

Insurance Department
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

June 10, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The Honorable Adam Hamm, Commissioner, Insurance Department

We are pleased to submit this audit of the North Dakota Insurance Department for the biennium ended June 30, 2013. 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.

The in-charge auditor for this audit was Allison Bader. Richard Fuher, CPA, Krista Lambrecht, and Trevor Huber were the staff auditors. 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 Hamm and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
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 Prescription Connection Program.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests 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 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 our finding addressing "noncompliance with petroleum release compensation fund appropriation laws" (page 15), the 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?

Other than our finding addressing the "lack of monitoring of service organization internal controls" (page 12), we determined internal control was adequate.

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

Yes.

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

The Insurance Department has implemented all 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.*

Yes, a management letter was issued and is included on page 17 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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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 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), and the State Based (Deposit) System are high-risk information technology systems critical to the Insurance Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Insurance Department for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the 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 Insurance Department and are they in compliance with these laws?
3. Are there areas of the Insurance Department's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Insurance Department is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 Insurance Department has operations in the following locations. Each location was included in the audit scope:

- The Central Office in the State Capitol.
- Company Licensing in north Bismarck.
- Special Funds and Consumer Assistance in south Bismarck.

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 and developed a discussion and analysis of the financial statements.
- 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 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 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.

Discussion and Analysis

The accompanying financial statements have been prepared to present the Insurance Department's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2013, operations of the Insurance Department were primarily supported by fees credited to the Insurance Regulatory Trust Fund. This is supplemented by appropriations from the Insurance Tax Distribution Fund, federal funding, and other income credited to the Department's Petroleum Tank Release Compensation Fund, Bonding Fund, and the Fire and Tornado Fund.

Financial Summary

The Insurance Department has significant investments held with the North Dakota State Investment Board. The majority of the investment balance is for the State Fire and Tornado Fund, however, investments are also held for the Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust fund, and the State Bonding Fund. These investments and the related activity are authorized by North Dakota Century Code (NDCC) sections 26.1-22-04, 23-37-30, 26.1-01-07.2, and 26.1-21-05, respectively. The investments increased from \$35,081,963 for the year ended June 30, 2012 to \$37,466,903 for the year ended June 30, 2013. These investments are overseen by the State Investment Board and invested by the North Dakota Retirement Office.

Revenues consisted primarily of insurance premium tax, licenses and fees, and regulatory fees. Licenses and fees collections include revenues from the examination and licensing of insurance agents and companies, as well as petroleum tank registration fees. Regulatory fees are primarily premiums collected in the Fire and Tornado Fund. Total revenues were \$64,242,661 for the year ended June 30, 2013 as compared to \$58,269,502 for the year ended June 30, 2012. The majority of the increase was due to increased premium tax collections as a result of North Dakota's increased population and insured property values.

Expenditures and other uses for the Insurance Department were \$16,435,916 for the year ended June 30, 2013 as compared to \$16,786,298 for the prior year. Grants and Claims, Insurance, and Transfers Out accounted for approximately 75% of total expenditures during the fiscal years reviewed. Grants and Claims consisted primarily of claims from the Fire and Tornado, Bonding, and Petroleum Tank Release Compensation Funds. Grant disbursements from the Insurance Tax Distribution Fund to the Fire Fighter's Association and fire departments were made in accordance with NDCC 18-04-05 and within appropriation authorized by Chapter 36 Section 3 of the 2011 Legislative Assembly. Insurance expenditures are related to the state's property insurance within the Fire and Tornado Fund. The majority of Transfers Out was legislatively mandated transfer of excess funds from the Insurance Regulatory Trust Fund to the state's General Fund in accordance with NDCC 26.1-07-07.1(3). All expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess of Salary and Benefits appropriations over actual expenditures were due to the Insurance Department unable to fill vacant positions and ultimately filling the positions at a lower pay grade. The Operating Expenses line variance was due to over-estimated federal revenue. The excess American Health Benefit appropriations over actual expenditures were due to North Dakota not having a state operated Health Benefit Exchange.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Insurance Premium Tax	\$ 47,866,948	\$ 42,818,733
Licenses and Fees	7,560,081	6,843,537
Regulatory Fees	4,641,921	4,073,517
Revenue from Federal Government	413,652	529,772
Insurance Recoveries	139,198	650,996
Bonding Fund Claim Collections	48,028	20,540
Unsatisfied Judgment Fees	2,395	80,349
Other Revenues	1,145	2,647
Transfers In	3,569,293	3,249,411
Total Revenues and Other Sources	<u>\$ 64,242,661</u>	<u>\$ 58,269,502</u>
<u>Expenditures and Other Uses:</u>		
Grants and Claims	\$ 5,811,726	\$ 6,856,169
Salaries and Benefits	3,255,826	2,994,399
Insurance	2,739,217	2,406,279
Professional Services	253,979	487,279
Rent of Building Space	157,717	147,829
Travel	128,496	102,859
IT Data Processing	96,313	148,693
IT Contractual Services and Repairs	91,491	47,007
Supplies	55,221	52,494
Operating Fees and Services	50,756	48,442
Postage	36,048	36,109
IT Communications	34,440	32,269
Professional Development	31,868	16,160
Equipment Under \$5,000	36,056	43,513
Printing	16,814	20,635
Rent of Equipment	7,665	8,047
Repairs	1,125	28,309
Transfers Out	3,631,158	3,309,806
Total Expenditures and Other Uses	<u>\$ 16,435,916</u>	<u>\$ 16,786,298</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

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	\$ 6,859,830		\$ 6,859,830	\$ 5,998,491	\$ 861,339
Operating Expenses	3,431,900		3,431,900	1,611,109	1,820,791
Capital Assets	70,000		70,000		70,000
Grants	7,040,000		7,040,000	7,021,684	18,316
American Health Benefit	1,000,000		1,000,000	231,978	768,022
Federal Affordable Care Act		\$ 642,350	642,350	303,447	338,903
Totals	<u>\$ 18,401,730</u>	<u>\$ 642,350</u>	<u>\$ 19,044,080</u>	<u>\$ 15,166,709</u>	<u>\$ 3,877,371</u>
Expenditures by Source:					
Other Funds	\$ 18,401,730	\$ 642,350	\$ 19,044,080	\$ 15,166,709	\$ 3,877,371
Totals	<u>\$ 18,401,730</u>	<u>\$ 642,350</u>	<u>\$ 19,044,080</u>	<u>\$ 15,166,709</u>	<u>\$ 3,877,371</u>

Appropriation Adjustments:

The \$642,350 increase in the Federal Affordable Care Act line was authorized by chapter 578, section 4 of the 2011 Special Session Laws for the purpose of defraying the expenses of implementation of the federal Affordable Care Act.

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. (\$51,218 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. (\$9,867,236 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. (\$1,318,349 of expenditures for this biennium)

Insurance Regulatory Trust Fund has non-appropriated transfers to the general fund authorized by NDCC section 26.1-01-07.1. (\$6,526,655 of transfers for this biennium)

Insurance Tax Distribution Fund has continuing appropriation for transfers and disbursements as authorized by NDCC section 18-04-05. (\$292,049 of expenditures for this biennium)

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Insurance Department's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the approval of expenditures and correcting entries in the ConnectND (PeopleSoft) system.
- Controls surrounding the reconciliation of revenue on the remittance listing, ConnectND (Peoplesoft), and the State Based System (SBS) information system.
- Controls surrounding the receipt and review of the Statement on Standards for Attestation Engagements No. 16 - *Reporting on Controls at a Service Organization* for service organizations collecting and handling premium tax, company licensing and agent licensing filings, and related revenues collections.
- Controls surrounding the proper accumulation of annual fire district reporting for distribution of amounts due to certified city fire departments, rural fire departments, or fire protection districts in accordance with NDCC 18-04-05.
- Controls surrounding the application, award, and monitoring procedures of company licensing.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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 that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of the Insurance Department in a management letter dated June 10, 2014.

Lack of Monitoring of Service Organization Internal Control Activities (Finding 13-1)

Condition:

The Insurance Department is not monitoring internal control activities of outside service organizations by obtaining and reviewing available service organization audit reports for the National Association of Insurance Companies (NAIC) and National Insurance Producer Registry (NIPR). These organizations process electronic filings for company licensing and agent licensing and renewals and collect related revenues. The NAIC also collects electronic filings of insurance premium taxes and related tax revenue. During fiscal year 2013, total filings processed by these service organizations were approximately 69,000 with \$19 million in collections.

Criteria:

Proper internal controls, as published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *Internal Control - Integrated Framework*, identifies that control activities consider risks related to all aspects of initiation, recording, and processing of significant classes of transactions at the third-party outsourcer.

Cause:

The Insurance Department does not have policies and procedures related to monitoring and control activities of outside service organizations. The Insurance Department was unaware that NAIC and NIPR had service organization audit reports or the necessity to review the results for weaknesses surrounding contracted services with the organizations.

Effect or Potential Effect:

Data and collections processed by outside service organizations may be exposed to risks such as unauthorized access to information, inappropriate use of data, possible breach of security, and theft of collections.

Recommendation:

We recommend the Insurance Department establish policies and procedures to ensure the control activities at outside service organizations are properly monitored, including the review of service organization audit reports of the National Association of Insurance Companies (NAIC) and National Insurance Producer Registry (NIPR) performed in accordance with Standards for Attestation Engagements No. 16.

Insurance Department Response:

The Department agrees with this recommendation. The Department has addressed the issue and has begun working on the necessary policies and procedures to monitor the activities of the outside service organization. The Department has received the most recent service organization audit reports and is working on the processes identified to ensure adequate controls are in place with all parties involved.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the 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 (2011 Session Laws):
 - \$6,870,000 from the insurance tax distribution fund of which \$6,200,000 for payments to fire departments and \$670,000 for making two equal payments to the North Dakota firefighter's association (chapter 36, section 3).
 - \$46,769 from the state bonding fund for bonding fund administrative expenses (chapter 36, section 4).
 - \$1,611,575 from the fire and tornado fund including \$170,000 to the North Dakota firefighter's association and \$1,441,575 for fire and tornado fund administrative expenses (chapter 36, section 5).
 - \$27,349 from the unsatisfied judgment fund for unsatisfied judgment fund administrative expenses (chapter 36, section 6).
 - \$46,769 from the petroleum release compensation fund for petroleum release compensation fund administrative expenses (chapter 36, section 7).
 - \$1,000,000 appropriation from federal funds for planning and implementation of an American health benefit exchange (chapter 225, section 2).
- Compliance with appropriation laws (2011 Special Session Laws):
 - \$642,350 from the special funds for the implementation of the affordable care act (chapter 578, section 4).
- Proper use and authorization of the following legally restricted funds:
 - Unsatisfied Judgment Fund (NDCC 26.1-23-01)
 - State Bonding Fund (NDCC 26.1-21-02, NDCC 26.1-21-17)
 - Fire and Tornado Fund (NDCC 26.1-22, NDCC 26.1-22.1-13)
 - Petroleum Release Compensation Fund (NDCC 23-37)
 - Insurance Tax Distribution Fund (NDCC 18-04-05)
- Proper authorization of expenditures without appropriations of specific amounts:
 - State Bonding Fund (NDCC 26.1-21-02)
 - Fire and Tornado Fund (NDCC 26.1-22-13)
 - Petroleum Release Compensation Fund (NDCC 23-37-29)
 - Insurance Regulatory Trust Fund (NDCC 26.1-01-07.1)
 - Insurance Tax Distribution Fund (NDCC 18-04-05)
- Proper authorization of the Insurance Regulatory Trust Fund (NDCC 26.1-01-07.1)
- 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.
- 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).
- Boiler inspection and certificate fees charged in accordance with NDCC 26.1-22.1-09 as revised by chapter 216, section 2 of the 2011 Legislative Assembly.
- Procedures established to ensure compliance of independent external reviews for grandfathered health plans in accordance with NDCC 26.1-36-44 as revised by chapter 218, section 3 of the 2011 Legislative Assembly.
- Proper fee for registration of petroleum tanks charged in accordance with NDCC 23-37-17.

- Proper fee for individual insurance producer biennial license fee charged in accordance with NDCC 26.1-26-13.4.
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 36, 2011 North Dakota Special Session Laws chapter 578, and Emergency Commission authorizations).
- Proper use of the Bank of North Dakota as depository for credit card collections (NDCC 54-06-08.2).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper authority for investments.
- Proper authority for investment interest deposited to the State Bonding Fund, Fire and Tornado Fund, Petroleum Tank Release Compensation Fund, and Insurance Regulatory Trust Fund.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, capitalization, surplus property, and annual inventory.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed 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 requires 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Insurance Department in a management letter dated June 10, 2014.

***Noncompliance With Petroleum Release Compensation Fund Appropriation Laws
(Finding 13-2)***

Condition:

The Insurance Department overspent appropriation for administrative expenses from the Petroleum Release Compensation Fund by \$52,736.

Criteria:

2011 North Dakota Session Laws Chapter 36, section 7, appropriated \$46,769 from the Petroleum Release Compensation Fund to pay Petroleum Release Compensation Fund administrative expenses for the biennium beginning July 1, 2011 and ending June 30, 2013.

Cause:

The Insurance Department did not adequately review the final fund appropriation and assumed the requested amount of \$100,223 was appropriated.

Effect or Potential Effect:

Noncompliance with appropriation of the Petroleum Release Compensation Fund as outlined in 2011 Session Laws, Chapter 36, Section 7.

Recommendation:

We recommend the Insurance Department review final legislative appropriations and ensure appropriation limits are not exceeded.

Insurance Department Response:

The Department agrees with this recommendation. The Department will verify the funding requests are correctly reported throughout the legislative process. The Department will verify the final funding request on their appropriation bill to ensure accuracy.

Operations

This audit did not identify areas of the Insurance Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

June 10, 2014

The Honorable Adam Hamm
Insurance Commissioner
Insurance Department
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Hamm:

We have performed an audit of the Insurance Department for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the 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.

Informal Recommendation 13-1: We recommend the Insurance Department identify potential fraud risks at the division and program level in preparing the fraud risk assessment. We also recommend the Insurance Department communicate fraud risk internal controls to appropriate levels of the Department to ensure execution of objectives, processes, and individual responsibilities.

Informal Recommendation 13-2: We recommend the Insurance Department calculate claims incurred but not reported for the Petroleum Tank Release Compensation Fund based on supported historical analysis including extent of time before claims are reported and current trends. We also recommend the Insurance Department ensure the calculation is reviewed for accuracy.

Informal Recommendation 13-3: We recommend the Insurance Department:

- Establish internal controls to ensure the number of performance bonuses provided in a fiscal year do not exceed the number allowed by NDCC 54-06-30;
- Ensure the proper earnings codes are used for bonuses;
- Update its Retention Bonus Policy to require the repayment of all or a portion of the retention bonus in the event the employee terminates employment within a specified period; and
- Require employees sign an acknowledgement letter that all or a portion of the retention bonus must be repaid in the event the employee terminates employment within the specified period.

Informal Recommendation 13-4: We recommend the Insurance Department collect the proper amount of certificate fees related to boiler inspections for each year a certificate is valid in accordance with NDCC 26.1-22.1-10.

Informal Recommendation 13-5: We recommend the Insurance Department strengthen controls to ensure data reported on fire district reports is properly input into the Fire District Program and fire districts are paid the proper amounts in accordance with NDCC 18-04-05.

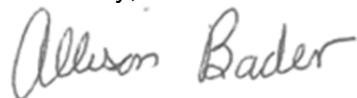
Informal Recommendation 13-6: We recommend the Insurance Department ensure the reconciliation of the remittance list to the deposit is properly documented to ensure all remittances are deposited.

Informal Recommendation 13-7: We recommend the Insurance Department follow the clear and unambiguous meaning of "amount of money in the fund" in determining the petroleum tank registration fee in accordance with NDCC 23-37-17 or introduce legislation to clarify the use of fund balance.

Management of Insurance Department agreed with these recommendations.

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

Sincerely,



Allison Bader
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241