



**Nicole Galloway, CPA**

**Missouri State Auditor**

**DEPARTMENT OF COMMERCE AND INSURANCE**

**Insurance**

**Report No. 2021-045**

**August 2021**

**[auditor.mo.gov](http://auditor.mo.gov)**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Department of Commerce and Insurance - Insurance

Background	The DCI-Insurance regulates the insurance industry in the state through enforcement of Chapters 325, 354, and 374 through 385, RSMo. The department regulates and licenses the insurance industry in the state, ensures the insurance industry is financially sound, trustworthy, competent, and responsive to the insurance-buying public; and ensures the insurance industry complies with the laws of the state.
Findings	The audit identified no significant deficiencies in internal controls, no significant noncompliance with legal provisions, and no significant deficiencies in management practices and procedures. No findings resulted from this audit.

In the areas audited, the overall performance of this entity was **Excellent**.\*

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Department of Commerce and Insurance - Insurance

## Table of Contents

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State Auditor's Report	2
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Organization and Statistical Information	4
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### Appendixes

A	Statement of Receipts, Disbursements, and Changes in Cash and Investments Year Ended June 30, 2020 .....	9
B	Statement of Receipts Year Ended June 30, 2020 .....	10
C	Comparative Statement of Appropriations and Expenditures 2 Years Ended June 30, 2020.....	11
D	Comparative Statement of Expenditures (From Appropriations) 5 Years Ended June 30, 2020.....	12



## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

Honorable Michael L. Parson, Governor  
and  
Chloria Lindley-Myers, Director  
Department of Commerce and Insurance  
Jefferson City, Missouri

We have audited certain operations of the Department of Commerce and Insurance - Insurance, as required by Section 374.250.2, RSMo, and in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2020. The objectives of our audit were to:

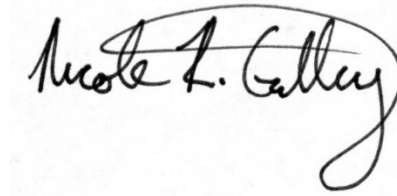
1. Evaluate the department's internal controls over significant management and financial functions of the Insurance Dedicated Fund, the Insurance Examiners' Fund, and taxes certified or collected under Sections 148.310 to 148.461, RSMo (foreign and domestic insurance premium taxes) and Sections 384.011 to 384.071, RSMo (surplus lines premium taxes).
2. Evaluate the department's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions of the Insurance Dedicated Fund and Insurance Examiners' Fund.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to address our audit objectives. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures. No findings resulted from our audit of the Department of Commerce and Insurance - Insurance.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert E. Showers, CPA, CGAP
Audit Manager:	Heather R. Stiles, MBA, CPA, CFE, CGAP
In-Charge Auditor:	Emily Barracclough, CPA
Audit Staff:	Sherrye Lesmes
	Emma Hogrebe, CFE
	Shelby Reams

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# Department of Commerce and Insurance - Insurance

## Organization and Statistical Information

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The Missouri Division of Insurance was created by an act of the Missouri legislature in 1869. With the enactment of the state Omnibus Reorganization Act of 1974, the agency was transferred to the Department of Consumer Affairs, Regulation and Licensing. Constitutional Amendment No. 6 passed in August 1984, amended Missouri Constitution, Article IV, Section 36(a) to change the name of the Department of Consumer Affairs, Regulation and Licensing, to the Department of Economic Development, effective September 7, 1984. Constitutional Amendment No. 4, passed in August 1990, created a new Department of Insurance, effective July 1, 1991. Executive Order 06-04 consolidated the former Department of Insurance, the Division of Finance, the State Banking Board, the Division of Credit Unions, and the Division of Professional Registration into one department and changed the name of the department to the Missouri Department of Insurance, Financial Institutions, and Professional Registration (DIFP), effective August 28, 2006. Executive Order 19-02 transferred the Office of Public Counsel and the Public Service Commission to the DIFP and changed the name to the Department of Commerce and Insurance (DCI), effective August 28, 2019.

The DCI-Insurance operates under the authority of Chapter 374, RSMo. The management and control of the DCI is vested in a director who is nominated by the Governor with the advice and consent of the Senate. Chlora Lindley-Myers was appointed Director on March 6, 2017, and continues to serve in that capacity.

As of June 30, 2020, there were 563 domestic, 2,763 foreign, and 485 alien companies licensed and/or regulated by DCI-Insurance in Missouri. Insurers with primary corporate headquarters located in a particular state are called domestic insurers. Foreign and alien insurers are those that are allowed to sell insurance in a state but have a primary legal residence in another state or country.

The DCI-Insurance regulates the insurance industry in the state through enforcement of Chapters 325, 354, and 374 through 385, RSMo. The department regulates and licenses the insurance industry in the state, ensures the insurance industry is financially sound, trustworthy, competent, and responsive to the insurance-buying public; and ensures the insurance industry complies with the laws of the state.

To fulfill these responsibilities, the department maintains a central office in Jefferson City and branch offices in St. Louis and Kansas City. The DCI-Insurance is organized into the following divisions: Insurance Consumer Affairs, Insurance Market Regulation, Insurance Company Regulation, and Administration. The DCI-Insurance had 188 employees as of June 30, 2020.



Department of Commerce and Insurance - Insurance  
Organization and Statistical Information

The following table provides a breakdown of the type of companies licensed and/or regulated by DCI-Insurance in the state.

Type of Company	Missouri		
	Domicile	Foreign	Alien
Third Party Administrator	41	390	9
Fraternal Benefit	1	27	1
Reinsurer	0	44	312
Property and Casualty	39	905	0
Rating Organization	3	21	0
Advisory Organization	2	8	0
Health Services Corporation	1	0	0
Life Care Facility	9	0	0
Purchasing Group	9	279	0
Reinsurance Intermediary	7	11	5
Title	1	21	0
Statutorily Created Entity	6	0	0
Discount Medical Plan	0	28	0
Health Maintenance Organization	19	15	0
Prepaid Dental	6	10	0
Risk Retention Group	0	95	0
Excess/Surplus Lines	0	162	154
Multiple Employee Self-Insured Health Plan	1	0	0
Captive Insurance	48	0	2
Mutual Property Insurance Company	77	0	0
Professional Malpractice Assessable	5	0	0
Risk Management Association	0	1	0
Life and Health	29	455	2
Self Insured Political Subdivision Assessable	12	0	0
Domestic Surplus Lines Insurer	3	0	0
Motor Vehicle Service Contract Provider	41	125	0
Product Service Contract Provider	5	62	0
Vehicle Protection Product Provider	3	52	0
Worker's Compensation	195	52	0
Total	563	2,763	485

The DCI-Insurance administers transactions in the following funds:

The Insurance Examiner's Fund is authorized by Sections 374.160 and 374.162, RSMo, to receive all payments to the state by insurance companies for the costs incurred by the department in conducting examinations, valuations, or proceedings against such companies. Expenditures, authorized by appropriations, are to be used for the purpose of paying the compensation of insurance examiners and expenses directly related to examinations. Any



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Department of Commerce and Insurance - Insurance  
Organization and Statistical Information

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unexpended balances in this fund are perpetually maintained for the purposes of this fund.

The Insurance Dedicated Fund is authorized by Section 374.150, RSMo, to receive all fees due to the state under the provisions of the insurance laws. Appropriations from this fund are to be used solely for payment of expenditures incurred by the department in performing the duties required by law that are not paid for by another source of funds. Any unexpended balance in this fund is perpetually maintained for the purposes of this fund unless, and then only to the extent to which, the unencumbered balance at the close of the biennium year exceeds two times the total amount appropriated, paid, or transferred to the fund during such fiscal year.

The DCI-Insurance administers programs financed partially by federal funding placed in the Federal Missouri Department of Commerce and Insurance Fund, formerly known as the Federal Missouri Department of Insurance Fund. The department receives appropriations from this fund.

The DCI - Administrative Fund, formerly known as the DIFP-Administrative Fund, is used to account for department-wide expenditures for budget, legislative coordination, public information, accounting, human resources, and department management. The fund receives monies through a cost allocation to the divisions within the DCI.

The DCI-Insurance does not receive any appropriations from the General Revenue Fund and does not maintain any proprietary interest in that fund. Receipts collected by the Department of Revenue (DOR) on behalf of the department include the following:

- Premium Taxes (foreign and domestic): In accordance with various provisions of Chapter 148, RSMo, insurance companies licensed in the state are required to pay a 2 percent tax on direct premiums received during the calendar year. The department certifies to the DOR the amount of premium taxes due together with the amount of quarterly installments to be paid by the insurance companies. The DOR collects the premium taxes and deposits them into the General Revenue Fund. Some premium taxes deposited into the General Revenue Fund are not available for general revenue purposes. The provisions of Chapter 148, RSMo, restrict about 50 percent of such premium taxes for distribution to the various school districts in the state. In addition, beginning January 1, 2020, Section 192.385.2, RSMo, further restricts 2.5 percent of domestic premium taxes deposited into the General Revenue Fund for distribution to the Senior Services Growth and Development Program Fund.
- Domestic Stock Company Premium Taxes: In accordance with various provisions of Chapter 148, RSMo, every stock insurance company





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Department of Commerce and Insurance - Insurance  
Organization and Statistical Information

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organized under the provisions of Sections 379.010 to 379.203, RSMo, are required to pay a 2 percent tax on direct premiums received during the year. The department certifies to the DOR the amount of premium taxes due together with the amount of quarterly installments to be paid by the domestic stock insurance companies. The DOR collects the domestic stock company premium taxes and deposits them into the Financial Institutions Tax Fund as county stock insurance taxes. In accordance with Section 148.330.4, RSMo, domestic stock premium taxes credited to the County Stock Insurance Fund are to be apportioned to the General Revenue Fund of the state, to the county treasurer and to the treasurer of the school district in which the principal office of the company paying the same is located. Apportionments are made based on the ratio of taxes levied by each respective entity. In addition, beginning January 1, 2020, Section 192.385.2, RSMo, further restricts 2.5 percent of domestic stock company premium taxes deposited into the Financial Institutions Tax Fund for distribution to the Senior Services Growth and Development Program Fund.

- **Captive Insurance Premium Taxes:** In accordance with Section 379.1326, RSMo, captive insurance companies licensed in the state are required to pay a premium tax at the rate of thirty-eight-hundredths of 1 percent on the first \$20 million and two hundred eighty-five-thousandths of 1 percent on the next \$20 million, and nineteen-hundredths of 1 percent on the next \$20 million dollars, and seventy-two-thousandths of 1 percent on each dollar thereafter on the direct premiums received during the calendar year. The department certifies to the DOR the amount of premium taxes due to be paid annually by the captive insurance companies. The DOR collects the captive insurance premium taxes and deposits them into the General Revenue Fund. Some captive insurance premium taxes initially deposited into the General Revenue Fund are not available for general revenue purposes. The provisions of Chapter 379, RSMo, require 10 percent of these premium tax collections be deposited to the Insurance Dedicated Fund annually.
- **Special Purpose Life Insurance Captive (SPLRC) Premium Taxes:** In accordance with Section 379.1412, RSMo, each SPLRC is required to pay a premium tax at the rate of two hundred fourteen thousandths of 1 percent on the first \$20 million of assumed reinsurance premium, and one hundred forty-three thousandths of 1 percent on the next \$20 million, and forty-eight thousandths of 1 percent on the next \$20 million, and twenty-four thousandths of 1 percent of each dollar thereafter on the direct premiums received during the calendar year. The department certifies to the DOR the amount of premium taxes due to be paid annually by the SPLRC insurance companies. The DOR collects the SPLRC premium taxes and deposits them into the General Revenue Fund. Some SPLRC premium taxes initially deposited into the General Revenue Fund are not



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Department of Commerce and Insurance - Insurance  
Organization and Statistical Information

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available for general revenue purposes. The provisions of Chapter 379, RSMo, require ten percent of these premium tax collections be deposited to the Insurance Dedicated Fund annually.

- **Surplus Lines Premium Taxes:** In accordance with the various provisions of Chapter 384, RSMo, surplus lines insurers are required to pay a 5 percent tax on net premiums for high risk insurance that is underwritten. The DOR collects the surplus lines premium taxes, interest, and penalties. The DOR deposits surplus lines premium taxes and interest into the General Revenue Fund and surplus lines penalties into the State School Moneys Fund.

Fines and forfeitures imposed and collected by the department under the Missouri Insurance Code are deposited into the State School Moneys Fund.

The DCI-Insurance is authorized to administer Missouri chartered insurance companies requiring rehabilitation or liquidation, commonly referred to as receiverships. Eight insurance companies were in receivership during the year ended June 30, 2020. Companies placed into receivership are under circuit court supervision with the judge appointing the Director as receiver. The Director may appoint a special deputy receiver or agent. Four of the companies did not have a special deputy receiver assigned to them. The department handled the day-to-day operations for one of these companies and contracted with vendors to act as agents for the other three. Four of the companies had a court-assigned special deputy receiver that directly supervised them. The contracted vendors and the special deputy receivers submit disbursements to DCI-Insurance for approval.

According to the National Association of Insurance Commissioners (NAIC), for calendar year 2019 Missouri ranked ninth nationally in the number of insurance companies incorporated in the state. The department's budget for fiscal year 2020 ranks twenty-seventh nationally.

## Appendix A

### Department of Commerce and Insurance - Insurance

#### Statement of Receipts, Disbursements, and Changes in Cash and Investments

Year Ended June 30, 2020

	Federal DCI Fund	Insurance Examiners Fund	Insurance Dedicated Fund	DCI Administrative Fund	Total (Memorandum Only)
Receipts	\$ 1,253,664	4,439,454	18,305,169	127	23,998,414
Disbursements	1,250,000	2,915,870	11,653,396	163,233	15,982,499
Receipts Over (Under) Disbursements	3,664	1,523,584	6,651,773	(163,106)	8,015,915
Transfers In <sup>1</sup>	0	0	0	245,125	245,125
Transfers Out <sup>2</sup>	0	(1,320,580)	(4,856,381)	(72,903)	(6,249,864)
Receipts Over (Under) Disbursements and Transfers	3,664	203,004	1,795,392	9,116	2,011,176
Cash and Investments, July 1	27,143	714,799	3,925,716	19	4,667,677
Cash and Investments, June 30	\$ 30,807	917,803	5,721,108	9,135	6,678,853

<sup>1</sup> Transfers In to the DCI Administrative Fund include transfers from divisions within DCI for department administration.

<sup>2</sup> Transfers Out generally include payments for fringe benefits and the state's cost allocation plan.

## Appendix B

### Department of Commerce and Insurance - Insurance Statement of Receipts Year Ended June 30, 2020

	General Revenue Fund	Insurance Dedicated Fund	State School Moneys Fund	Financial Institutions Tax Fund	Total (Memorandum Only)
RECEIPTS					
Premium taxes (foreign and domestic)	\$ 291,704,219	0	0	0	291,704,219
Domestic stock company premium taxes	0	0	0	9,230,868	9,230,868
Captive insurance premium taxes	1,118,643	128,981	0	0	1,247,624
Special purpose life insurance premium taxes	603,313	67,035	0	0	670,348
Surplus lines premium taxes	39,047,573	0	0	0	39,047,573
Surplus lines penalties	0	0	21,889	0	21,889
Fines and forfeitures	0	0	894,260	0	894,260
Total Receipts	<u>\$ 332,473,748</u>	<u>196,016</u>	<u>916,149</u>	<u>9,230,868</u>	<u>342,816,781</u>

# Appendix C

## Department of Commerce and Insurance - Insurance Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2020			2019		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
FEDERAL - DCI FUND						
Health Insurance Counseling	\$ 1,250,000	1,250,000	0	1,250,000	1,219,840	30,160
Total Federal - DCI Fund	1,250,000	1,250,000	0	1,250,000	1,219,840	30,160
INSURANCE EXAMINERS FUND						
Personal Service	3,534,252	2,656,173	878,079	3,464,306	3,000,426	463,880
Expense and Equipment	767,448	95,316	672,132	767,448	182,660	584,788
Refunds	60,000	0	60,000	60,000	0	60,000
Insurance Leasing	7,870	6,417	1,453	11,179	8,639	2,540
IT Consolidation Expense and Equipment	121,328	61,548	59,780	121,328	59,320	62,008
Performance Rewards <sup>1</sup>	1,256	1,256	0	0	0	0
State Office Building Rent, Maintenance, and Repair	96,784	96,784	0	93,827	93,771	56
Total Insurance Examiners Fund	4,588,938	2,917,494	1,671,444	4,518,088	3,344,816	1,173,272
INSURANCE DEDICATED FUND						
Personal Service	9,009,870	8,837,386	172,484	8,778,578	8,080,145	698,433
Expense and Equipment	1,992,410	1,076,236	916,174	1,992,410	1,038,632	953,778
Governor's Office Personal Service <sup>2</sup>	11,516	6,376	5,140	26,242	1,263	24,979
IT Consolidation Personal Service	428,822	195,064	233,758	414,006	216,546	197,460
IT Consolidation Expense and Equipment	401,042	350,297	50,745	401,042	207,515	193,527
Insurance IT Projects	1	0	1	1	0	1
Insurance IT Projects Personal Service	121,286	91,724	29,562	118,128	100,368	17,760
Unemployment Benefits	20,000	0	20,000	20,000	0	20,000
Insurance Leasing	5,390	5,390	0	7,268	5,426	1,842
Health Insurance Counseling	200,000	200,000	0	200,000	200,000	0
Performance Rewards <sup>1</sup>	4,691	4,690	1	0	0	0
State Office Building Rent, Maintenance, and Repair	350,773	350,773	0	353,999	352,387	1,612
Poison Control Hotline <sup>3</sup>	500,000	500,000	0	500,000	500,000	0
Refunds	75,000	34,478	40,522	75,000	12,328	62,672
Total Insurance Dedicated Fund	13,120,801	11,652,414	1,468,387	12,886,674	10,714,610	2,172,064
Total All Funds	\$ 18,959,739	15,819,908	3,139,831	18,654,762	15,279,266	3,375,496

<sup>1</sup> The Office of Administration has spending authority for this one-time authorization to development and implement an employee performance review system to be used by all executive departments within the state.

<sup>2</sup> The Governor's office has spending authority for this appropriation.

<sup>3</sup> The Department of Health and Senior Services has spending authority for this appropriation.

## Appendix D

### Department of Commerce and Insurance - Insurance Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2020	2019	2018	2017	2016
Salaries and wages	\$ 11,786,723	11,398,749	11,105,824	11,478,487	11,425,848
Travel, in-state	59,836	133,135	136,446	185,589	155,181
Travel, out-of-state	115,726	174,221	147,363	243,713	262,838
Supplies	158,375	158,837	162,029	172,941	186,981
Professional development	100,240	114,233	99,787	97,762	134,159
Communication services and supplies	117,313	105,878	95,668	139,443	131,378
Services:					
Professional	707,865	596,351	443,603	838,856	694,177
Housekeeping and janitorial	226	200	413	107	108
Maintenance and repair	120,568	64,271	86,784	132,553	108,601
Equipment:					
Computer	107,318	29,087	170,794	1,916	33,131
Motorized	0	0	0	0	13,280
Office	36,145	53,791	11,647	30,539	40,927
Other	33,495	10,321	13,301	8,292	26,508
Property and improvements	16,224	29,448	0	0	10,881
Debt service	758	0	0	0	0
Building lease payments	467,688	476,874	457,804	442,960	437,774
Equipment rental and leases	0	228	456	2,280	1,824
Miscellaneous expenses	6,930	1,474	4,659	3,156	10,664
Refunds	34,478	12,328	13,965	9,828	20,464
Program distributions	1,950,000	1,919,840	1,869,462	2,426,400	2,374,866
Total Expenditures	\$ <u>15,819,908</u>	<u>15,279,266</u>	<u>14,820,005</u>	<u>16,214,822</u>	<u>16,069,590</u>