Department of Banking and Insurance

July 1, 1998 to May 18, 2000
The Honorable Christine Todd Whitman  
Governor of New Jersey  

The Honorable Donald T. DiFrancesco  
President of the Senate  

The Honorable Jack Collins  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

Enclosed is our report on the audit of the Department of Banking and Insurance for the period July 1, 1998 to May 18, 2000.  

If you would like a personal briefing, please call me at (609) 292-3700.  

Very truly yours,  

Peter M. Guiffoyle  
Assistant State Auditor  

June 12, 2000
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Department of Banking and Insurance

Scope

We have completed an audit of the Department of Banking and Insurance for the period July 1, 1998 to May 18, 2000. Our audit included financial activities accounted for in the state’s General Fund. The agency’s special revenue and trust and agency funds were excluded from our scope.

Annual appropriations of the department were $46.9 million in fiscal year 1999 and $58.7 million in fiscal year 2000. The prime responsibilities of the Department of Banking and Insurance are to protect consumers in their interaction with the banking, insurance, and real estate industries, and to promote growth and efficiency in those industries by the judicious and fair application of the laws and regulations. Revenues of the agency totaled $471 million during our audit period and the major components of revenue were annual assessments of financial institutions and insurance companies and license fees collected from individuals engaged in insurance, consumer finance or real estate businesses within New Jersey.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior reports.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.
In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted an internal control weakness meriting management’s attention as well as an area where elimination of redundant duties could enhance the agency’s efficiency.

We also found that the agency has not resolved the significant issues noted in our prior report. These issues have been updated and restated in our current report.

Conclusions
Duties of two separate units within the Division of Insurance appear redundant.

As part of the Automobile Insurance Cost Reduction Act (P.L.1998, c.21), the Office of the Insurance Claims Ombudsman was created. The duties of this office include:

- investigating consumer complaints regarding policies of insurance and payment of claims;
- monitoring the implementation of various insurance regulating laws;
- responding to consumer inquiries about policy provisions and coverage availability;
- publishing and disseminating buyers’ guides and comparative rates.

The law also permits the Ombudsman to hire adequate staff and employ attorneys, consultants, independent adjusters, etc. to obtain professional advice as required. The expenditures of the office will be recovered through the annual special assessment of the insurance industry.

Appropriations for the Ombudsman’s office for fiscal year 2000 totaled $776,000 and the fiscal year 2001 budget proposal includes a like amount to operate the office.

Our survey of the Department of Banking and Insurance revealed that most of the responsibilities that were created as part of the act already existed within the department’s Office of Enforcement and Consumer Protection. The Ombudsman’s hiring of new staff could result in a duplication of effort between the two departmental organizations and unnecessarily increase the assessment of the insurance industry.

We recommend the department evaluate the two organizational units and eliminate the duplication of effort by merging redundant duties into the Office of the Ombudsman.
Auditee’s Response

The Department recognized early on that a potential for duplication of effort existed. During the last few months, a careful analysis of the work of the two units, the Office of the Insurance Ombudsman and the existing Office of Enforcement and Consumer Protection was undertaken. A comprehensive work plan has just been finalized and will be implemented over the next several months.

License Revenue

Checks should be deposited timely.

License fees collected by the Office of Consumer Finance total approximately $4.4 million annually. We found that checks received for license application and renewal fees were not being deposited timely. This condition existed during our prior audit of the Department of Banking. Additionally, checks received by the Real Estate Commission, which annually receives $4.2 million, are held in the fiscal unit pending input of information onto the licensing system. This resulted in late deposits. Treasury Circular Letter 94-24-OMB requires agencies to deposit all money the same day as received. Timely deposit of receipts maximizes any investment earnings and reduces the risk of loss.

Recommendation

We recommend that checks be deposited timely in accordance with Treasury Circular Letter 94-24-OMB.

Auditee’s Response

The department recognized the license revenue problem. The Real Estate process for handling checks has now been changed and a new computer system was developed. This system was activated near the end of the audit period, and the processing of checks is no longer delayed.