6,121,272	5,664,085	5,835,407

9. Prior Period Adjustment

The July 1, 2004 cash and investment balance in the Receivership Accounts was increased by $42,140 for amounts not previously reported.

Supplementary Data

Schedule

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL
REGISTRATION - INSURANCE
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,				
		2007	2006	2005	2004	2003
Salaries and wages	$	9,421,975	8,964,780	9,438,630	9,303,182	9,595,885
Travel, in-state		299,824	320,436	315,853	266,763	403,959
Travel, out-of-state		560,385	840,567	793,215	1,087,842	1,001,410
Supplies		143,581	199,583	199,936	222,291	243,260
Professional development		124,305	103,491	94,890	71,886	143,369
Communication service and supplies		146,040	149,559	188,265	215,799	227,574
Services:						
Professional		283,874	307,069	336,331	458,625	460,601
Housekeeping and janitorial		418	0	0	53	442
Maintenance and repair		112,332	148,389	87,070	103,228	85,172
Computer equipment		200,817	92,779	182,541	140,345	281,749
Motorized equipment		0	0	0	10,185	34,738
Office equipment		27,688	37,277	9,707	11,026	1,235
Other Equipment		2,687	18,699	12,703	0	0
Debt service		5,364	9,998	7,732	7,882	14,746
Real property rentals and leases		417,117	6,900	9,350	8,607	10,030
Equipment rental and leases		47,107	43,222	60,874	76,279	69,277
Miscellaneous expenses		4,437	5,619	4,385	8,965	4,731
Refunds		35,378	73,648	34,979	61,909	63,455
Program distributions		811,889	783,344	644,317	272,210	312,958
Total Expenditures	$	12,645,218	12,105,360	12,420,778	12,327,077	12,954,591

Note: Certain classifications of expenditures changed during the five-year period, which may affect the comparability of the amounts.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report –
State Auditor's Findings

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION - INSURANCE
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the financial statements of the various funds related to the regulation of insurance of the Department of Insurance, Financial Institutions, and Professional Registration (DIFP-Insurance) as of and for the years ended June 30, 2007, 2006, and 2005, and have issued our report thereon dated August 24, 2007.

The following Management Advisory Report presents our findings arising from our audit of the department's financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered all-inclusive of areas needing improvement.

1. Internal Control Procedures

The DIFP-Insurance does not have adequate internal control procedures in place over the receipt and disbursement process. Our review over internal controls noted the following concerns:

A. The DIFP-Insurance does not adequately document all reconciliations of receipt and disbursement transactions. Department personnel indicated that on a monthly basis reconciliations are performed by the Support Services Section by comparing receipts and disbursement records from the department's internal transaction system to the records on the Statewide Advantage for Missouri System (SAM II). Additionally, while reconciliations are not always performed by someone independent of the receipt and disbursement process, the department indicated a supervisory review and approval of the reconciliations is performed. However, our review noted the reconciliations performed and the supervisory reviews of the reconciliations are not adequately documented.

   To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. Without documentation of reconciliations and supervisory reviews performed, there is no assurance that proper controls are in place to help ensure all receipts and disbursements have been properly recorded.

B. The DIFP-Insurance does not have adequate procedures in place to help ensure travel costs directly billed to the department were actually incurred prior to payment. Direct billed travel costs generally include commercial airfare and hotel expenses, and totaled approximately $200,000, $250,000, and $270,000 during the years ended June 30, 2007, 2006, and 2005, respectively.
   Travel costs can be either billed directly to the department or reimbursed through the

employee's expense account. For expenses billed directly to the department, employees are not required to provide indication that the expense billed was actually incurred, such as signing off on the original bill. Department personnel indicate they verify expenses billed directly to the department by comparing invoice dates against travel dates in employee expense accounts; however, this review is not documented.

Without proper documentation of either the receipt of goods and services or the review by department personnel, there is no assurance that the direct bills received are accurate and the department is not being double billed for expenses. A similar condition was noted in our prior report.

C. The DIFP-Insurance does not transmit all receipts to the Department of Revenue (DOR) on a timely basis. Frequently, checks are held by the Support Services Section until the receipt can be properly identified by supporting documentation or notification is received from another division that the check is for the correct amount. If the check is not for the correct amount, it will be returned to the payee. However, if the check is for the correct amount, it will be transmitted to DOR and deposited. The Support Services Section records the checks being held on a "pending check log," and also records the date the check is transmitted to DOR or returned to the payee.

A review of the February 2007 log noted 293 checks totaling approximately $308,000 were held an average of three days for checks that were returned to the payee and eight days for checks that were transmitted to DOR. While the department has improved their internal policy by allowing only 10 business days as opposed to 15 business days to transmit the pending checks to DOR or return them, receipts are still not being deposited in a timely manner. Additionally, we noted 14 instances during February 2007 in which checks were held between 11 and 31 business days, exceeding department policy.

To adequately safeguard monies and reduce the risk of loss and misuse of funds, checks should be returned or transmitted to DOR on a timely basis. A similar condition was noted in our prior report.

WE RECOMMEND the DIFP-Insurance:

A. Establish procedures for documenting receipt and disbursement reconciliations. This should include documentation of any supervisory reviews and approvals.

B. Establish procedures for verifying that direct billed expenses are accurate and were actually incurred, including the documentation of such reviews.

C. Continue to reduce the number of days receipts are held prior to being transmitted to DOR for deposit.

AUDITEE'S RESPONSE

A. This recommendation has been implemented. These reviews were being conducted as part of our current procedure and a step has been added in which the financial statements are initialed and dated when the review occurs.

B. This recommendation has been implemented. Comparison of direct billed expenses to expense accounts for individuals is currently part of the review process. This review and comparison will be documented with initials and dates when the review occurs.

C. The Department will continue its efforts to reduce the number of days receipts are held prior to being transmitted to the DOR for deposit. During February 2007, the Department was implementing the financial regulation component of its new invoicing system which created temporary delays in check processing. This system has moved all invoicing functions into support services and links the invoicing with cash receipts for improved accountability and tracking. Delays occurred as the Department received checks prior to the invoices being loaded into the system. This required the checks be held until they could accurately be matched to the appropriate invoice. This system is now fully functional and future delays should not occur.

2. Receiverships

The DIFP-Insurance does not require supporting documentation to be submitted nor periodically requests supporting documentation to ensure the accuracy and completion of reports submitted by receiverships' special deputies or agents.

Sections 375.1150 to 375.1246, RSMo, provide the director of the DIFP 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 DIFP director as receiver. The director may then appoint a special deputy receiver or an agent. As of June 30, 2007, there were two Missouri chartered insurance companies in rehabilitation and eleven in liquidation. Many of these receiverships have continued for several years with seven companies in receivership for at least 10 years.

For those companies involved in the liquidation process, various 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, professional services, office expenses, payroll, and travel. Total disbursements for receiverships administered by the DIFP-Insurance or its contracted vendors exceeded $11 million for the three years ended June 30, 2007.

The DIFP-Insurance has established regulations for insurance companies in receivership which require special deputies and agents to submit annual or semi-annual reports of the receivership's financial activity. However, the DIFP-Insurance does not perform examinations of these companies, and these companies do not have independent audits unless required by the circuit court. While most bank statements are reviewed on a monthly basis by receivership staff, supporting documentation is not periodically requested and reviewed to ensure the accuracy and completeness of the financial activity reported for the receiverships. As a result, we noted the following concerns during our review of expenditures of the receiverships administered directly by the DIFP-Insurance:

- Contracts were not maintained to support some monthly expenditures,
- Rates were paid in excess of those allowed by court order,
- Supporting documentation did not always contain proper approval,
- Receipt and disbursement records were not always complete, and
- An agent of the department was able to write checks to himself for services rendered without prior approval by the department.

In addition, we noted that reports submitted to the department for a receivership administered by a contracted vendor were not always complete and accurate.

Without proper monitoring and review of supporting documentation and absent independent audits of these companies, the department cannot ensure the accuracy and completeness of the reports submitted by the receiverships. A similar condition was noted in our prior report.

WE RECOMMEND the DIFP-Insurance establish monitoring procedures to help ensure the accuracy and completeness of receivership reports. This should include, at a minimum, the periodic review of supporting documentation.

AUDITEE'S RESPONSE

The Department has monitoring procedures in place to assure that reports submitted are accurate. The Department requires an annual financial report from each company in receivership. The Department receives copies of all bank statements from each bank account of each company. The Department approves the salaries of all employees and approves all fee invoices of professional persons rendering services to the company, as does the supervising court. Often due to physical location prior approvals are given by electronic mail or phone calls but when the invoice is received it is initialed and dated. In two instances the approver failed to initial and date the invoice but the bill tracking spreadsheet noted the approvals. The Department will increase its efforts to ensure all invoices receive the initialed approvals. DIFP acknowledges an overpayment of $33 occurred concerning one vendor above the court approved rate. This overpayment will be deducted from a pending invoice and corrected. DIFP has a contractual arrangement with an insurance agency to manage a small insolvent company. By the terms of the contract, that agent is required to pay all bills, including the management fee to the agency. This contract serves as DIFP approval to write checks to the agency for the contracted amount.

DIFP is working with the contract vendor to ensure all checks written and deposits made are recorded in a timely manner. DIFP will continue to monitor this process to ensure receipts and disbursements are recorded in a timely manner.

3. Reporting Requirements

The department does not have adequate procedures in place to track and monitor compliance with reporting requirements for guarantee associations and self-insurers. Additionally, the department does not have procedures in place to document the review of reports received from self-insurers.

A. The DIFP-Insurance does not adequately monitor the Missouri Insurance Guaranty Association (MIGA) to help ensure they are in compliance with state reporting requirements.

The MIGA provides protection, within limits, to the insured, beneficiaries, and claimants who are disadvantaged due to the insolvency of a member insurance company. The MIGA administers two guaranty associations in Missouri: the Missouri Life and Health Insurance Guaranty Association (MLHIGA) and the Missouri Property and Casualty Insurance Guaranty Association (MPCIGA). While these associations are administered by the MIGA, they have separate and distinct responsibilities under their respective statutes.

The DIFP-Insurance performs financial examinations of the MLHIGA and the MPCIGA once every five years. In addition, the MLHIGA and the MPCIGA are required to submit annual reports to the department. However, our review found that the DIFP-Insurance was not tracking or reviewing the annual reports, nor maintaining them in a central location to help ensure the companies were in compliance with state statute.

Section 375.775.9 and 376.750.1, RSMo, states that the associations shall submit to the director each year a financial report in a form approved by the director and a report of its activities during the preceding fiscal year.

Without adequate procedures in place to track the receipt and review of guaranty association annual reports, the department cannot adequately monitor and ensure the companies are in compliance with regulations.

B. The DIFP-Insurance does not adequately monitor self-insurers to help ensure they are in compliance with state reporting requirements. Additionally, when reports are received and reviewed, the department does not have procedures in place to document such reviews.

Self-insurers may be formed by three or more political subdivisions for the purpose of providing liability and all other insurance for any of the subdivisions as provided in Chapter 537, RSMo. The DIFP-Insurance performs financial examinations of each self-insurer once every five years. In addition, self-insurers are required to submit annual reports to the department as a condition of their licensing. However, our review found that the department does not have any procedures in place to track the receipt of these reports or to document its review of the reports.

Section 537.640.1, RSMo, states that annually, within thirty days before the expiration of its license, each self-insurer shall file a statement with the director giving a report of its activities for the preceding year as a condition of its license renewal.

Without procedures in place to track the receipt of these reports and to document their review, the department cannot ensure that self-insurers are in compliance with state reporting requirements before renewing self-insurer licenses.

WE RECOMMEND the DIFP-Insurance establish tracking procedures to help ensure annual financial reports are received in compliance with regulations. This should include maintaining reports received in a central location and documenting the review of such reports.

AUDITEE'S RESPONSE

This recommendation has been implemented. Current process has been enhanced to provide a check that all required reports from both guarantee associations and self-insured plans have been received. These reports have been assigned to an analyst who will document the review. Reports will be maintained in a central location.

4. Market Conduct Examinations

The DIFP-Insurance did not perform market conduct examinations of Health Maintenance Organizations (HMOs) as required by state law. In addition, the department does not have procedures in place for either tracking cure orders that require the submittal of a plan of action, or for re-examining companies who were issued fines or cure orders as a result of market conduct examinations.

The Market Conduct Section performs various field examinations of life, accident and health, property and casualty insurance companies, title companies, HMOs, health service corporations, third party administrators, and statistical reporting agencies. These examinations review for equitable treatment of Missouri policyholders and compliance with state statutes. During the three years ended June 30, 2007, a total of 112 market conduct examinations were completed.

Market conduct examinations result in the assessment of fines, the issuance of cure orders, or the issuance of filing orders. When the examination finds errors that exceed tolerance ranges established by the National Association of Insurance Companies (NAIC) and the department believes a monetary penalty will help ensure compliance, the insurer is required to sign a settlement agreement and pay a fine. A cure order is issued when errors exceed the tolerance ranges but are not serious enough to merit fines. The cure order requires the company to correct the violations noted in the report. A filing order is issued when no violations exceed the tolerance ranges established by the NAIC. During the three years ended June 30, 2007, a total of 34 fines, 18 cure orders, and 60 filing orders were issued.

A. The DIFP-Insurance did not perform market conduct examinations of HMOs as required by state law. During our audit period, 7 of 23 HMOs were not reviewed once every three years as required by state statute. Each of these 7 HMOs had exam call dates in September and October 2006, which is when the Market Conduct Section had identified the need for the examination. However, as of June 2007, these examinations had not been scheduled or started.

According to Section 354.465, RSMo, the department may make an examination of the affairs of any HMO as often as necessary, but not less frequently than once every three years.

To help ensure compliance with state regulations and to protect policyholders, the department should establish procedures to review HMOs every three years, as required.

B. The DIFP-Insurance does not have adequate procedures in place to ensure companies are submitting required action plans or to re-examine companies who had errors exceeding the tolerance ranges established by the NAIC.

1) The department does not have procedures in place for tracking cure orders that require a plan of action to be submitted. Depending on the severity of the cure order, a company may be required to submit a plan of action that outlines how they plan to address the cure order. When a plan of action is required in conjunction with a cure order, the company is required to submit the plan within a specific timeframe; however, the department does not track the plans of action to ensure all required plans are submitted timely.

Because plans of action are not tracked, the department cannot ensure that companies are submitting the required plans within the specified timeframe, and therefore, cannot ensure cure orders are being complied with in a timely manner.

2) The department does not have adequate procedures in place for re-examining companies who were issued fines or cure orders for exceeding tolerance levels established by the NAIC.

Currently, companies are examined only when determined necessary through the department's selection process, which considers various factors when determining the need for an exam. Such factors include high complaint indices, current trends in the market, problems found in financial examinations, and information received from other states. Re-examinations only occur at the discretion of management or when a cure order requires a plan of action be submitted. Re-examinations do not occur on a frequent basis or for all companies issued cure orders or fines.

Without re-examining companies who exceeded the NAIC tolerance range, the department cannot ensure that policyholders are protected and that previously noted deficiencies have been corrected in a timely manner.

WE RECOMMEND the DIFP Insurance:

A. Establish procedures to review HMOs as required by state law.

B.1. Establish procedures to help ensure action plans are submitted in a timely manner.

2. Establish procedures to re-examine companies that were issued fines or cure orders.

AUDITEE'S RESPONSE

A. The audit finding noted that 7 of 23 carriers had not been examined in the three year time frame as required by statute. It is important to note that these seven carriers represent less than 15% of the HMO market in terms of premium volume within the state. While the Department makes every effort to meet the mandated examination requirement, we must prioritize our examinations to focus on carriers that appear to be noncompliant and potentially harming consumers. The Department will work toward meeting the mandated examination requirement for HMOs while continuing to focus on protecting consumers first.

B.1. The Department has implemented this recommendation. While the Department did monitor the carriers that had formal written agreements, we did not have a formalized tracking system. We have added a field to our exam tracking system to assure that companies submit their required action plans in a timely manner and take action in accordance with those plans.

2. In the past few years, the Department has become more focused on the analysis of data to determine which carriers need to be examined. This is completed to assure that we only examine the carriers that appear to have noncompliance issues. While some carriers have been re-examined specifically due to noncompliance issues, we have not performed periodic *follow-up review to test for compliance. It is our position that the best use of our resources is to only re-examine carriers if our analysis reflects that a carrier has continued their noncompliant activities. When the Department conducts an examination of a carrier, we also follow up on compliance to previous findings.*

5. Examination Tax Credit

The State of Missouri is one of only five states to allow insurance companies to receive tax credits for examination costs. Section 148.400, RSMo, allows all insurance companies to deduct the entire cost of examinations from premium taxes paid to the state and deposited into the state's General Revenue Fund. Additionally, this statute allows insurance companies to carry forward these credits for five years. For the tax years 2006 and 2005, examination tax credits claimed were approximately $2.1 and $1.9 million, respectively. For the tax year 2006, available credits were $13.4 million with a carryover of approximately $6.9 million. In essence, the state's General Revenue Fund is paying a significant portion of the examination costs instead of charging all costs to insurance companies as a part of doing business in Missouri.

A similar condition was noted in our prior report.

WE AGAIN RECOMMEND the DIFP-Insurance review this issue and consider seeking legislation to reduce or eliminate the examination tax credit.

AUDITEE'S RESPONSE

The Department will continue to track and provide information on the examination tax credit as well as the other tax credits taken by insurance companies to the General Assembly as required under the Tax Credit Accountability Act - SB 1099. SB66(2007) once implemented, will reduce the exam tax credits taken by limiting the costs which can be billed to the company. The Department will keep the General Assembly informed of changes in redemptions as a result of SB66.

6. Federal Grant Expenditures

The DIFP-Insurance receives a federal grant from the U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services. This grant is used to contract with a not-for-profit foundation to provide insurance counseling services for senior citizens. As similarly noted in prior audits, the DIFP-Insurance does not always require the foundation to provide detailed documentation supporting amounts claimed for reimbursement under the grant agreement. Amounts paid to the foundation totaled approximately $600,000, $558,000, and $439,000 for the years ended June 30, 2007, 2006, and 2005, respectively.

To obtain payment from DIFP-Insurance, the foundation submits monthly invoices listing the hours spent by various personnel and the hourly reimbursement rate for the applicable personnel. Also included on the invoices are other operating expenses, such as temporary employees, telephone, promotional items, postage, and travel. The DIFP-Insurance tracks these expenses to monthly performance reports and analytically reviews monthly invoices for reasonableness; however, detailed documentation is not always received from the foundation and the DIFP-Insurance does not periodically request supporting documentation to help ensure accuracy of the invoices billed.

To determine that amounts paid are reasonable and in compliance with grant requirements, the DIFP-Insurance should either establish thresholds and require supporting documentation for those expenditures above these thresholds or periodically request supporting documentation from the foundation.

WE RECOMMEND the DIFP-Insurance either establish expenditure thresholds and require supporting documentation for expenditures above these thresholds or periodically request supporting documentation from the foundation to help ensure the accuracy of the invoice line items and compliance with grant requirements.

AUDITEE'S RESPONSE

The Department will periodically request supporting documentation from the contractor for random invoice line items to test for compliance.

7. Surplus Lines

The DIFP-Insurance does not have a formal policy for tracking or assessing penalties on late filings for policies issued.

The DIFP-Insurance regulates the placement of coverage and collection of taxes on premiums for insurance policies written in the non-admitted market known as surplus lines. The non-admitted market consists of insurers that are not otherwise licensed to do business in Missouri, but are eligible to write insurance policies for coverage not served in the general commercial market. Surplus lines brokers are required to submit reports to the department as insurance policies are issued and report annually the total premiums for policies issued and remit a tax of five percent of total premiums to the DIFP-Insurance. These reports on policies issued are compared to annual reports filed by brokers to help ensure all premium taxes have been paid. The DIFP-Insurance also collects delinquent premium taxes and certifies the delinquent collection amounts to the Department of Revenue (DOR), and the DOR collects applicable interest and penalties.

Section 384.071, RSMo, allows the DIFP-Insurance to assess up to $1,000 for the first offense and up to $2,000 for additional offenses. However, no penalties were assessed during our audit period. Due to the lack of tracking procedures, we were unable to determine the extent late filings occurred. Failure to track late filings and assess penalties could result in an increased number of surplus lines tax forms not being filed in a timely manner.

A similar condition was noted in our prior report.

WE AGAIN RECOMMEND the DIFP-Insurance establish policies for tracking and assessing penalties for untimely filings of surplus lines tax forms.

AUDITEE'S RESPONSE

The Department will establish a formal guideline for assessing fines for untimely filings of surplus lines tax forms. RSMo 384.031 states "Within thirty days after the placing of any surplus lines insurance, each surplus lines licensee shall file with the director a written report....". During the 2007 legislative session, the Department proposed a bill which removed the thirty days and added quarterly filing of reports. This bill did not pass but a similar bill will be proposed during the 2008 session. If legislation is passed changing the report filing, DIFP will adjust the policies for tracking and assessing penalties accordingly.

This report is intended for the information and use of the management of the Department of Insurance, Financial Institutions, and Professional Registration and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.

Follow-Up on Prior Audit Findings

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
PROFESSIONAL REGISTRATION - INSURANCE
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Department of Insurance, Financial Institutions, and Professional Registration on findings in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended June 30, 2004. The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR.

DEPARTMENT OF INSURANCE
TWO YEARS ENDED JUNE 30, 2004

1. Examination Billings

   The department's examination billing policies may not have complied with state law, and amounts billed may not have accurately reflected actual costs incurred. In addition, billing policies did not allow the department to track the true costs of examinations.

   Recommendation:

   The Missouri Department of Insurance (MDI) review its current examination billing policies and ensure the true cost of each examination is tracked and billed. Any legal matters needing clarification should be resolved by seeking applicable legislation or legal opinions.

   Status:

   Implemented. With the passage of Senate Bill 66, effective August 2007, the department has removed the 15 percent administration fee and revised the overhead costs billed to examined insurance companies.

2. Examination Tax Credit

   The State of Missouri allowed insurance companies to receive tax credits for examination costs, by deducting the entire cost of the examination from premium taxes paid to the state and deposited into the state's General Revenue Fund. In addition, a state law passed in 2001 allowed insurance companies to carry forward these credits for five years beginning with the 2004 tax year.

   Recommendation:

   The MDI review this issue and consider seeking legislation to reduce or eliminate the examination tax credit.

   Status:

   Not implemented. See MAR finding number 5.

3. Travel Costs and Policies

A. MDI policies did not require examiners to evaluate alternative work schedules to ensure the most cost-effective schedule was selected.

B.1. Examiners booked their own flights but were not required to obtain airfare quotes. Because airfares tend to change frequently, the MDI should also consider requiring periodic updates on the airfare quotes throughout the examination.

2. Airfare could be billed directly to the MDI or reimbursed through the examiner's expense accounts and the MDI did not adequately monitor and track airfare costs. As a result, the opportunity for double billings was increased.

Recommendation:

The MDI:

A. Adopt policies which require examiners to document planned travel costs for each examination and require the least expensive travel methods to be used. Any extenuating circumstances which require use of a more expensive travel method should be fully documented and approved by management.

B.1. Require examiners to obtain more than one airfare quote and use the lowest and best rates, and require supervisory approval of airfare costs prior to incurring the related expenditure.

2. Adopt procedures to monitor all airfare costs, whether direct-billed or incurred through employee expense accounts.

Status:

A.&
B.1. Implemented.

2. Not implemented. See MAR finding number 1.

4. Receiverships

The MDI did not require insurance companies in receivership to obtain independent audits and the MDI did not perform examinations of these companies.

Recommendation:

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

Status:

Not implemented. See MAR finding number 2.

5. Surplus Lines

A. The department's examination policies for surplus lines brokers were not being met, and the overall policies and procedures of the surplus lines section appeared to impact the timeliness and adequacy of examinations.

B. The MDI did not bill examination costs to out-of-state surplus lines brokers.

C. The MDI did not have a formal policy for assessing fines on late filings for policies issued.

D. Receipts recorded on the MDI surplus line tax system were not reconciled to receipts recorded on the SAM II system.

Recommendations:

The MDI:

A. Review the staffing levels and duties of current surplus lines staff and ensure surplus lines examinations are conducted at least once every three years in accordance with the department policy.

B. Bill for surplus lines examinations of out-of-state brokers, as required by state law.

C. Establish policies for assessing fines for untimely filings of surplus lines tax forms.

D. Reconcile receipts recorded on the surplus lines tax system to SAM II.

Status:

A, B,
&D. Implemented.

C. Not implemented. See MAR finding number 7.

6. Title Insurance Examinations

Premiums on title insurance made up less than one percent of the total insurance premiums paid in Missouri; however, approximately 10 percent of the MDI's market conduct staff were used exclusively to conduct examinations of title insurance companies.

Recommendation:

The MDI review the current title insurance examination requirements and consider seeking legislation to revise the applicable statute to better utilize MDI resources.

Status:

Implemented. With the passage of Senate Bill 66, effective August 2007, the department is no longer required to conduct examinations of title insurance companies every four years.

7. Receipts

A. Some receipts were not transmitted to the DOR for deposit on a timely basis. Support Services held some checks, pending further documentation to support check amounts. If the check was not for the correct amount, it was retuned to the payee.

B. Mail receipts were not handled in a secure location and processing of mail receipts was not adequately segregated.

Recommendation:

The MDI:

A. Reduce the number of days receipts are held prior to being transmitted to DOR for deposit.

B. Improve controls over receipt processing by eliminating, to the greatest extent possible, handling by mailroom employees, and ensure receipts are processed in a secure location.

Status:

A. Not implemented. See MAR finding number 1.

B. Implemented.

8. Federal Grant Expenditures

The MDI did not always require the not-for-profit foundation to provide detailed documentation supporting amounts claimed for reimbursement under the grant agreement. In addition, the MDI did not require an adjustment to fringe benefit charges once final fringe benefit and indirect cost rates were available to use from the Department of Health and Senior Services.

Recommendations:

The MDI should establish expenditure thresholds and require supporting documentation for expenditures above these thresholds. In addition, the contract between MDI and the foundation should be amended to include an adjustment clause once the actual fringe benefits and indirect costs have been approved.

Status:

Partially implemented. The department has included an adjustment clause for actual fringe benefits and indirect costs, however, the department has not established procedures for requiring supporting documentation for expenditures above established thresholds. See MAR finding number 6.

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL REGISTRATION – 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, effective July 1, 1991. Executive Order 06-04 consolidated the former Department of Insurance, the Division of Finance, the State Banking Board, the Division of Credit Unions, and the Division of Professional Registration into one department and changed the name of the department to the Missouri Department of Insurance, Financial Institutions, and Professional Registration (DIFP), effective August 28, 2006.

The DIFP-Insurance operates under the authority of Chapter 374, RSMo. The management and control of the DIFP-Insurance is vested in a director who is nominated by the governor with the advice and consent of the Senate. W. Dale Finke served as Director from February 24, 2005 until January 1, 2007. Douglas M. Ommen was appointed Director on January 2, 2007, 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 June 30, 2007, there were 228 domestic and 1,581 foreign insurance companies licensed in Missouri.

The DIFP-Insurance 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 DIFP-Insurance is organized into these functional units: Insurance Solvency and Company Regulation Division, Insurance Market Regulation Division, Consumer Affairs Division, and Resource Administration Division. The DIFP-Insurance had 200 employees on June 30, 2007.

The DIFP-Insurance is authorized 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 director as receiver. The director may appoint a special deputy receiver or agent. For seven companies in receivership during the three years ended June 30, 2007, the department has contracted with vendors in the Kansas City area to act as agents for these companies. While the vendors are not considered department employees or officials, the department retains certain supervisory functions over these companies that would normally be assigned to a special deputy receiver.

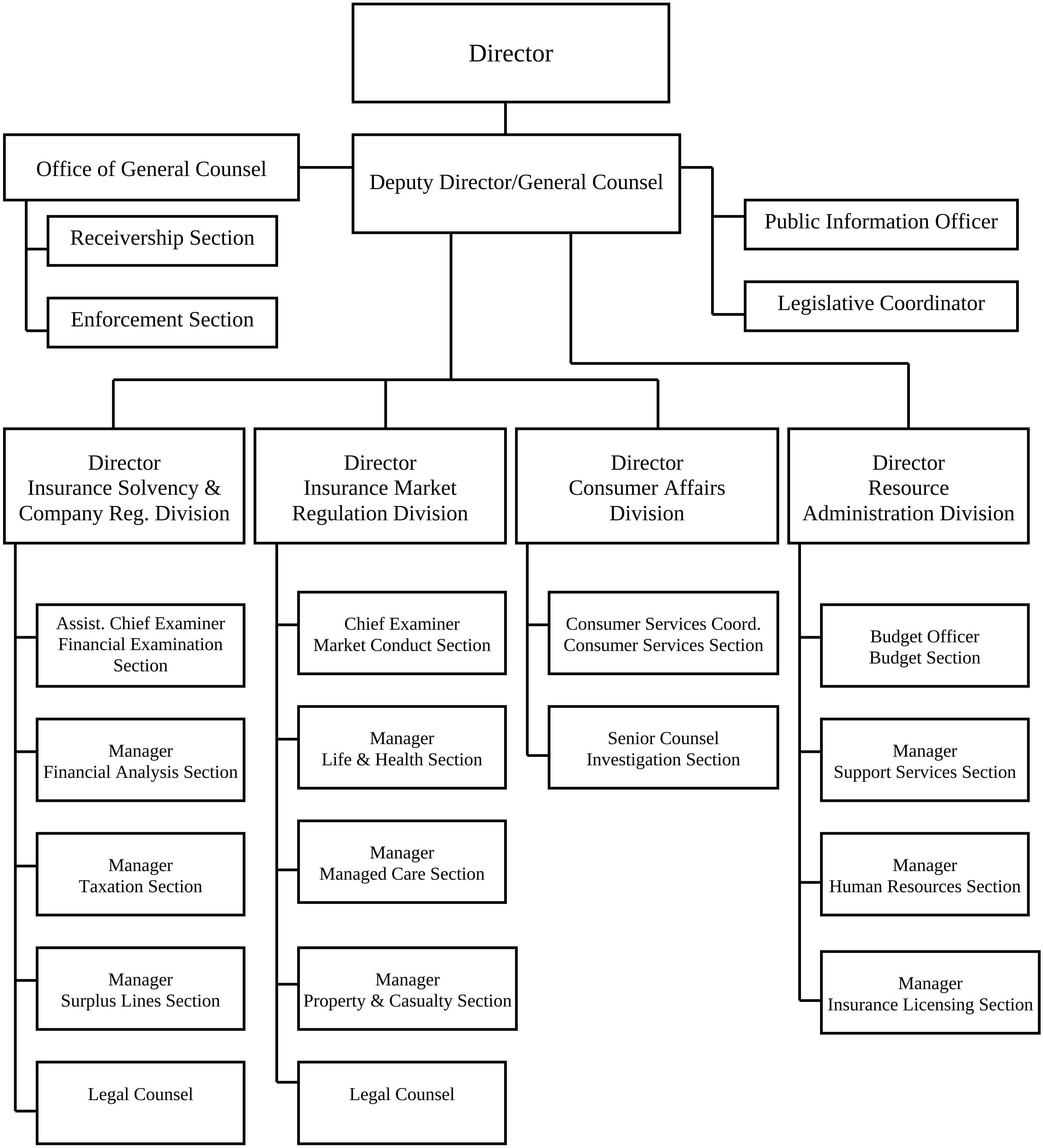
This section contains schedules showing the financial activity of these seven companies assigned to these vendors for the three years ended June 30, 2007.

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

	As of June 30, 2007	
Type of Company	Missouri Domicile	Foreign
Assessment	2	0
FAIR Plan	1	0
Foreign Fire	0	6
Fraternal Benefit	1	31
Health Maintenance Organization	19	4
Health Services	1	0
Life	30	514
Malpractice	4	0
Missouri (Farm) Mutuals	7	0
Missouri Mutuals	94	0
Mutual Casualty	6	46
Mutual Fire	0	26
Prepaid Dental Plan	7	6
Reciprocal Inter-Insurance Exchange	4	12
Reinsurer	0	61
Risk Retention Group	0	88
Self-Insured Liability	7	0
Stock Casualty	40	677
Stock Fire	1	90
Title	4	20
Totals	228	1,581

According to the National Association of Insurance Commissioners (NAIC), for 2005, Missouri ranks fifteenth nationally in the number of companies incorporated in the state and seventeenth in the amount of premium volume written. The department's budget for fiscal year 2007 ranks twenty-fourth nationally.

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND
PROFESSIONAL REGISTRATION - INSURANCE
ORGANIZATIONAL CHART
JUNE 30, 2007



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL
REGISTRATION - INSURANCE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
FOR RECEIVERSHIPS ADMINISTERED BY KANSAS CITY-AREA VENDORS
YEAR ENDED JUNE 30, 2007

	Holland America Insurance Company	International Financial Services Life Insurance Company	Lutheran Benevolent Insurance Exchange	Mission Reinsurance Company	U.S. Physicians Insurance Mutual Company Risk Retention Group
RECEIPTS					
Premiums/investment income	$ 3,670,867	3,101,965	216,535	1,021,259	6,908
Total Receipts	3,670,867	3,101,965	216,535	1,021,259	6,908
DISBURSEMENTS					
Claims/distributions	28,958	85,128	0	0	0
Special deputy receiver and legal fees	219,809	527,127	12,196	34,220	0
Other	360,499	228,805	141,723	100,614	7,871
Total Disbursements	609,266	841,060	153,919	134,834	7,871
RECEIPTS OVER (UNDER) DISBURSEMENTS	3,061,601	2,260,905	62,616	886,425	(963)
ACCRUAL ADJUSTMENTS	0	(2,084,292)	(420,594)	0	0
CASH AND INVESTMENTS, JULY 1	68,719,636	12,494,316	4,300,755	19,105,243	158,717
CASH AND INVESTMENTS, JUNE 30	$ 71,781,237	12,670,929	3,942,777	19,991,668	157,754

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL
REGISTRATION - INSURANCE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
FOR RECEIVERSHIPS ADMINISTERED BY KANSAS CITY-AREA VENDORS
YEAR ENDED JUNE 30, 2006

		Holland America Insurance Company	International Financial Services Life Insurance Company	Lutheran Benevolent Insurance Exchange	Mission Reinsurance Company	Professional Medical Insurance Company	Professional Mutual Insurance Company Risk Retention Group	U.S. Physicians Insurance Mutual Company Risk Retention Group
RECEIPTS								
Premiums/investment income	$	2,865,016	183,009	690,044	2,281,910	0	0	5,457
Total Receipts		2,865,016	183,009	690,044	2,281,910	0	0	5,457
DISBURSEMENTS								
Claims/distributions		1,949,262	42,647	0	0	2,844	1,586	0
Special deputy receiver and legal fees		363,259	1,015,336	7,141	47,137	0	0	10,120
Other		265,706	33,340	271,576	67,487	0	0	10,531
Total Disbursements		2,578,227	1,091,323	278,717	114,624	2,844	1,586	20,651
RECEIPTS OVER (UNDER) DISBURSEMENTS		286,789	(908,314)	411,327	2,167,286	(2,844)	(1,586)	(15,194)
ACCRUAL ADJUSTMENTS		0	2,201,047	(1,212,479)	0	0	0	0
CASH AND INVESTMENTS, JULY 1		68,432,847	11,201,583	5,101,907	16,937,957	2,844	1,586	173,911
CASH AND INVESTMENTS, JUNE 30	$	68,719,636	12,494,316	4,300,755	19,105,243	0	0	158,717

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS, AND PROFESSIONAL
REGISTRATION - INSURANCE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
FOR RECEIVERSHIPS ADMINISTERED BY KANSAS CITY-AREA VENDORS
YEAR ENDED JUNE 30, 2005

	Holland America Insurance Company	International Financial Services Life Insurance Company	Lutheran Benevolent Insurance Exchange	Mission Reinsurance Company	Professional Medical Insurance Company	Professional Mutual Insurance Company Risk Retention Group	U.S. Physicians Insurance Mutual Company Risk Retention Group
RECEIPTS							
Premiums/investment income	$ 2,510,294	410,694	3,618	509,375	0	994	26,124
Total Receipts	2,510,294	410,694	3,618	509,375	0	994	26,124
DISBURSEMENTS							
Claims/distributions	1,258,230	0	0	0	32,046	16,229	1,248,419
Special deputy receiver and legal fees	280,364	1,385,837	47,362	38,461	92,248	4,699	18,272
Other	220,173	39,744	51,082	134,161	150	0	39,295
Total Disbursements	1,758,767	1,425,581	98,444	172,622	124,444	20,928	1,305,986
RECEIPTS OVER (UNDER) DISBURSEMENTS	751,527	(1,014,887)	(94,826)	336,753	(124,444)	(19,934)	(1,279,862)
ACCRUAL ADJUSTMENTS	0	2,714,228	(244,676)	0	0	0	(2,985)
CASH AND INVESTMENTS, JULY 1	67,681,320	9,502,242	5,441,409	16,601,204	127,288	21,520	1,456,758
CASH AND INVESTMENTS, JUNE 30	$ 68,432,847	11,201,583	5,101,907	16,937,957	2,844	1,586	173,911