



# STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON  
NORTH CAROLINA DEPARTMENT OF INSURANCE  
RALEIGH, NORTH CAROLINA  
FOR THE PERIOD JULY 1, 2004, THROUGH DECEMBER 31, 2004**

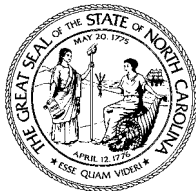
**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

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NORTH CAROLINA DEPARTMENT OF INSURANCE  
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**THE HONORABLE JAMES E. LONG  
COMMISSIONER**



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Leslie W. Merritt, Jr., CPA, CFP  
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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
The Honorable James E. Long, Commissioner  
North Carolina Department of Insurance

This report presents the results of our fiscal control audit of the Department of Insurance for the period July 1, 2004, through December 31, 2004. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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## BACKGROUND INFORMATION

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The North Carolina Department of Insurance (the Department) was created in 1899 by the State General Assembly. In general, the Department is responsible for regulating the various kinds of insurance sold in the State as well as the companies and agents that sell it. The Department also regulates motor clubs, collection agencies, premium finance companies, surety agents and bail bondsmen. In addition, the Department administers the state building code, regulates manufactured housing, administers the self-insurance fund for State owned property, and provides assistance to fire and rescue workers across the State. The main statutory authority for the Department is contained in Chapter 58 of the North Carolina General Statutes.

In order to carry out its duties, the Department is divided into five sections:

1. Public Services Group
  - a. Agent Services Division
  - b. Consumer Services Division
  - c. Investigations Division
2. Company Services Group
  - a. Actuarial Services Division
  - b. Financial Analysis Division
  - c. Financial Evaluation Division
  - d. Receivership Office
3. Technical Services Group
  - a. Property and Casualty Division
  - b. Life and Health Division
  - c. Market Examinations Division
  - d. Seniors' Health Insurance Information Program (SHIIP)
  - e. Managed Care and Health Benefits Division (MCHB)
4. Administration
  - a. Commissioner's Office
  - b. Personnel
  - c. Controller's Office
  - d. Office of the General Counsel
  - e. Legislative Services
  - f. Media Relations Office

## **BACKGROUND INFORMATION (CONCLUDED)**

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5. Office of the State Fire Marshall (OSFM)
  - a. Engineering Division
  - b. Manufactured Building Division
  - c. State Property Fire Insurance Fund
  - d. Fire and Rescue Training and Inspections Division
  - e. Fire and Rescue Commission Division
  - f. Program Development, Prevention and Grants Division

# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **OBJECTIVES**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the North Carolina Department of Insurance.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

## **SCOPE**

Our audit scope covered the period July 1, 2004, through December 31, 2004, and considered internal control related to the following accounts and control objectives:

*Fees, Licenses and Fines* – Our audit was limited to collections in the Agent Services Division. This division regulates and issues licenses for insurance agents, adjusters, brokers, appraisers, and some other professionals. The division reported collections of approximately \$3.3 million during our audit period. We examined internal controls designed to ensure that the Division properly accounts for and reports these revenues and that the Division is in compliance with the statewide cash management plan.

*Travel/Other Employee Expense* – Our audit included expenditures for transportation, subsistence and other travel related costs for all divisions. The Department reported approximately \$500,000 during our audit period. We examined internal controls designed to ensure that the Department properly accounts for and reports these expenditures and that travel expenditures are made in compliance with the State's Budget Manual.

*Personal Services* – Our audit included expenditures made to compensate employees for services rendered in all divisions. The Department reported approximately \$11.9 million during our audit period. We examined internal controls designed to ensure that the Department properly accounts for and reports salary expenditures and that the Department is in compliance with the State's Personnel Manual.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

### **METHODOLOGY**

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances.

### **RESULTS**

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.



# DISTRIBUTION OF AUDIT REPORT

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
The Honorable James E. Long

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
Commissioner, Department of Insurance

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Director, Fiscal Research Division

June 29, 2005

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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