

North Dakota Insurance

Department

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended June 30, 2017

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit

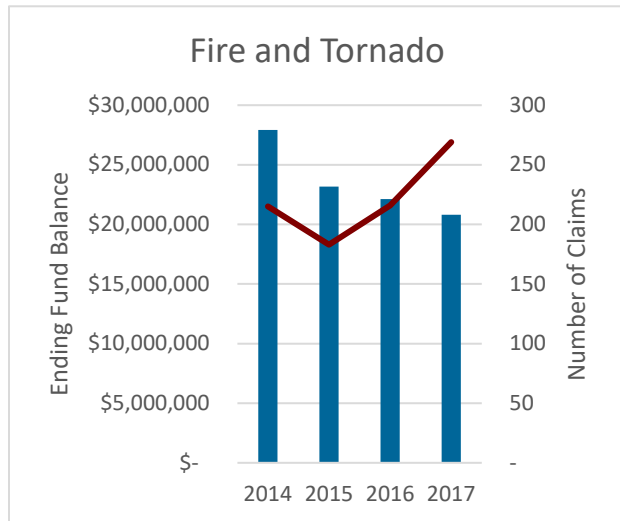
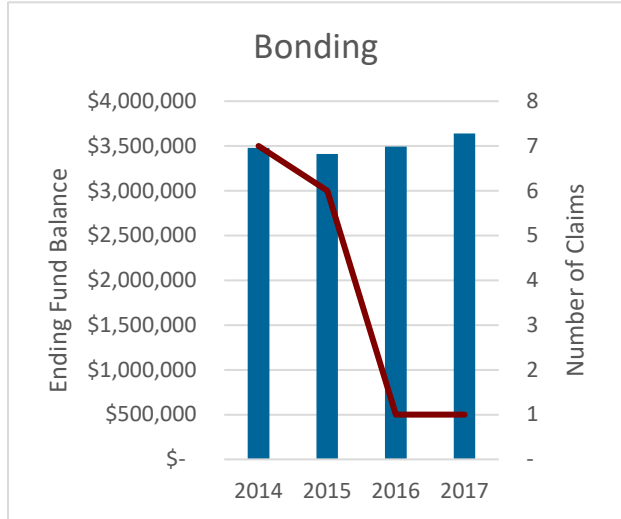
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North Dakota Insurance Department Report Highlights

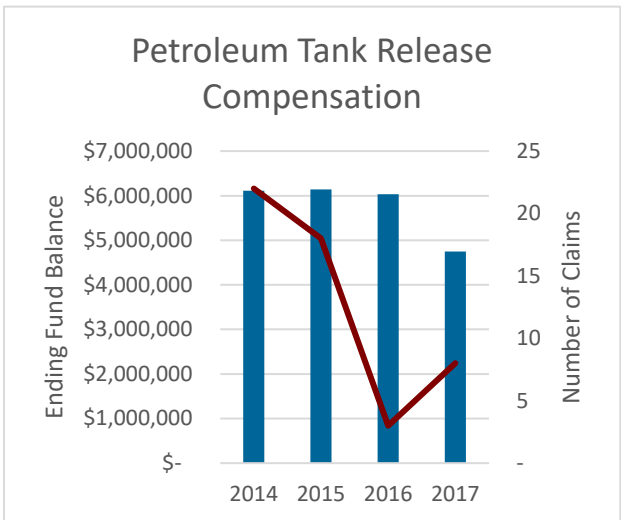
Financial:

The Special Funds Division of the Insurance Department administers the Bonding Fund, Fire and Tornado Fund, and Petroleum Tank Release Compensation Fund.

Created in 1919, the Bonding Fund provides blanket fidelity bond coverage to North Dakota government entities and political subdivisions in the event of employee theft of property and money. As of June 30, 2017, the fund served 2,981 bondholders with a combined insured value of approximately \$684 million.



Created in 1919, the Fire and Tornado Fund provides low-cost insurance to North Dakota government entities and political subdivisions for their buildings and contents. As of June 30, 2017, the fund served 1,140 policy holders with a combined insured value of \$11.4 billion.



Created in 1989, the Petroleum Tank Release Compensation Fund provides contamination clean-up coverage and third-party liability coverage to petroleum tank owners. As of June 30, 2017, there were 1,724 registered sites with approximately 5,780 tanks.

Source: 2017 State of North Dakota Comprehensive Annual Financial Report and the agency's Biennial Reports

Internal Control, Legislative Intent, and Operations: We evaluated and tested the business processes of the fire and tornado fund, the petroleum tank release compensation fund, and the producer licensing fees, which included high-risk laws and regulations. We did not note any deficiencies that are required to be reported or warrant the attention of those charged with governance. In addition, we concluded there was compliance with the legislative intent.

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State Auditor Personnel

Paul Welk, CPA, Audit Manager
Andrea Wike, In-Charge
Ian Ballantyne, Auditor
Krista Lambrecht, CPA, Auditor
Heidi Morman, Auditor
Amanda Westlake, Auditor

Primary State Agency Contacts

Jon Godfread, Commissioner
Jeffrey Ubben, Deputy Commissioner
Melissa Seifert, Account Budget Specialist III

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE – DEPT 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

June 19, 2018

The Honorable Jon Godfread, Insurance Commissioner
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the North Dakota Insurance Department for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Commissioner Godfread and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The North Dakota Insurance Department is a state regulatory agency headed by the Insurance Commissioner. The Insurance Department provides a variety of services including agent licensing and investigation, consumer protection, financial examinations, and company licensing. The Insurance Department administers various special funds and programs including the State Fire and Tornado Fund, State Bonding Fund, Petroleum Tank Release Compensation Fund, Boiler Inspection Program, Senior Health Insurance Counseling Program, and the Prescription Connection Program.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Insurance Department in accordance with generally accepted accounting principles, so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

The North Dakota Insurance Department has implemented the recommendation included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 15 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Insurance Department's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), National Insurance Producer Registry (NIPR), and the State Based System (SBS) are high-risk information technology systems critical to the North Dakota Insurance Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Insurance Department for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Insurance Department's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Insurance Department and are they in compliance with these laws?
3. Are there areas of the North Dakota Insurance Department's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Insurance Department is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Insurance Department has operations in the following locations. Each location was included in the audit scope:

- The central office in the State Capitol.
- An offsite location in Bismarck which houses the Consumer Assistance Center and the Special Funds Division.
- An offsite location in Bismarck which houses the Examinations and Company Licensing Division.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used, and the results were projected to the population. Where applicable, populations were stratified to ensure that

particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Insurance Department's processes and procedures.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Revenues and Other Sources:</u>		
Insurance Premium Tax	\$ 63,543,006	\$ 65,097,778
Licenses and Fees	8,400,063	8,296,524
Fire and Tornado Collections	5,052,588	4,728,337
Insurance Recoveries	305,546	629,797
Fines and Penalties	367,601	258,035
Revenue from Federal Government	269,393	243,317
Bonding Fund Collections	1,420	44,566
Other Revenue	699	1,346
Transfers In	4,059,943	4,160,581
Total Revenues and Other Sources	<u>\$ 82,000,259</u>	<u>\$ 83,460,281</u>
<u>Expenditures and Other Uses:</u>		
Claims and Grants	\$ 14,528,206	\$ 10,858,345
Salaries and Benefits	3,855,092	3,715,784
Insurance	2,734,630	3,316,178
Professional Services	682,189	204,047
Rentals and Leases	194,698	196,605
IT Services	165,220	161,645
Travel	105,735	121,011
Operating Fees and Services	108,750	66,394
Equipment	69,367	68,712
Supplies	45,171	38,470
Professional Development	21,661	20,174
Other Expenditures	2,179	1,390
Transfers Out	4,088,044	4,311,440
Total Expenditures and Other Uses	<u>\$ 26,600,942</u>	<u>\$ 23,080,195</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Original <u>Appropriation</u>	<u>Adjustments</u>	Final <u>Appropriation</u>	<u>Expenditures</u>	Unexpended <u>Appropriation</u>
Salaries and Wages	\$ 8,943,097		\$ 8,943,097	\$ 7,570,877	\$ 1,372,220
Operating Expenses	2,512,042		2,512,042	1,459,063	1,052,979
Capital Assets	90,000		90,000	64,770	25,230
Grants	16,701,207		16,701,207	16,246,221	454,986
Totals	<u>\$ 28,246,346</u>	<u>\$ 0</u>	<u>\$ 28,246,346</u>	<u>\$ 25,340,931</u>	<u>\$ 2,905,415</u>
Expenditures by Source:					
Other Funds	\$ 28,246,346		\$ 28,246,346	\$ 25,340,931	\$ 2,905,415
Totals	<u>\$ 28,246,346</u>	<u>\$ 0</u>	<u>\$ 28,246,346</u>	<u>\$ 25,340,931</u>	<u>\$ 2,905,415</u>

Expenditures without Appropriations of Specific Amounts:

Bonding Fund has a continuing appropriation for claims-related expenditures in accordance with NDCC section 26.1-21-02 (\$75,712 of expenditures for this biennium).

Fire and Tornado Fund has a continuing appropriation for claims-related expenditures in accordance with NDCC section 26.1-22-13 (\$14,482,942 of expenditures for this biennium).

Petroleum Tank Release Compensation Fund has a continuing appropriation for claim reimbursements in accordance with NDCC section 23-37-29 (\$1,595,334 of expenditure for this biennium).

Insurance Regulatory Trust Fund has non-appropriated transfers to the general fund authorized by NDCC section 26.1-01-07.1 (\$8,186,216 of transfers for this biennium).

Insurance Tax Distribution Fund has continuing appropriation for transfers and disbursements as authorized by NDCC section 18-04-05 (\$6,714 of expenditures for this biennium).

Special Funds Activity

Bonding Fund

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Revenues:				
Premiums	\$ 19,049	\$ 53,265	\$ 30,801	\$ 12,600
Miscellaneous	75,504			6,872
Interest and Investment Income	81,666	119,998	39,677	124,827
Total Revenues	<u>\$ 176,219</u>	<u>\$ 173,263</u>	<u>\$ 70,478</u>	<u>\$ 144,299</u>
Expenses:				
Salaries and Benefits	\$ 24,993	\$ 20,243	\$ 12,382	\$ 12,860
Operating	295	42,362	20,309	17,762
Claims		26,429	94,108	39,226
Interest	3,615	3,616	3,575	3,745
Total Expenses	<u>\$ 28,903</u>	<u>\$ 92,650</u>	<u>\$ 130,374</u>	<u>\$ 73,593</u>
Change in Fund Balance	\$ 147,316	\$ 80,613	\$ (59,896)	\$ 70,706
Beginning Fund Balance	3,493,096	3,412,483	3,472,379*	3,408,932
Ending Fund Balance	<u>\$ 3,640,412</u>	<u>\$ 3,493,096</u>	<u>\$ 3,412,483</u>	<u>\$ 3,479,638</u>
Number of Claims	1	1	6	7

*As restated for GASB 68 and 71 Pension adjustments.

SOURCE: Combining Statement of Revenues, Expenses and Changes in Fund Net Position for the Bonding Fund taken from the Comprehensive Annual Financial Report for the applicable year-end.

The Bonding Fund is authorized by NDCC chapter 26.1-21 and provides blanket fidelity bond coverage to state agencies and political subdivisions in the event of employee theft of property and money. Each state agency and political subdivision shall apply to be bonded in the fund on a biennial basis or when a change in coverage is requested. The Special Funds Division within the Insurance Department determines the premium for a blanket bond. Premiums are waived until the reserve within the bonding fund has been depleted below the sum of two million dollars. A liability claim against the fund must be reported by the Insurance Commissioner to the State Auditor. The State Auditor will file a report with the Insurance Commissioner stating any amount due from the fund because of the default or wrongful act.

Fire and Tornado Fund

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues:</u>				
Premiums/Assessments	\$ 2,677,235	\$ 2,187,349	\$ 834,137	\$ 4,872,131
Miscellaneous				766,145
Interest and Investment Income	2,087,998	720,868	762,950	2,681,185
Total Revenues	\$ 4,765,233	\$ 2,908,217	\$ 1,597,087	\$ 8,319,461
<u>Expenses:</u>				
Salaries and Benefits	\$ 539,709	\$ 494,110	\$ 512,105	\$ 534,041
Operating	813,311	451,690	3,659,825	3,388,160
Claims	4,688,338	2,968,073	1,829,221	1,193,019
Interest	40,087	46,813	45,491	52,464
Total Expenses	\$ 6,081,445	\$ 3,960,686	\$ 6,046,642	\$ 5,167,684
Change in Fund Balance	\$ (1,316,212)	\$ (1,052,469)	\$ (4,449,555)	\$ 3,151,777
Beginning Fund Balance	22,120,602	23,173,071	27,622,626*	24,772,838
Ending Fund Balance	\$ 20,804,390	\$ 22,120,602	\$ 23,173,071	\$ 27,924,615
Number of Claims	269	216	183	215
*As restated for GASB 68 and 71 Pension adjustments.				
SOURCE: Combining Statement of Revenues, Expenses and Changes in Fund Net Position for the Fire and Tornado Fund taken from the Comprehensive Annual Financial Report for the applicable year-end.				

The Fire and Tornado Fund is authorized by NDCC chapter 26.1-22 and provides low-cost insurance to state agencies and political subdivisions against loss to public buildings and indirect losses. The Special Funds Division within the Insurance Department levies an assessment each year to every policy in force based on whether the fund balance is less than or greater than twelve million dollars. Loss claims are paid from the fund. The fund balance has been decreasing over the past four years due to the nature of the fund, which includes the changes in the investment market and claims losses paid during the year.

Petroleum Tank Release Compensation Fund

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Revenues:				
Registration Fees	\$ 353,800	\$ 387,790	\$ 383,940	\$ 636,200
Miscellaneous				867,618
Interest and Investment Income	153,127	243,004	76,357	260,332
Total Revenues	\$ 506,927	\$ 630,794	\$ 460,297	\$ 1,764,150
Expenses:				
Salaries and Benefits	\$ 48,514	\$ 47,016	\$ 37,232	\$ 37,133
Operating	88,579	76,544	102,723	72,512
Claims	1,651,133	607,851	283,639	
Interest	5,859	6,257	6,478	6,443
Total Expenses	\$ 1,794,085	\$ 737,668	\$ 430,072	\$ 116,088
Change in Fund Balance	\$ (1,287,158)	\$ (106,874)	\$ 30,225	\$ 1,648,062
Beginning Fund Balance	6,034,036	6,140,910	6,110,685	4,462,623
Ending Fund Balance	\$ 4,746,878	\$ 6,034,036	\$ 6,140,910	\$ 6,110,685
Number of Claims	8	3	18	22

SOURCE: Biennial Report of the North Dakota Insurance Department for the applicable biennium.

The Petroleum Tank Release Compensation Fund is authorized by NDCC chapter 23-37 and provides contamination clean-up coverage and third-party liability coverage to petroleum tank owners. An owner or operator of a tank is required to pay an annual registration fee. The Special Funds Division of the Insurance Department determines the fund balance of the fund each year and sets the fee at \$100 if the fund balance is less than six million dollars, \$50 if the fund balance is more than six million dollars but less than nine million dollars, or \$5 if the fund balance is more than nine million dollars. The fund is used to reimburse applicable parties for the costs of corrective action. The fund balance decreased significant in the year ended June 30, 2017, due to aging infrastructure and increased amount of losses and corrective action.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota Insurance Department's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the business process of the fire and tornado fund.
- Controls surrounding the business process of the petroleum tank release compensation fund.
- Controls surrounding the collection of producer licensing fees, including the reconciliation of revenue on the National Insurance Producer Registry (NIPR), ConnectND (Peoplesoft), and the State Based System (SBS) information system.
- Controls surrounding the receipt and review of the Report on National Insurance Producer Registry's Description of the Insurance Support Services System and the Suitability of the Design and Operating Effectiveness of its Controls for service organizations collecting agency licensing filings and related revenue collections.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control 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 detect: misstatements in financial or performance information, violations of laws and regulations, or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested North Dakota Insurance Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriation laws (2015 Session Laws, chapter 50), including:
 - \$50,813 from the bonding fund for bonding administrative expenses (section 3).
 - \$1,660,748 from the fire and tornado fund for fire and tornado administrative expenses (section 4).
 - \$29,062 from the unsatisfied judgment fund for unsatisfied judgment administrative expenses (section 5).
 - \$116,881 from the petroleum release compensation fund for petroleum release compensation administrative expenses (section 6).
 - \$500,000 from the insurance regulatory trust fund to the department of emergency services (section 7).
- Proper use of the following legally restricted funds:
 - Unsatisfied Judgement Fund (NDCC 26.1-23-01).
 - State Bonding Fund (NDCC 26.1-21-17).
 - State Fire and Tornado Fund (NDCC 26.1-22-02).
 - Petroleum Release Compensation Fund (NDCC 23-37-18 and NDAC 45-10-02-05 & 06).
 - Insurance Tax Distribution Fund (NDCC 18-04-05).
- Proper authorization of expenditures without appropriations of specific amounts:
 - State Bonding Fund (NDCC 26.1-21-12).
 - State Fire and Tornado Fund (NDCC 26.1-22-17).
 - Petroleum Tank Release Compensation Fund (NDCC 23-37-29).
 - Insurance Regulatory Trust Fund (NDCC 26.1-01-07.1(3)).
 - Insurance Tax Distribution Fund (NDCC 26.1-03-17(1)).
- Proper payment of amounts due from the insurance tax distribution fund to certified city fire departments, rural fire departments, or fire protection districts in accordance with NDCC 18-04-05 for the amounts appropriated in the 2015 Session Laws, chapter 44, section 2.
- Proper collection of petroleum tank release compensation fund registration fees in accordance with NDCC 23-37-17.
- Proper transfer of remaining fund balance in the insurance regulatory trust fund exceeding \$1,000,000 to the general fund in accordance with NDCC 26.1-01-07.1(3).
- Proper collection of a license fee and tax for an attorney on account of the transaction of the reciprocal or interinsurance exchange in accordance with NDCC 26.1-09-10.
- Proper filing of requirements within 90 days after the adoption of a plan of conversion for a converting mutual company in accordance with NDCC 26.1-12.2-02.
- Proper certification of boiler inspections in accordance with NDCC 26.1-22.1-10.

- Compliance with enforcement actions for producer licensing in accordance with NDCC 26.1-26-50.
- Proper collection of the surplus lines tax and filing of an annual report in accordance with NDCC sections 26.1-44-03.1 and 26.1-44-06.1.
- Application of proper statutory rates relating to revenue. (NDCC sections 26.1-01-07, 26.1-03-19.6, 26.1-22.1-09, 26.1-26-20, and 26.1-27-03).
- Proper authorization of the Insurance Department funds.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Proper authority for investments.
- Proper deposit of interest income.
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Proper use of the Bank of North Dakota as depository for credit card revenue in accordance with NDCC 54-06-08.2.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with fixed asset requirements including record-keeping and annual inventory.
- Compliance with payroll-related laws including statutory salaries for applicable elected positions and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota Insurance Department in a management letter dated June 19, 2018.

Operations

Our audit of the North Dakota Insurance Department included a review of the policies and procedures surrounding the enforcement actions of the producer licensing division.

Producer Licensing

Background

In order for an individual to be an insurance producer in the state of North Dakota, they must be licensed through the Insurance Department. They are required to pass the appropriate exam, submit an application, and pay a fee to the Department. The producer licensing division is responsible for receiving, verifying, and approving insurance producer licenses. The legal division provides legal advice to the Commissioner when it appears an insurance producer has engaged in an insurance-related violation.

Our audit of the Insurance Department's producer licensing processes and understanding of the enforcement process was designed and conducted to meet the following operational objectives:

- Are the case findings and recommended enforcement actions of the legal division documented?
- If the Commissioner's assessed fine or penalty differs from the legal division's recommendation, is there proper documentation?

We did not identify any significant issues related to the objectives noted above.

Management Letter (Informal Recommendations)

June 19, 2018

The Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Godfread:

We have performed an audit of the North Dakota Insurance Department for the biennium ended June 30, 2017 and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Insurance Department's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

LEGISLATIVE INTENT

Informal Recommendation 17-1: We recommend the Insurance Department ensure payments made under NDCC 18-04-05 (4) are made to each individual fire district and are not combined unless there is adequate support showing the combined fire districts have the same contact information.

Informal Recommendation 17-2: We recommend that the Department of Insurance not overspend their appropriation for administrative expenses.

Management of North Dakota Insurance Department agreed with these recommendations.

I encourage you to call me at 328-2241, if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Paul Welk".

Paul Welk, CPA
Auditor Manager

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

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