DEPARTMENT OF INSURANCE
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
ISSUED JUNE 23, 2010

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 24, 2010

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying special purpose (legal basis) financial statements of the Department of Insurance, a department within Louisiana state government, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of management of the Department of Insurance. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fifth and sixth paragraphs, 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 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 described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Department of Insurance. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. The appropriated fund reflects appropriated activity of the department that is part of the General Fund of the State of Louisiana. The non-appropriated funds are individual funds of the State of Louisiana not subject to budgetary control. The financial statements do not purport to, and do not, present fairly the financial position of the State of Louisiana as of June 30, 2009, the changes in its financial position or cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Furthermore, as described in the notes to the financial statements, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated funds. These practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between legal basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the special purpose financial statements referred to above were not intended to and do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Department of Insurance, as of June 30, 2009, the changes in its financial position or cash flows, where applicable, thereof for the year then ended. Further, the department has not presented a management's discussion and analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of the financial statements.

The agency funds in the special purpose financial statements include 27 insurance companies and seven subsidiaries or affiliated entities in the Office of Receivership for which the Department of Insurance has fiduciary responsibility. Because of the nature of these insurance companies and their subsidiaries and affiliates and the reasons they are in liquidation or rehabilitation, some of the assets and their valuation may not be known to the department. The ultimate value of these assets cannot presently be determined. Consequently, the actual liquidation value of the assets may differ from the amounts reported by the department. Accordingly, the agency funds on Statement A and Schedules 1 and 2 contain only information that is known to the Department of Insurance as of June 30, 2009.

As discussed in the auditor's report on internal control over financial reporting, all insurance premium taxes, premium tax penalties, annual financial regulation fees, approval fees of alien surplus lines insurers, and other payments received by the Department of Insurance's Tax Division were initially coded to the Insurance Premium Tax Suspense Fund. The department could not provide supporting documentation for the suspense fund's balance of $9,095,604 disclosed in note 14. The department's system would not allow a report to be run for prior periods.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the extent and valuation of the agency fund assets mentioned previously, and been able to examine supporting documentation for the suspense fund's balance, the accompanying special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Department of Insurance as of June 30, 2009, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2010, on our consideration of the Department of Insurance'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 accompanying special purpose financial statements of the Department of Insurance taken as a whole. The accompanying supplemental information schedules, identified in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the special purpose financial statements. The supplemental information schedules have been subjected to the auditing procedures applied in the audit of the special purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the extent and valuation of the agency fund assets mentioned previously, and been able to examine supporting documentation for the suspense fund's balance, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 2009

		NON-APPROPRIATED FUNDS		
	APPROPRIATED FUND - GENERAL APPROPRIATION	MAJOR STATE REVENUES AND INCOME NOT AVAILABLE	AGENCY FUNDS	TOTAL (MEMORANDUM ONLY)
ASSETS				
Cash and cash equivalents (note 2)	$14,993,165		$1,635,054	$16,628,219
Investments (note 3)			51,891,891	51,891,891
Receivables (note 4)	10,492	$65,568,878	12,410,232	77,989,602
Due from state treasury (note 4)	476,233			476,233
Due from federal government (note 4)	184,857			184,857
Prepaid items (note 10)	47,841		605,481	653,322
Other			167,919	167,919
TOTAL ASSETS	$15,712,588	$65,568,878	$66,710,577	$147,992,043
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	$617,478		$1,075,729	$1,693,207
Payroll payable	870,011			870,011
Refunds payable	555,211			555,211
Advance from state treasury (note 8)	35,001			35,001
Major state revenues and income not available due to state treasury		$65,568,417		65,568,417
Due to state treasury (note 11)	14,457,057	461		14,457,518
Amounts held in custody for others			65,634,848	65,634,848
Total Liabilities	16,534,758	65,568,878	66,710,577	148,814,213
Fund Equity:				
Fund balance - reserved (note 10)	47,841			47,841
Fund balance - unreserved - undesignated (deficit) (note 9)	(870,011)			(870,011)
Total Fund Balance	(822,170)	NONE	NONE	(822,170)
TOTAL LIABILITIES AND FUND EQUITY	$15,712,588	$65,568,878	$66,710,577	$147,992,043

The accompanying notes are an integral part of this statement.

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 2009

REVENUES	
Appropriated by legislature - state General Fund by fees and self-generated revenues	$41,990,115
Federal funds (note 1-I)	558,177
Total revenues	42,548,292
EXPENDITURES	
Administration/fiscal	10,787,863
Market compliance	18,474,938
Total expenditures	29,262,801
EXCESS OF REVENUES OVER EXPENDITURES	13,285,491
OTHER APPROPRIATED FINANCING SOURCES (Uses)	
Transfers in (note 11)	1,100,154
Transfers out (note 11)	(14,457,057)
Total other financing sources (uses)	(13,356,903)
EXCESS OF EXPENDITURES AND OTHER USES OVER REVENUES AND OTHER SOURCES	(71,412)
FUND BALANCE (Deficit) AT BEGINNING OF YEAR	(750,758)
FUND BALANCE (Deficit) AT END OF YEAR	($822,170)

The accompanying notes are an integral part of this statement.

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND

Statement of Revenues, Expenditures, and Unexpended Appropriation - Budget Comparison of Current-Year Appropriation - Budget (Legal Basis) and Actual
For the Year Ended June 30, 2009

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature - state General Fund by fees and self-generated revenues	$29,859,482	$27,543,921	($2,315,561)
Federal funds	804,061	558,177	(245,884)
Statutory dedication	1,115,931	1,089,291	(26,640)
Total appropriated revenues	31,779,474	29,191,389	(2,588,085)
EXPENDITURES			
Appropriated for:			
Act 672 & Hiring Freeze	64,060		64,060
Administration/fiscal	11,771,050	10,781,123	989,927
Market compliance	19,944,364	18,409,685	1,534,679
Total appropriated expenditures	31,779,474	29,190,808	2,588,666
UNEXPENDED APPROPRIATION - CURRENT YEAR	NONE	$581	$581

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Louisiana Department of Insurance was created in accordance with Title 36, Chapter 17 of the Louisiana Revised Statutes of 1950, as part of the executive branch of government. The department is required to adequately supervise and regulate insurance companies transacting business in the state to ensure competitive and available insurance that responsibly serves the insurance needs of Louisiana residents. The department is operated under the direction of the commissioner of insurance who represents the public interest in the administration of the department and is responsible to the legislature and the public. The commissioner of insurance administers all parts of Title 22 of the Louisiana Revised Statutes (Insurance Code). The department is comprised of two programs and has 285 full- and part-time employees as of June 30, 2009.

Although the Department of Insurance has fiduciary responsibility over the Office of Receivership, the department has had no jurisdiction over this office since October 5, 1995. The Office of Receivership has operated under the control and administration of the Nineteenth Judicial District pursuant to an order signed by Judge A. Foster Sanders.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards* published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from the accounting principles generally accepted in the United States of America as explained in the following notes.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying special purpose financial statements represent activity of only the Department of Insurance, a department of state government and, therefore, are a part of the funds of the State of Louisiana and its basic financial statements. Annually, the State of Louisiana issues basic financial statements that are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The department uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated funds. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent is to measure the financial position and results of operation of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of accounting principles generally accepted in the United States of America.

The funds, except for the agency funds, do not include any noncurrent assets or liabilities. Noncurrent assets, capital assets, long-term liabilities, pension disclosures, and other postemployment benefits balances and disclosures are reflected in the State of Louisiana's basic financial statements.

The funds presented in the special purpose financial statements are described as follows:

APPROPRIATED FUND

General Appropriation Fund

The General Appropriation Fund is the general operating fund of the Department of Insurance. It administers and accounts for the legislative appropriation provided to fund the general administrative expenditures of the department and those expenditures not funded through other specific legislative appropriations or revenues.

NON-APPROPRIATED FUNDS

Major State Revenues and Income Not Available

The department collects major state revenues that are remitted to the state treasury for deposit to statutorily dedicated funds. In addition, the department collects funds specifically identified by the Division of Administration, Office of Planning and Budget, as income not available that are remitted to the state treasury. These amounts are not available to the department for expenditure and, therefore, are not included on Statement B but are detailed on Schedule 3.

Agency Funds

The agency funds include the accounts for funds received from certain insurance companies and their subsidiaries and affiliates placed in rehabilitation or liquidation under the supervision of the court, as provided by Louisiana Revised Statutes (R.S.) 22:2001-2044. Disbursements from the fund are made by order of the court. These funds represent cash, cash equivalents, and investments, which primarily consist of investments in mutual funds, mortgage and promissory notes receivable, and real estate held for resale. Accounts receivable include current and noncurrent receivables.

The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department. This differs from accounting principles generally accepted in the United States of America in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures:

Revenues

The state General Fund fees and self-generated revenues, federal funds, and non-appropriated revenues are recognized when earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid. Furthermore, any expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

Other Appropriated Financing Sources and Uses

Transfers made to or received from the state treasury or any other agency are recognized in the year the transfers are authorized, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

E. BUDGET PRACTICES

The appropriations made for the general operations of the department are annual lapsing appropriations and are recorded in the General Appropriation Fund. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-D, except that included in revenues on Statement C are transfers in relating to statutory dedications. In addition, salaries and related benefits are recognized when paid on Statement C. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	$42,548,292
Add - transfer in (statutory dedications)	1,100,154
Less - transfer out (return of appropriation)	(14,457,057)
Statement C revenues	$29,191,389
Statement B expenditures	$29,262,801
Add - prepaid expenditures (net)	3,388
Less - payroll payable (net)	(74,800)
Less - unexpended appropriation current year	(581)
Statement C expenditures	$29,190,808

The department is prohibited by statute from over-expending the program levels established in the budget. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriations plus subsequent amendments as follows:

Original approved budget	$31,812,137
Amendments:	
Statutory dedications	(32,663)
Total	$31,779,474

The non-appropriated funds are not subject to budgetary control.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, and cash in state treasury. Under state law, the department may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the department may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state-chartered credit unions.

G. INVESTMENTS

R.S. 22:2015 authorizes the commissioner of insurance to invest monies held in any rehabilitation, liquidation, conservation, dissolution, and administrative supervision proceeding. Authorized investments include investments in or loans on United States or state general government obligations; bonds or notes secured by a mortgage or trust deed issued, assumed, guaranteed, or insured by the United States or an agency of the United States; conventional first mortgage loans capable of being securitized into guaranteed Federal National Mortgage Association mortgage-backed securities; bonds issued by the Inter-American Development Bank or the African Development Bank; and first mortgage loans guaranteed by the administrator of veteran affairs.

H. PREPAID ITEMS

The department establishes prepaid expenditures for postage. Payments made for such items that will benefit periods beyond June 30, 2009, are recorded as prepaid items.

I. OPERATING AND CAPITAL GRANTS

Operating grants represent the total amount of the grant revenue for the year that are restricted by the grantor for operating purposes or that may be used for either capital or operating purposes at the discretion of the grantee. Capital grants represent the total amount of the revenues for the year from grants restricted by the grantor for the acquisition, construction, or renovation of capital assets.

For fiscal year ended June 30, 2009, the total operating grants and contributions were $558,177. The department had no capital grants and contributions.

J. LONG-TERM OBLIGATIONS

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from lease commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying financial statements.

K. COMPENSATED ABSENCES

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual and sick leave is not accrued (reflected) in the accompanying financial statements.

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of State Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hour for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one fiscal year to another. Accumulated compensatory leave is not accrued (reflected) in the accompanying financial statements.

L. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned "Total (Memorandum Only)" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (book balances) are composed of the following:

Petty cash on hand	$542
Demand deposits	1,515,419
Certificates of deposit	154,094
Cash on deposit with the state treasury	14,958,164
Total	$16,628,219

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The department has deposit balances (collected bank balances) of $2,375,526 at June 30, 2009, for which the department has control. These deposits are fully secured from risk by federal deposit insurance and pledged securities.

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's basic financial statements. The following is a summary of cash in the state treasury:

Means of finance	$14,794,988
Operating account	163,176
Total	$14,958,164

3. INVESTMENTS

At June 30, 2009, the Office of Receivership, for which the Department of Insurance has fiduciary responsibility, has investments totaling $51,891,891. All of these investments are from companies in rehabilitation, liquidation, conservation, et cetera, as reported in Schedule 1, and are valued at current market value. A summary of the investments follows:

	Percentage of Investments	Credit Quality Rating*	Fair Value	Investment Maturities in Years: Less Than 1	1-5	6-10	Greater Than 10
Type of Investment:							
U.S. agency obligations[1]	0.67%		$347,242			$12,090	$335,152
Common and preferred stock[3]	0.43%		222,790				
Corporate bonds	0.70%						
		A2	127,678				127,678
		Ba1	35,517				35,517
		Caa1	53,978			53,978	
		Ca	30,878				30,878
		C	8,368				8,368
		2	107,531	$32,250	$9,241		66,040
Money market mutual funds	90.43%	Aaa	46,926,677	46,926,677			
Fixed assets[3]	2.51%		1,307,223				
Real estate[3]	0.84%		433,557				
Collateral loans[2]	0.02%		9,053	9,053			
Notes/mortgages receivable[2]	3.57%		1,851,914	892,332	11,574	67,212	880,796
Political subdivisions	0.83%						
		Aaa	61,939				61,939
		A1	81,780				81,780
		Baa1	180,818		123,836	13,559	43,423
		Baa3	4,107				4,107
		2	100,841				100,841
Total investments	100.00%		$51,891,891	$47,860,312	$144,651	$146,839	$1,776,519

* Credit quality ratings obtained from Moody's Investors Service.
[1] The investments and underlying securities are not rated (NR) by Moody's Investors Service; however, the underlying securities are implicitly guaranteed by the U.S. government.
[2] The investments are not rated by Moody's Investors Service.
[3] Credit quality ratings are not required for these investments, which do not have specified maturities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investments by type as described in note 1-G. The department does not have policies to further limit credit risk.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The investments are not exposed to custodial credit risk or concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law does not address interest rate risk, and the department does not have policies to limit this risk. Pursuant to a court order of the Nineteenth Judicial District, the Office of Receivership is not allowed to invest or reinvest the funds of companies in receivership for a length of time in excess of six months without prior court approval. This requirement reduces the department's exposure to interest rate risk. None of the investments are considered highly sensitive to changes in interest rates.

4. RECEIVABLES

The following table presents the adjustments necessary to convert the modified accrual basis accounts receivable, as shown in Statement A and the schedules, to full accrual basis accounts receivable as required by the Office of Statewide Reporting and Accounting Policy. The $12,410,232 in agency fund receivables presented in Statement A and Schedule 1 is reported on a full accrual basis. Because of the nature of the insurance companies in liquidation or rehabilitation, as disclosed in note 1-C, agency fund receivables are reported net of uncollectibles.

	Accounts Receivable - Modified Accrual Basis	Full Accrual Adjustment Gross	Full Accrual Adjustment Uncollectible	Full Accrual Adjustment Net	Accounts Receivable - Full Accrual Basis
Appropriated Revenues:					
Fees and self-generated	$10,492	$278,696	($261,569)	$17,127	$27,619
Due from state treasury	476,233				476,233
Due from federal government	184,857				184,857
Total appropriated revenues	$671,582	$278,696	($261,569)	$17,127	$688,709
Non-Appropriated Revenues:					
Major state revenues	$65,568,417	$15,303,861	($63,103)	$15,240,758	$80,809,175
Income not available	461				461
Total non-appropriated revenues	$65,568,878	$15,303,861	($63,103)	$15,240,758	$80,809,636

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

6. COMPENSATED ABSENCES

The liability for unused leave payable at June 30, 2009, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated to be $1,396,429 for unused annual leave and $2,397 for accrued compensatory leave. The leave payable is not accrued (reflected) in the accompanying financial statements.

7. LEASE AND RENTAL COMMITMENTS

The department has no capital leases but does have operating leases for office space. The annual rental payments for future fiscal years are as follows:

Fiscal Year	Office Space
2010	$73,644
2011	65,037
2012	2,243
Total	$140,924

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 2008-2009 amounted to $164,411 for office space and equipment.

8. ADVANCE FROM STATE TREASURY

The department received an advance from the state treasury for imprest fund operations totaling $35,001, as authorized by the commissioner of administration in accordance with Title 39 of the Louisiana Revised Statutes. The advance, as reflected in Statement A, represents a liability.

9. FUND BALANCE - UNRESERVED - UNDESIGNATED (DEFICIT)

The General Appropriation Fund had an unreserved - undesignated fund deficit of $870,011 for the year ended June 30, 2009. The deficit was the result of the recognition of accrued salaries and related benefits as required by the Office of the Governor, Division of Administration, and the fact that revenues to fund those accruals are appropriated in the subsequent year. The deficit will be resolved by paying for salaries and related benefits from fiscal year 2010 funds appropriated to pay those obligations of the 2008-2009 fiscal year.

10. FUND BALANCE - RESERVED

The amount of $47,841, shown as reserved fund balance on Statement A, represents prepaid expenditures for the 2009-2010 fiscal year.

11. OTHER APPROPRIATED FINANCING SOURCES AND USES

As shown on Statement B, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, other appropriated financing sources (transfers in) totaled $1,100,154 while uses (transfers out) totaled $14,457,057 for the year ended June 30, 2009. The transfers in consist totally of statutory dedicated funds used for current year operations. The transfers out consist of $14,446,194 in self-generated funds collected but not spent, which are due to the State Treasurer's Office at June 30, 2009, and $10,863 in statutory dedicated funds that were made available to the department by the State Treasurer's Office but were not spent by the department by June 30, 2009. Transfers out totaling $14,457,057 were sent after June 30, 2009.

12. DEFERRED COMPENSATION PLAN

Certain employees of the department participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor's Web site at www.lla.la.gov.

13. RELATED PARTY TRANSACTIONS

Related party transactions, as defined by Financial Accounting Standards Board Statement Number 57, occur in the normal course of business between the 27 insurance companies and their seven subsidiaries or affiliates for which the department has fiduciary responsibility. Also, transactions to pay the administrative costs, settlements, et cetera, of these insurance estates all flow through the Office of Receivership bank account. These transactions are included in the additions and deletions reported on Schedule 1.

14. INSURANCE PREMIUM TAX SUSPENSE FUND

The insurance premium tax refund liability of $9,095,604 at August 14, 2009, was classified to the Insurance Premium Tax Suspense Fund. All premium taxes and annual filing fees received from companies are initially coded into the suspense account until they are reclassified monthly from the suspense account to the applicable revenue account. Any refunds of premium taxes are made from the suspense account. This amount is not recorded on the face of the financial statements in this report.

15. SUBSEQUENT EVENTS

The department paid the Louisiana Legislative Auditor's invoice applicable to fiscal year 2009 in fiscal year 2010.

As of March 19, 2010, the department was assessed court costs in the amount of $3,013 in the case of *Louisiana Department of Insurance Through James J. Donelon, Commissioner of Insurance vs. Steve J. Theriot, CPA, Legislative Auditor* through the Legislative Audit Advisory Council to be paid in fiscal year 2010.

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -
NON-APPROPRIATED FUNDS - AGENCY FUNDS

Changes in assets and liabilities for the agency funds for the year ended June 30, 2009, presented on Schedule 1, include 27 insurance companies and seven subsidiaries or affiliated entities that are custodial in nature and are administered in-house by the Office of Receivership.

SCHEDULE OF ENDING BALANCES -
NON-APPROPRIATED FUND - AGENCY FUNDS

The balances of assets for the agency funds including balances by individual insurance companies and their subsidiaries and affiliates are presented on Schedule 2.

SCHEDULE OF NON-APPROPRIATED REVENUES -
MAJOR STATE REVENUES AND INCOME NOT AVAILABLE

Schedule 3 reflects major state revenues and income not available collected by the department during the year that were not available to the department for expenditure.

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED FUND - AGENCY FUNDS

Schedule of Changes in Assets and Liabilities
For the Year Ended June 30, 2009

	BALANCE JULY 1, 2008	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2009
ASSETS				
Cash and cash equivalents	$1,716,682	$18,079,368	$18,160,996	$1,635,054
Investments	63,705,249	13,263,912	25,077,270	51,891,891
Accounts receivable	13,822,860	2,749,431	4,162,059	12,410,232
Prepaid expenses	605,372	2,700	2,591	605,481
Other	17,826	162,633	12,540	167,919
TOTAL ASSETS	$79,867,989	$34,258,044	$47,415,456	$66,710,577
LIABILITIES				
Accounts payable	$105,594	$1,075,729	$105,594	$1,075,729
Amounts held in custody for others	79,762,395	33,182,316	47,309,863	65,634,848
TOTAL LIABILITIES	$79,867,989	$34,258,045	$47,415,457	$66,710,577

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DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED FUND - AGENCY FUNDS

Schedule of Ending Balances
For the Year Ended June 30, 2009

Insurance Trust Funds	
Acadian Financial Group, Incorporated	$6,977
Acadian Life Insurance Company	1,579,678
Amcare Health Plans of Louisiana	7,487,448
American Funding Services, Incorporated	1,075,674
Amwest Surety Insurance Company	164,346
ANA Insurance Group	3,614,705
Automotive Casualty Insurance Company	53,444
Automotive Financial Services	1,145,474
Benton Life Insurance Company, Incorporated	139,994
Blooming Insurance Company	988
Car Insurance Company	4,042,453
Cascade Insurance Company	10,601
Colonial Lloyd's	184,554
Escude Life Insurance Company	3,862,906
Far West Insurance Company	153,142
First Columbia Life Insurance Company	10,053
Gulf Coast Casualty	345,755
Gulf Coast Holding Company	423,081
Gulf National Insurance Services, Incorporated	97,095
Independence Life	87,151
Lloyd's Assurance	640,223
Louisiana Receivership Office Fiduciary Trust Account	530,840
Midwest Life Insurance Company	250,093
National Affiliated Investors Life	14,589
North American Indemnity Company	228,426
Patterson Insurance Company	9,801,046
Physicians National Risk Retention Group	11,244,303
Premier General Agency	164,633
Public Investors Life Insurance Company	1,500,939

(Continued)

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
NON-APPROPRIATED FUND - AGENCY FUNDS
Schedule of Ending Balances, June 30, 2009

Insurance Trust Funds (Cont.)	
Savant Insurance Company	$23,447
Savings Life Insurance Company	5,494
Superior Life Insurance Company	3,400
The Oath for Louisiana, Incorporated	5,848,903
United Agents Insurance Company of Louisiana	5,168,389
United States General Agency	6,800,333
Total Insurance Trust Funds	$66,710,577

(Concluded)

DEPARTMENT OF INSURANCE
STATE OF LOUISIANA
MAJOR STATE REVENUES AND INCOME NOT AVAILABLE

Schedule of Non-Appropriated Revenues
For the Year Ended June 30, 2009

NON-APPROPRIATED REVENUE FUND SOURCE	CASH RECEIPTS THROUGH JUNE 30, 2009	ACCOUNTS RECEIVABLE JUNE 30, 2009	TOTAL REVENUES
Income not available	$145,197	$461	$145,658
Major state revenues:			
Taxes	255,889,453	64,888,729	320,778,182
Statutory dedicated - Health Insurance Portability Act (HIPAA)	362	679,688	680,050
Statutory dedicated - Insurance Fraud Assessment Act	3,678,945		3,678,945
Statutory dedicated - Louisiana Automobile Theft and Insurance Fraud Prevention Authority (LATIFPA)	15,650		15,650
Assessments - Municipal Fire and Police Civil Service	1,889,624		1,889,624
Retirement insurance proceeds	52,909,482		52,909,482
Subtotal - major state revenues	314,383,516	65,568,417	379,951,933
Total non-appropriated revenues	$314,528,713	$65,568,878	$380,097,591

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OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain our report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 24, 2010

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

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

We have audited the special purpose (legal basis) financial statements of the Department of Insurance, as of and for the year ended June 30, 2009, and have issued our report thereon dated May 24, 2010. Our report was modified to indicate that the financial statements present fairly the financial position and changes in financial position of the department on a legal basis rather than in conformity with accounting principles generally accepted in the United States of America. The scope of our audit was limited in that we were unable to determine the extent and valuation of the agency fund assets that may be held for insurance companies and their subsidiaries and affiliates in the Office of Receivership, and the department could not provide supporting documentation for the suspense fund's balance disclosed in note 14. These limitations resulted in a qualified opinion on the special purpose financial statements. Except for these limitations, 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, we considered the Department of Insurance'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 expressing 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.

1600 NORTH THIRD STREET • POST OFFICE BOX 94397 • BATON ROUGE, LOUISIANA 70804-9397
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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 over financial reporting 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 detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with the legal basis of accounting as described in our Independent Auditor’s Report on the Financial Statements dated May 24, 2010, such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Weaknesses in Controls Over the Insurance Premium Tax Suspense Fund

The Department of Insurance (DOI) has not implemented appropriate procedures controlling overpayments maintained in the Insurance Premium Tax Suspense Fund (suspense fund). All insurance premium taxes, premium tax penalties, annual financial regulation fees, approval fees of alien surplus lines insurers, and other payments received by the DOI’s Tax Division are initially coded to the suspense fund. Also, DOI has a tax database system that tracks companies’ tax liabilities, credits, and payments. Good internal control procedures relating to overpayments should include reconciling funds in the suspense fund to DOI’s tax database system, maintaining support for the suspense fund amounts reported in DOI’s annual fiscal report (AFR), and the timely refund of overpayments. In addition, DOI’s Tax Division Policies and Procedures manual states, “…if the company overpays their taxes, a reconciliation sheet together with a cover letter is mailed to the company advising them of the overpayment.”

The following weaknesses were identified during a review of the suspense fund:

- In a review of 22 tax overpayments totaling $5,823,830, DOI did not send any of the 22 companies a reconciliation sheet or cover letter advising them of their tax overpayments. Overpayment balances were identified back to calendar year 2003.

- DOI did not reconcile the funds in the suspense fund to the tax database system to ensure accuracy and completeness.

- DOI could not generate detail to support the suspense fund’s balance of $9,095,604 in its AFR. DOI’s system would not allow a report to be run retroactively.

DOI personnel noted that it is too time-consuming for the department and too confusing for the regulated insurance companies for DOI to send out overpayment notices, as the premium tax balances due and the overpayment account balances change very frequently. Failure to establish appropriate procedures over funds maintained in the suspense fund increases the risk that fraud and/or errors could occur and not be detected in a timely manner.

Management should strengthen its control procedures relating to overpayments maintained in the suspense fund to ensure that (1) the funds are reconciled to the DOI tax database system; (2) the suspense fund's balance reported in DOI's AFR can be supported; (3) analysis of overpayments are done regularly to determine if refunds are necessary; and (4) refunds are submitted to companies timely. Management concurred with the finding and provided a corrective action plan (see Appendix A).

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 entity'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. We believe that the significant deficiency described above is a material weakness.

The Department of Insurance's response to the finding identified previously is attached in Appendix A. We did not audit the department's response, and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Insurance's financial statements are free of material misstatement, we performed tests of its 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 that are required to be reported under *Government Auditing Standards*.

OTHER REPORTS

The Louisiana Legislative Auditor also issued various reports on the Louisiana Citizens Property Insurance Corporation, which included findings on internal control and compliance with laws and regulations, which are available on the auditor's Web site at www.lla.la.gov.

This report is intended solely for the information and use of management of the department, others within the department, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CLP:BH:EFS:PEP:dl

DOI09

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

LOUISIANA DEPARTMENT OF INSURANCE
JAMES J. DONELON
COMMISSIONER

May 5, 2010

The Honorable Daryl G. Purpera, CPA. CFE
Legislative Auditor
State of Louisiana
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804

HAND DELIVERED

RE: Response to Legislative Auditor's reportable finding of Weaknesses in Controls Over the Insurance Premium Tax Suspense Fund

Dear Mr. Purpera:

The Louisiana Department of Insurance (LDOI) had already recognized weaknesses in the current Insurance Premium Tax Suspense Fund and is working to identify, fully detail and reconcile the Insurance Premium Tax Suspense Fund through an IT project which has been approved by the State Office of Information Technology and is in the budget currently under consideration by the legislature.

The specific weaknesses identified in the Louisiana Legislative Auditor's (LLA) report can be addressed in this manner.

Failure to provide companies a reconciliation sheet and advice of an overpayment

The LLA is correct that the LDOI did not provide a reconciliation sheet and cover letter as stated in the LDOI Tax Division Policies and Procedures manual. The LDOI discontinued this practice in 2006 after a huge disconnect occurred in 2005. When the LDOI issued reconciliation sheets in 2005, it was following the merger of the annual and quarterly tax tracking system. Companies had been accustomed to the annual letters not reflecting the first quarterly payments, even if the quarterly payment had already occurred. Confusion followed the distribution of the reconciliation sheets in 2005, as for the first time the document reflected any additional quarterly payments. The LDOI adjusted its procedure to avoid any continued misunderstanding, even though we failed to update the Policy and Procedures manual to reflect the change. Since 2006, the LDOI has been noticing all companies of the real time information available online through the LDOI's Regulated Entities Database (RED), requesting them to review their premium tax balance. So, while no reconciliation sheet was provided, companies were always able to be advised of their current tax status through RED. As a result of your observation, the LDOI will revise the Tax Division's Policy and Procedures manual to reflect that all companies in overpayment status be noticed that the LDOI is carrying an overpayment balance which can be checked online through the industry access portal.

Failure to reconcile funds in the suspense fund to the tax database system

P. O. BOX 94214 • BATON ROUGE, LOUISIANA 70804-9214
PHONE (225) 342-5900 • FAX (225) 342-3078
http://www.ldi.state.la.us

While the LDOI did not produce a monthly reconciliation or summary report, LDOI personnel monitored payments made or credits earned and adjusted the suspense fund accordingly. The auditor's tests found no errors in the suspense fund or the tax database system. The LDOI has begun performing monthly reconciliations of the suspense fund with the tax database maintained by the LDOI on regulated entities subject to premium tax. These reconciliations will be available for your review.

Inability to generated detail support retroactively

While we wait for the new IT system to be in place which would allow for daily snapshots to be captured retroactively, the LDOI assures the auditor that full detail support for the suspense fund balance will be run on June 30 and August 14, so that all details for the annual fiscal report will be captured and available for the auditor's review, both at fiscal year end and for all transactions considered to be in 45-day close.

The LDOI management appreciates the thoroughness of the review by the legislative auditor and his staff. We appreciate the benefits of incorporating your observations and recommendations as we develop the IT system that will track all premium tax and suspense fund transactions in the future. For further information regarding progress in this area, I request that you contact S. Denise Brignac, Chief of Staff.

With best wishes and kindest personal regards, I remain

Very truly yours,

James J. Donelon
Commissioner of Insurance

JJD:dtd

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