



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Insurance Department

Audit Report for the Biennium Ended June 30, 2021

Client Code 401





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND



Incorrect Distributions to Fire Departments and Districts

Five instances found where payments were flipped between fire departments and fire districts that operate within close proximity of each other.

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KEY PERSONNEL

Lindsey Slappy
AUDIT MANAGER

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LEAD AUDITOR

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HAVE QUESTIONS? ASK US.

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Introduction

North Dakota Insurance Department

January 3, 2022

We are pleased to submit this audit of the North Dakota Insurance Department for the biennium that ended June 30, 2021. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase the responsiveness and effectiveness of state government.

Lindsey Slappy was the audit manager on this engagement. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2336. We wish to express our appreciation to the North Dakota Insurance Department staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

FINDING
2021-01

Incorrect Distributions to Fire Districts and Departments

CONCLUSION

Payments made to fire districts and departments are not being properly reviewed before they are processed and granted. Incorrect distributions caused several fire districts and departments to be underpaid by a total of \$33,783. Because of the underpayment, that same amount, \$33,783, was overpaid to various fire districts and departments.

BACKGROUND

The North Dakota Insurance Department receives an appropriation each biennium which they are required to split into a distribution annually. During our audit period, five instances showed that payments were flipped between fire departments and fire districts that operate in close proximity.

Our team found that payments were correctly calculated for all districts. These payments are based on the premiums received in each district.

State law requires the Insurance Commissioner to calculate the amounts due to the city fire departments, rural fire departments, or fire protection districts. One-half of the legislative appropriation every two years is allocated to each eligible city that is not within a fire protection district, a rural fire protection district organized under this title, or a rural fire department certified by the state fire marshal (N.D.C.C. 18-04-05(4)).

This allocation must be made in proportion to the amount

of insurance company premiums received by insurance companies (N.D.C.C. 26.1-03-17) to the total of those premiums for policies in the state. This applies to:

- Policies for fire, allied lines, homeowner's multiple-peril, farm owner's multiple-peril, and commercial multiple-peril.
- Crop hail insurance.
- Certified rural fire protection districts and the areas they serve.

Standards for internal control in the Federal Government require management to design transaction control activities which are built directly into operational processes. These processes support the entity in achieving its objectives and addressing the related risks.



Five instances found where **payments were flipped** between fire departments and fire districts that operate within close proximity of each other.

RECOMMENDATION

We recommend the Insurance Department review payments prior to issuance to fire departments and fire districts to ensure they are made to the proper entity in accordance with N.D.C.C. 18-04-05(4).

INSURANCE DEPARTMENT RESPONSE

The Department agrees with the recommendation.

The Department implemented the following corrective actions:

1. Automated processing of distributions was eliminated.

2. Requested updated W-9 forms from fire districts to reflect proper naming mechanisms.
3. Checks are now issued as a fire district's Certificate of Existence is received and processed rather than processing a single batch for all checks.

These new procedures were successfully used when processing the distribution checks in FY 2022.



Audit Procedures

Primary Objective

INTERNAL CONTROL

As required by auditing standards, we planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Comprehensive Annual Financial Report.
- Tested to ensure original appropriations and appropriation adjustment authorizations were in the audit of the State of North Dakota Annual Comprehensive Financial Report.
- Application for discount plan organizations contained information required per N.D.C.C. 26.2-53.01-03.
- Confirmed an application checklist for discount plan organizations was completed and approved and included all necessary information.
- Ensured a monthly reconciliation of insurance premium tax check revenue from the State Based System (SBS) to PeopleSoft was completed.
- Ensured insurance premium tax revenue refunds are being properly approved.
- Confirmed North Dakota Insurance Reserve Fund reimbursements are being properly approved.

There were no deficiencies identified.

SCOPE

The audit of the North Dakota Insurance Department is for the biennium that ended June 30, 2021.

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.

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population, as applicable.
- Interviewed appropriate agency personnel.
- Observed the North Dakota Insurance Department's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Analyzed accounts charged to each appropriation line to determine that expenditures were not charged to an inappropriate line to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the North Dakota Insurance Department had legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).
- Tested all expenditures related to an appropriation adjustment approved by the Emergency Commission to ensure they were for the intended purpose.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. Chapter 26.1-21-08, N.D.C.C. Chapter 26.1-21-10).

18-04-05(4)).

- Determined if the Insurance Commissioner properly reported to the appropriations committee the use of \$200,000 of one-time funding and if the use of the funding was in accordance with legislative intent. (2019 North Dakota Session Laws Chapter 35 (S.B. 2010 Section 2)).
- Determined if \$828,525 was paid to the North Dakota Firefighter's Association and if \$17,989,505 was paid to the North Dakota fire departments in accordance with legislative intent. (2019 North Dakota Session Laws Chapter 35 (S.B. 2010 Section 3)).
- Determined if rules were adopted by the Insurance Commissioner establishing a reserve requirement for self-insurance health plans in accordance with legislative intent. (2019 North Dakota Session Laws Chapter 462 (H.B. 1028 Section 1)).
- Determined if the Insurance Commissioner is ensuring compliance with and enforcing provisions of self-insurance health plans in accordance with legislative intent. (2019 North Dakota Session Laws Chapter 462 (H.B. 1028 Section 6)).
- In regards to discount plan organizations, we determined if an application form contains the required information, the application review checklist contains all necessary compliance requirements, the application review checklist was properly completed and approved by the appropriate supervisors, the application fee was properly submitted, and the application contains all the necessary information in accordance with legislative intent. (2019 North Dakota Session Laws Chapter 249 (S.B. 2102 Section 1)).
- Selected a random sample of deposits to determine if a monthly reconciliation of the check reconciliation spreadsheet from the State Based System (SBS) to PeopleSoft was completed.
- Selected a high dollar and random sample of insurance premium tax revenue refunds to determine if they were properly approved, supported, and recorded.
- Selected a random sample of North Dakota Insurance Reserve Fund (NDIRF) weekly claims to determine if they were properly approved.
- Tested 100% of the allocations to fire departments and fire districts to determine compliance with law. (N.D.C.C. 18-04-05(4)).
- Selected a random sample of fire departments and fire districts to determine if they were properly certified to be able to receive an allocation in compliance with law (N.D.C.C. 18-04-05(4)).
- Selected a sample of operating expenditures to ensure expenditures were for lawful and official purposes and properly coded and supported (N.D.C.C. Chapter 44-08-05.1 (1a)). The sample consisted of some high-risk items, some high dollar items, and some randomly selected items.
- Selected a sample of expenditures paid out of the State Fire and Tornado Fund to ensure expenditures were within legal restrictions (N.D.C.C. 26.1-22 sections 11,17, and 21).
- Selected a judgmental sample of general ledger correcting entries involving the State Bonding Fund, State Fire and Tornado Fund, and Insurance Tax Distribution Fund to ensure the entries were within legal restrictions (N.D.C.C. 26.1-21-17, N.D.C.C. 26.1-22 sections 11,17, and 21, and N.D.C.C. 18-04-05).

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota Insurance Department has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are 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).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures and appropriation information was 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?

Other than finding 21-01 in this report, the North Dakota Insurance Department was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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?

There were no recommendations 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.

No, a management letter was not issued.



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 revenues, expenditures and appropriation information does 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 Capital Management (HCM) and the State Based System (SBS) are high-risk information technology systems critical to the North Dakota Insurance Department. The exception identified in question two is not directly related to these systems.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Insurance Premium Tax	\$ 59,177,852	\$ 63,094,991
Revenue from Federal Government	21,870,053	214,064
Licenses and Fees	9,812,256	8,585,380
Fire and Tornado Collections	6,153,122	5,652,753
Insurance Recoveries	80,001	536,424
Fines and Penalties	49,307	146,961
Bonding Fund Collections	16,866	12,997
Other Revenue	2,759	3,167
Total Revenue and Other Sources	\$ 97,162,216	\$ 78,246,737

Source: ConnectND Financials

Continued on the following page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Reinsurance Association of ND (RAND)	\$ 21,488,350	\$ -
Grants to Fire Districts	8,989,206	8,973,018
Insurance	4,326,850	4,156,814
Extended Coverage/Bonding Claim Losses	3,683,933	2,298,041
Salaries and Benefits	3,482,189	3,491,047
Professional Services	957,346	862,078
Grants to Associations	414,263	414,263
IT Services	189,596	154,016
Rentals and Leases	181,831	188,955
Equipment	39,964	1,729
Professional Development	19,834	20,242
Supplies	19,369	12,505
Printing and Postage	14,791	15,653
Operating Fees and Services	12,546	14,143
Travel	10,818	48,206
Repairs	1,170	1,800
Other Expenditures	943	281
Transfers to Attorney General Fund	73,986	49,273
Total Expenditures and Other Uses	\$ 43,906,985	\$ 20,702,064

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Salaries and Wages	\$ 8,149,998	\$ 6,972,728	\$ 1,177,270
Operating Expenses	23,255,025	23,002,809	252,216
Grants	18,818,030	18,790,749	27,281
Totals	50,223,053	48,766,285	1,456,768
Expenditures by Source			
Other	50,223,053	48,766,285	1,456,768
Totals	\$ 50,223,053	\$ 48,766,285	\$ 1,456,768

Source: ConnectND Financials




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