

DEPARTMENT OF INSURANCE  
STATE OF LOUISIANA



PROCEDURAL REPORT  
ISSUED NOVEMBER 13, 2013

**LOUISIANA LEGISLATIVE AUDITOR  
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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

November 4, 2013

**THE HONORABLE JAMES J. DONELON,  
COMMISSIONER OF INSURANCE  
DEPARTMENT OF INSURANCE  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Department of Insurance (department) for the period from July 1, 2011, through June 30, 2013.

- Our auditors obtained and documented an understanding of the department's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the department.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using the department's annual fiscal reports and/or system-generated reports and obtained explanations from management for any significant variances. We also scheduled total revenue for the department for fiscal years 2010 through 2013 for informational purposes.
- Our auditors reviewed the status of the finding identified in the prior procedural report, dated May 4, 2011. The finding, relating to an ineffective internal audit function, has not been resolved and is addressed again in this letter.
- Based on the documentation of the department's controls and our understanding of related laws and regulations, our auditors performed procedures on producer licenses, Louisiana Insurance Rating assessments, premium taxes, compliance with the Insurance Louisiana Incentive Program, and the transfer of funds as required by Act 597 of the 2012 Legislative Session.

The Annual Fiscal Report of the department was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, the following significant finding is included in this report for management's consideration.

### **Ineffective Internal Audit Function**

For the second consecutive audit, the department did not have an effective internal audit function, which is critical to ensure that assets are safeguarded and management's policies are uniformly applied. Because of turnover beginning in fiscal year 2011, the department replaced its sole internal audit position three times, with the last internal auditor hired in January 2013. As a result, few audits of high risk areas were completed.

Because the department had approximately \$110 million and \$530 million in assets and revenues, respectively, for fiscal year 2013, we recommend that the department continue its efforts to retain and develop an effective internal audit function, including identifying and addressing high risk areas within the department. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

The recommendation in this report represents, in our judgment, that which is most likely to bring about beneficial improvements to the operations of the department. The nature of the recommendation, its implementation costs, and its potential impact on the operations of the department should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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## APPENDIX A

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### Management's Corrective Action Plan and Response to the Finding and Recommendation



**LOUISIANA DEPARTMENT OF INSURANCE**  
**JAMES J. DONELON**  
**COMMISSIONER**

**October 11, 2013**

**The Honorable Daryl Purpera, CPA, CFE**  
**Legislative Auditor**  
**Office of the Louisiana Legislative Auditor**  
**P.O. Box 94397**  
**Baton Rouge, LA 70804**

**RE: Legislative Auditor Finding of Ineffective Internal Audit Function**

**Dear Mr. Purpera:**

**The Louisiana Department of Insurance (LDI) concurs with your finding entitled "Ineffective Internal Audit Function" as presented in the audit report. While procedures and controls are in place to foster an effective internal audit function, the LDI accepts your recommendation and remains committed to developing and improving an effective internal audit function, with specific emphasis on high risk areas within the department.**

**LDI anticipates a significant improvement in the internal audit function for FY 2013-2014, which will be evaluated, in part, using performance indicator #6393. LDI management believes that stressing the need to audit high risk areas and having the internal audit position filled for a complete fiscal year will improve efficiency and effectiveness.**

**LDI is confident that this finding is being adequately addressed and significant progress has already been made in strengthening the effectiveness of the internal audit function. For further information regarding this response, you may contact me at 225-342-7276.**

**Sincerely,**

**S. Denise Brignac, CFE**  
**Chief of Staff**