



Scott Fitzpatrick

Missouri State Auditor

DEPARTMENT OF COMMERCE AND INSURANCE

Insurance

Report No. 2024-089

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Scott Fitzpatrick
Missouri State Auditor

CITIZENS SUMMARY

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

Background

The Department of Commerce and Insurance - 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.

Department of Commerce and Insurance - Insurance

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SCOTT FITZPATRICK
MISSOURI STATE AUDITOR

Honorable Michael L. Parson, Governor
and
Members of the General Assembly
and
Chlora 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, 2023. 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.

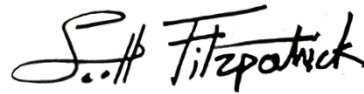
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and performing sample testing using haphazard and judgmental selection, as appropriate. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We

believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The 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 that reads "Scott Fitzpatrick". The signature is written in a cursive style with a large, stylized "S" and "F".

Scott Fitzpatrick
State Auditor

Department of Commerce and Insurance - Insurance Organization and Statistical Information

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, 2023, there were 563 domestic, 3,019 foreign, and 543 alien companies licensed and/or regulated by the 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 192 employees as of June 30, 2023.



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 the DCI-Insurance in the state as of June 10, 2023.

Type of Company	Missouri		
	Domicile	Foreign	Alien
Advisory Organization	2	11	0
Captive Insurance	52	0	2
Certified Reinsurer	0	0	16
Discount Medical Plan	0	28	0
Domestic Surplus Lines Insurer	3	0	0
Excess/Surplus Lines	0	200	169
Fraternal Benefit	1	29	0
Health Maintenance Organization	18	19	0
Health Services Corporation	1	0	0
Life Care Facility	8	1	0
Life and Health	28	445	2
Motor Vehicle Service Contract Provider	41	157	0
Multiple Employer Self-Insured Health Plan	1	0	0
Mutual Property Insurance Company	74	0	0
Pharmacy Benefits Manager	3	39	0
Prepaid Dental	5	8	0
Product Service Contract Provider	8	87	0
Professional Malpractice Assessable	5	0	0
Property and Casualty	45	948	0
Purchasing Group	9	263	0
Rating Organization	3	24	0
Reciprocal Reinsurer	0	0	33
Reinsurance Intermediary	9	11	5
Reinsurer	0	42	300
Risk Management Association	0	1	0
Risk Retention Group	0	116	0
Self-Insured Political Subdivision Assessable	16	0	0
Statutorily Created Entity	7	1	0
Third Party Administrator	33	448	16
Title	1	24	0
Vehicle Protection Product Provider	5	69	0
Worker's Compensation	185	48	0
Total	563	3,019	543

Source: National Association of Insurance Commissioners State Based Systems Company Count report.

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



Department of Commerce and Insurance - Insurance
Organization and Statistical Information

for the costs incurred by the DCI-Insurance 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 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. Any balance exceeding these limits would be transferred to the General Revenue Fund.

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

The DCI-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, through December 31, 2020, Section 192.385.2, RSMo, further restricted 2.5 percent of domestic premium taxes deposited into the General Revenue Fund for distribution to the Senior Services Growth and Development Program Fund. Beginning January 1, 2021, Section



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Organization and Statistical Information

192.385.2, RSMo, provided for 5 percent of those taxes to be distributed to the fund.

- Domestic Stock Company Premium Taxes: In accordance with various provisions of Chapter 148, RSMo, every stock insurance company organized under the provisions of Sections 379.010 to 379.203, RSMo, is 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, from January 1, 2020, through December 31, 2020, Section 192.385.2, RSMo, further restricted 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. Beginning January 1, 2021, Section 192.385.2 RSMo, provided for 5 percent of those taxes to be distributed 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. The DOR calculates and executes the annual transfer from the General Revenue Fund to the Insurance Dedicated Fund.
- 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



Department of Commerce and Insurance - Insurance
Organization and Statistical Information

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 of assumed reinsurance premiums 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 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. The DOR calculates and executes the annual transfer from the General Revenue Fund to the Insurance Dedicated Fund.

- Surplus Lines Premium Taxes: In accordance with the various provisions of Chapter 384, RSMo, surplus lines brokers are required to pay a 5 percent tax on net premiums for specialized 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.

In accordance with Section 374.049.10, RSMo, 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, 2023. 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 the DCI-Insurance for approval.

According to the National Association of Insurance Commissioners (NAIC), for calendar year 2022 Missouri ranked ninth nationally in the number of insurance companies incorporated in the state. The department's budget for fiscal year 2023 ranks thirty-first nationally.

Appendix A

Department of Commerce and Insurance - Insurance
 Statement of Receipts, Disbursements, and Changes in Cash and Investments
 Year Ended June 30, 2023

FEDERAL-DCI FUND (0192)	
Receipts	\$ 1,621,980
Disbursements	<u>1,650,000</u>
Receipts Over (Under) Disbursements	<u>(28,020)</u>
Transfers In	0
Transfers Out	<u>0</u>
Receipts Over (Under) Disbursements and Transfers	<u>(28,020)</u>
Cash and Investments, July 1	<u>50,000</u>
Cash and Investments, June 30	<u>\$ 21,980</u>
DCI ADMINISTRATION (0503)	
Receipts	\$ 436
Disbursements	<u>265,173</u>
Receipts Over (Under) Disbursements	<u>(264,737)</u>
Transfers In ¹	363,033
Transfers Out ²	<u>(121,651)</u>
Receipts Over (Under) Disbursements and Transfers	<u>(23,355)</u>
Cash and Investments, July 1	<u>23,355</u>
Cash and Investments, June 30	<u>\$ 0</u>
INSURANCE EXAMINERS FUND (0552)	
Receipts	\$ 4,838,883
Disbursements	<u>3,043,261</u>
Receipts Over (Under) Disbursements	<u>1,795,622</u>
Transfers In	0
Transfers Out ²	<u>(1,521,790)</u>
Receipts Over (Under) Disbursements and Transfers	<u>273,832</u>
Cash and Investments, July 1	<u>655,152</u>
Cash and Investments, June 30	<u>\$ 928,984</u>
DEPARTMENT OF INSURANCE DEDICATED FUND (0566)	
Receipts	\$ 22,771,650
Disbursements	<u>13,383,566</u>
Receipts Over (Under) Disbursements	<u>9,388,084</u>
Transfers In	0
Transfers Out ²	<u>(6,125,853)</u>
Receipts Over (Under) Disbursements and Transfers	<u>3,262,231</u>
Cash and Investments, July 1	<u>14,268,846</u>
Cash and Investments, June 30	<u>\$ 17,531,077</u>
Total Cash and Investments, June 30, All Funds	<u>\$ 18,482,041</u>

Note: State fund numbers are shown in parentheses after the fund names.

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

² Transfers Out generally include payments for fringe benefits, the state's cost allocation plan and the state's enterprise resource planning cost allocation plan.

Appendix B

Department of Commerce and Insurance - Insurance
 Statement of Receipts - Other Funds
 Year Ended June 30, 2023

	General Revenue Fund (0101)	Insurance Dedicated Fund (0566)	State School Moneys Fund (0616)	Financial Institutions Tax Fund (8503)	Total (Memorandum Only)
RECEIPTS					
Premium taxes (foreign & domestic)	\$ 349,582,083	0	0	0	349,582,083
Domestic stock company premium taxes	0	0	0	15,839,985	15,839,985
Captive insurance premium taxes	1,447,338	138,113	0	0	1,585,451
Special purpose life insurance premium taxes	574,871	63,875	0	0	638,746
Surplus lines premium taxes	66,624,949	0	0	0	66,624,949
Surplus lines penalties	0	0	35,719	0	35,719
Fines and forfeitures	0	0	639,340	0	639,340
Total Receipts	\$ 418,229,241	201,988	675,059	15,839,985	434,946,273

Note: State fund numbers are shown in parentheses after the fund names.

Appendix C

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

	Year Ended June 30,					
	2023			2022		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
FEDERAL - DCI FUND (0192)						
Health Insurance Counseling	\$ 1,650,000	1,650,000	0	1,400,000	1,400,000	0
Total Federal - DCI Fund	1,650,000	1,650,000	0	1,400,000	1,400,000	0
INSURANCE EXAMINERS FUND (0552)						
Personal Service	3,537,705	2,813,410	724,295	3,622,347	2,641,994	980,353
Expense & Equipment	400,000	73,162	326,838	715,802	33,170	682,632
Insurance Leasing	6,781	3,998	2,783	6,249	4,754	1,495
IT Consolidation Expense & Equipment	121,328	49,303	72,025	121,328	44,374	76,954
Refunds	60,000	3,582	56,418	60,000	0	60,000
Unemployment Benefits	845	844	1	0	0	0
State Office Building, Rent, Maintenance and Repair	114,294	99,045	15,249	105,637	105,305	332
Total Insurance Examiners Fund	4,240,953	3,043,344	1,197,609	4,631,363	2,829,597	1,801,766
INSURANCE DEDICATED FUND (0566)						
Personal Service	10,436,841	10,234,115	202,726	9,272,428	8,932,450	339,978
Expense & Equipment	1,406,424	1,362,321	44,103	1,921,904	877,215	1,044,689
IT Consolidation Personal Service	606,782	316,396	290,386	558,093	249,094	308,999
IT Consolidation Expense & Equipment	401,043	352,609	48,434	412,459	405,129	7,330
IT Consolidation Cost of Living Adjustment	21,995	0	21,995	5,299	0	5,299
Unemployment Benefits	20,000	151	19,849	20,000	1,676	18,324
Insurance Leasing	9,908	6,177	3,731	8,318	6,108	2,210
Refunds	75,000	13,807	61,193	75,000	33,887	41,113
Health Insurance Counseling	200,000	200,000	0	200,000	200,000	0
State Office Building, Rent, Maintenance and Repair	397,910	397,908	2	385,101	384,620	481
Poison Control Hotline ¹	500,000	500,000	0	500,000	500,000	0
Governor's Office Personal Service ²	12,894	0	12,894	11,804	0	11,804
Total Insurance Dedicated Fund	14,088,797	13,383,484	705,313	13,370,406	11,590,179	1,780,227
Total All Funds	\$ 19,979,750	18,076,828	1,902,922	19,401,769	15,819,776	3,581,993

Note: State fund numbers are shown in parentheses after the fund names.

¹ The Department of Health and Senior Services has spending authority for this appropriation.

² The Governor's office has spending authority for this appropriation.

Appendix D

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

	Year Ended June 30,				
	2023	2022	2021	2020	2019
Salaries and wages	\$ 13,363,921	11,823,538	11,849,644	11,786,723	11,398,749
Travel, in-state	98,309	45,481	4,379	59,835	133,135
Travel, out-of-state	131,962	13,314	0	115,726	174,221
Fuel and utilities	115	17	0	0	0
Supplies	191,157	203,224	149,362	158,375	158,837
Professional development	115,436	106,599	124,277	100,240	114,233
Communication services and supplies	129,414	128,717	134,976	117,313	105,878
Services:					
Professional	822,862	546,789	506,313	707,865	596,351
Housekeeping and janitorial	456	467	131	226	200
Maintenance and repair	172,420	149,151	77,797	120,568	64,271
Equipment:					
Computer	37,260	118,741	98,712	107,318	29,087
Office	51,212	20,341	3,192	36,145	53,791
Other	37,989	4,226	18,909	33,495	10,321
Property and improvements	6,181	2,878	2,745	16,224	29,448
Debt service	0	927	927	758	0
Building lease payments	543,203	513,428	463,042	467,689	476,874
Equipment rental and leases	0	5,678	0	0	228
Miscellaneous expenses	6,546	697	149	6,930	1,474
Refunds	17,389	33,887	64,609	34,478	12,328
Program distributions	2,350,995	2,101,676	2,106,080	1,950,000	1,919,840
Total Expenditures	\$ <u>18,076,828</u>	<u>15,819,776</u>	<u>15,605,244</u>	<u>15,819,908</u>	<u>15,279,266</u>