

**STATE OF NEW HAMPSHIRE
INSURANCE DEPARTMENT**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2021**

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To The Fiscal Committee Of The General Court:

We have audited the financial statement of the New Hampshire Insurance Department (Department), for the nine months ended March 31, 2021, and have issued our report thereon dated September 3, 2021.

This financial audit report presents information related to our audit in two sections; a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters, related audit findings, and a summary of the status of prior audit findings originally reported in the audit report of the Department for the nine months ended March 31, 2010.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement and notes to the financial statement.

This report can be accessed in its entirety on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

September 3, 2021

STATE OF NEW HAMPSHIRE
INSURANCE DEPARTMENT

FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2021

MANAGEMENT LETTER SECTION

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Abbreviations Used

Department	Insurance Department
DHHS	Department of Health and Human Services
IT	Information Technology
MMIS	Medicaid Management Information System
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
NIPR	National Insurance Producer Registry
NAIC	National Association of Insurance Commissioners

* Audit comment suggests legislative action may be required.

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the 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, the financial statement of the New Hampshire Insurance Department (Department), which comprise the Statement of Revenues and Expenditures – General Fund for the nine months ended March 31, 2021, and the related notes to the financial statement and have issued our report thereon dated September 3, 2021. Our report on the financial statement was modified as the Statement of Revenues and Expenditures – General Fund does not purport to and does not constitute a complete financial presentation of the Department in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 5, that we consider to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in Observation No. 6.

Insurance Department's Responses To Findings

The Department's responses to the findings identified in our audit are included with each reported finding. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Office Of Legislative Budget Assistant

September 3, 2021

Internal Control Comments
Significant Deficiencies

Observation No. 1: Independent Service Auditor's Reports Should Be Reviewed, And Applicable Complementary User Entity Controls Implemented

Observation:

The Insurance Department (Department) does not review the annual service auditor's reports (SOC) on controls in place over significant areas of its operations that are processed by third parties.

Management is responsible for establishing and maintaining a system of internal control for both internal operations and contracted operations. When management intends to rely on a service organization's internal controls, its responsibilities extend to understanding the design and operating effectiveness of those controls. Such understanding is often accomplished by obtaining and reviewing a SOC report and ensuring that the required complementary user entity controls (CUECs) noted within the report are in place at the Department.

The Department uses systems operated by the NAIC (National Association of Insurance Commissioners) and the NIPR (National Insurance Producer Registry) to process and collect taxes and fees for a significant portion of its revenues. During the nine months ended March 31, 2021, the Department collected approximately \$3.5 million in premium taxes related to surplus line insurers via the NAIC's Online Premium Tax for Insurance (OPTins) system, and approximately \$17.3 million in producer and adjuster licensing and renewal fees, and exam of policy fees collected via the NIPR system.

Annually, the NAIC and the NIPR provide the Department with a SOC report covering their respective systems. The reports are intended to enable the Department to gain an understanding of the design and operating effectiveness of controls in place at the service organizations related to the processing of financial transactions. The SOC reports also identify CUECs which must be in place at the user entity (the Department) in order to achieve the control objectives identified by the third party in the SOC report.

The Department reports that although it receives the reports annually, it has not completed an in-depth review which would allow it to determine whether the controls in place at the service organizations can be relied upon for accurate financial reporting. Additionally, the Department has not taken steps to ensure that the 11 unique CUECs noted within the NAIC and NIPR SOC reports have been appropriately implemented within the Department. As a result, the Department does not have adequate procedures in place to meet the requirements of four of the 10 overlapping CUECs noted within the reports.

A similar comment was noted in our 2010 audit.

Recommendation:

The Department should implement policies and procedures to evaluate and mitigate risks associated with outsourced services. The Department should annually obtain, review, and respond to the SOC Reports covering controls related to the NAIC and NIPR systems.

Additionally, the Department should take steps to ensure that CUECs required by the third parties, as described within SOC reports, are in place and operating effectively.

Auditee Response:

We concur.

The Department will adopt a formal policy within its manual of procedures to address each area to ensure proper internal controls and auditing are in place for user entity control objectives.

Observation No. 2: Controls Over The Department's Financial Database Should Be Strengthened

Observation:

The Department has not implemented an effective process for performing periodic reconciliations of its subsidiary system to the State accounting system to ensure revenues are posted completely and accurately, and that the reconciliations are performed timely and appropriately reviewed.

All Department revenues are initially recorded in the Department's Financial Database, a Microsoft Access application. At the end of each business day, summary reports are printed from the Financial Database and used as the basis of entry to post into various revenue accounts within the State accounting system, NHFirst. The Department reported that reconciliations between the two systems were performed monthly, however, the Department was unable to provide evidence of a completed December 2020 reconciliation when requested by auditors in March of 2021.

While the Department did provide evidence that revenues per the Financial Database were reconciled to bank reports on a monthly basis, this process was not formally documented and did not include a comparison to amounts recorded in NHFirst, or include evidence of management review.

Failure to develop and effectively implement formal revenue reconciliation policies and procedures increases the risk that errors or fraud could occur and not be detected and corrected in a timely manner during the normal course of business. This risk is further compounded by limitations within the Financial Database which allow revenue transactions to be back-dated, potentially allowing for revenues to be posted to a previous period without detection by management.

By entering a prior business date as the current journal date into the Financial Database, an operator could allow an account to be credited for a payment but not include the payment in the day's deposit total and reconciliation. While the Financial Database also records a system "timestamp date" for the transaction, the Department does not utilize this system date to ensure that all of the business day's transactions are included in the daily deposit.

An auditor comparison of the journal date field with the "timestamp date" field did not detect any questionable backdated transactions during the audit period.

A similar comment was noted in our 2010 audit.

Recommendation:

The Department should develop formal policies and procedures over its revenues reconciliation process. Periodic and timely reconciliations should be performed to ensure revenues ultimately posted to NHFirst are complete and accurate. Any variances noted during the reconciliation process should be investigated. The reconciliations should be reviewed and approved by management to ensure timely and accurate performance. Evidence of management's review and approval should be adequately documented.

Additionally, the Department should improve controls within the Financial Database to minimize the risk of intentional or unintentional entry of incorrect transaction journal dates that could cause revenue errors or frauds to go undetected. Mitigating controls could include performing regular, cumulative reconciliations; periodically reviewing the Financial Database for discrepancies between the journal dates and the "timestamp" dates; or taking other reasonable steps to determine that receipts are posted to the Database and NHFirst, and are ultimately deposited to the Department's bank account timely, and accurately.

Auditee Response

We concur.

The Department has daily internal controls for effective processing of revenues, as acknowledged by auditors. In addition to daily checks, the Department reviews revenue accounts on a monthly basis to ensure funds received are accurately posted to the appropriate financial institution. The Department acknowledges that due to staffing issues, the December 2020 reconciliation was not performed timely.

The Department will adopt formal policies and procedures to ensure quality controls are consistently adopted within our reconciliation processes to ensure these audits are timely. The Department has already adopted a number of internal controls and quality control initiatives, which will become part of our formal procedures.

Observation No. 3: Continue Development Of A Formal Risk Assessment Process

Observation:

The Department does not have a fully-developed, formal risk assessment process in place for its financial accounting and reporting, and information technology functions.

Management's assessment of, and response to, risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and respond to risks that could affect the entity's ability to achieve its objectives. An effective and documented risk assessment process should be a core element of management's planning activities and should be an ongoing process.

The Department is in the beginning stages of developing a formal risk assessment process, and has a risk assessment document, which is currently in a draft stage. While the draft risk assessment document identifies five main areas of risk including, Information Security Risk, Regulatory Risk, Third Party Risk, Business Continuity Risk, and IT Risk, the Department has not identified and documented specific risks within those areas to allow it to begin to evaluate and craft a response to those risks.

The absence of formal policies and procedures promoting the active review and consideration of risk places the Department in a largely reactive mode where risks may not be recognized in time to allow for efficient and effective avoidance or mitigation.

Recommendation:

The Department should continue to expand and document its risk assessment process for recognizing, evaluating, and responding to risks that could affect its ability to achieve its financial accounting and reporting objectives. The process should include an IT security risk assessment for the Financial Database, and Third Party Risk of the NAIC and NIPR systems to ensure the Department's information assets are adequately protected.

The Department should regularly review its financial and operational activities for indicators of risk exposure and establish and monitor controls related to those risks. Department employees with individual areas of expertise and knowledge of operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered.

Auditee Response:

We concur.

During the first quarter of 2021, the Department added the recommended areas to the New Hampshire Insurance Department (NHID) Operational Risk Assessment. All areas of financial operations and controls reviewed during the LBA audit are now included in the significant areas of financial risk. The Department will continue to monitor, update, expand and document the

NHID Operational Risk Assessment to include periodic and annual review of financial and operational activities.

Observation No. 4: Controls Over Expenditure Review And Reconciliation Process Should Be Strengthened

Observation:

The Insurance Department (Department) does not have adequate control procedures in place to effectively review and approve invoices related to inter-agency payments, or for the monthly reconciliation of expenditures.

Good internal control systems provide for the review of invoices prior to payment to ensure the correct amount is charged.

The following weaknesses were noted within the Department's expenditures process during the nine months ended March 31, 2021:

- 1.) The Department was not performing reconciliations of expenditures per system reports to original supporting documentation, as required by standard State policy. The State's Manual of Procedures (MOP) Section 2700, IV, C, 2 requires State agencies to perform a monthly reconciliation of expenditures per the NHFirst Detail Transaction Register back to the original documents in order to check for accuracy.

Expenditures within the Department are processed for payment periodically. Once all of the invoices being processed for the period have been keyed into NHFirst, the Department runs an Invoice Distribution History Report (Report), which details all expenditure transactions that have been input, and compares each transaction to the supporting documentation to ensure accuracy and completeness. While the Department reported that a similar reconciliation of expenditures to the Report was completed on a monthly basis, the reconciliation is not documented or retained to evidence that it has been performed and effectively reviewed and approved by management.

- 2.) The Department does not complete an effective review and approval of inter-agency rental payments made to the Department of Administrative Services (DAS). The DAS invoices the Department on a monthly basis for the use of office space at the Walker building based on actual building expenses incurred multiplied by the Department's pro-rata share of occupied square-footage. As a result, the amount invoiced can fluctuate significantly from month-to-month due to different maintenance or other projects that may occur.

Two rental payments selected for testing did not receive adequate management review. Auditors noted that the amounts ultimately paid by the Department went through the same review and approval process as all other Department expenditures, and that the amount paid agreed to the amount invoiced. However, the invoice did not include sufficient detail to allow the reviewer to determine that the amount invoiced was calculated accurately, and

the Department has not requested available supporting documentation available from DAS detailing the Walker Building's actual monthly expenditures, which could be reviewed to determine the amount billed was appropriate.

Recommendation:

The Department should strengthen its expenditure reconciliation process to include a monthly comparison of expenditures recorded in NHFirst to original supporting documentation in order to meet the requirements of MOP 2700, IV, C, 2. The reconciliation should be completed timely by the appropriate level of staff, and any identified discrepancies should be investigated and resolved. The reconciliation should be documented and supervisory review and approval should be evidenced.

The Department should also take steps to strengthen its review and approval process for inter-agency payments. Available supporting documentation should be obtained and reviewed to allow the Department to determine that amounts invoiced are complete and accurate, and represent authorized obligations of the Department.

Auditee Response:

We concur.

The Department will adopt a formal policy and will update its manual of procedures for areas of reconciliation to strengthen the accuracy of the Department's audits on interagency payments.

For the Department's rent calculation, DAS, as it does with other agencies, determines the rent to charge based on the rental space allotted by DAS. This charge includes DAS' estimate of utility use by the Department within the rental space. As it has in the past, the Department will request from DAS additional supporting documentation related to rent and facility charge apportionment.

The Department will continue to work with other State Agencies to strengthen all controls for which inter-agency payments are required, including supervisory review of these areas and approval by senior leaders.

Observation No. 5: Transfers To The New Hampshire Granite Advantage Health Care Trust Fund Should Be Performed In Accordance With Established Policy

Observation:

The Insurance Department (Department) did not perform the calendar year 2021 transfer to the New Hampshire Granite Advantage Health Care Trust Fund (Fund) managed by the Department of Health and Human Services (DHHS) in accordance with established Department policy.

RSA 400-A:32, III, (b) requires the Department to deposit taxes attributable to premiums written for medical and other medical related services for the newly eligible Medicaid population as

provided for under RSA 126-AA into the Fund no later than 30 days after receipt of said taxes. The Department complies with this requirement by transferring the related portion of its premium tax revenues to the Fund each April, following the March 15 premium tax deadline for payment.

The Department's internal policy specifies that the Department will use "New Hampshire Premium Protection Program Gross Premium Written" as reported on the Premium Tax reports to ascertain the amount of premium tax attributable to the New Hampshire Granite Advantage Health Care Program to calculate the amount required to be transferred to the Fund. The policy further states that the Department will compare the insurance carrier's reported amount per the filing to available information provided by the DHHS, and if differences are noted, the carrier will be provided the opportunity to file an amended premium tax report. If an amended report is not provided by the insurance carrier, the policy directs the Department to use amounts contained in the original report to calculate the transfer amount.

The Department transferred \$8,603,890 to the Fund in April of 2021, related to premium tax payments received in March 2021 for premiums written for medical and other medical related services for the newly eligible Medicaid population during calendar year 2020. Auditor recalculation of the amount owed to the Fund, in accordance with the Department's internal policy, amounted to \$7,975,510, a difference of approximately \$628,000.

The Department reports that it calculated the transfer amount in conjunction with Department of Health and Human Services (DHHS), based on amounts from the DHHS Medicaid Management Information System (MMIS). The Department also reports that amounts provided by DHHS from the MMIS system did not agree to amounts reported by the insurance carriers on the calendar year 2020 premium tax reports, and ultimately, the Department used the amount reported by DHHS to calculate the transfer, as they believed the information provided by MMIS to be the appropriate basis for the calculation. The Department did not follow-up with the insurance carriers to request amended calendar-year 2020 premium tax reports be filed, as required by the Department's established policy.

Recommendation:

The Department should calculate and perform the transfer to the New Hampshire Granite Advantage Health Care Trust Fund as provided for in statute and established Department policy.

If the Department believes that the current policy does not accurately reflect how the transfer should be performed, the Department should revise its policy. Any revisions to the policy should be fully vetted to ensure that any changes in procedure remain consistent with the statutory requirements of RSA 400-A:32, III, (b). Any changes to the policy should be reviewed and approved by Department management and formally documented.

Auditee Response:

We concur in part.

The Department agrees to review and revise policies and procedures related to how Managed Care Organizations (MCO's) report premium tax related to the Granite Advantage Healthcare Trust (Trust).

As stated in the observation, the Department is required to transfer by April 15th to the New Hampshire Department of Health and Human Services (DHHS) the premium tax attributable to the Trust as reported by the MCO's. The premium tax received in March 2021 is comprised of calendar year 2020 premium tax liability less the estimated tax payment (received the prior year) plus the prepayment based on 100% of the current year's tax liability.

The premium tax received in March 2021 was \$9,511,070 comprised of a 2021 premium tax pre-payment of \$7,975,510 and a true-up of the MCO's liability in excess of their 2020 estimated tax payment of \$1,535,559.

During calendar year 2021, there were three MCO's that would have premium tax related to the Trust. The NHID compared each MCO's premium tax filing to MCO data reported to the NHID by DHHS.

This year, there were material differences in figures reported by the MCO's and DHHS which resulted in the MCO's paying tax liability in excess of DHHS expectations. As a result, with each MCO we had detailed conversations about the required record keeping and reporting obligations. Based on those discussion, senior leadership at DHHS and the Department determined that the Department would transfer into the Trust the amount DHHS calculated based on their payments to the MCO's.

Compliance Comments
State Compliance

Observation No. 6: Administrative Rules Should Be Adopted As Required By Statute

Observation:

The Department has not adopted certain administrative rules required by statute as noted below:

Statute	Description of Required Rule	Administrative Rule Cite	Status
RSA 417-E:2, V	Coverage for Treatment of Pervasive Developmental Disorder or Autism	Not Applicable	Rule not adopted. The Department asserts that federal law already provides coverage requirements for these conditions, and the Department has not received any complaints from the public indicating the need for administrative rules relative to this statute.

Recommendation:

The Department should adopt all statutorily-required administrative rules. If the Department determines certain rules are not necessary, the Department should request a statutory revision.

Auditee Response:

We concur.

RSA 417-E:2, V (Rulemaking authority for Coverage for Treatment of Pervasive Developmental Disorder or Autism)

RSA 417-E:2, V provides insurance coverage as a state requirement relating to pervasive developmental disorders or autism. Since the enactment of this state law in 2011, federal statutes, such as the Affordable Care Act (ACA) and the Mental Health Parity Act, were enacted. These federal statutes preempt our state law to the extent that RSA 417-E conflicts with federal law. The ACA sets minimums for benefit richness of health insurance plans, including mental health and substance use disorder services, and prohibits pre-existing condition exclusions of mental health disorders. In doing so, treatment of these mental health conditions are considered Essential Health Benefits pursuant to the ACA. Likewise, federal law requires equality of insurance coverage regardless if treatment is for a mental health condition versus a physical health condition. As a result, the autism caps that are outlined within RSA 417-E:2, III would be in violation of federal law. In light of the federal preemption issue and numerous federal regulations that apply to the type of coverage outlined in this ten year old statute, there has not been a need or practical reason to develop state administrative rules associated with this statute.

In light of the foregoing, we plan to propose legislation to delete or modify RSA 417-E:2, V so there is no longer a requirement for the Department to adopt administrative rules relating to this statute.

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Current Status Of Prior Audit Findings

The following is a summary, as of September 3, 2021, of the current status of the observations contained in the financial audit of the New Hampshire Insurance Department for the nine months ended March 31, 2010. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Internal Control Comments

Material Weakness

Status

- | | |
|---|-----|
| 1. Controls Over Activity Performed By Service Organizations Should Be Improved | ● ○ |
|---|-----|

Establish procedures to determine the existence and operating effectiveness of controls over financial activity performed at service organizations through the review of SAS 70 reports (now known as SOC reports). (See Current Observation No. 1)

Other Significant Deficiencies

- | | |
|---|-----|
| 2. Department Should Record And Report All Of Its Financial Activity, Including Costs Of Contracted Professionals | ● ● |
|---|-----|

Establish a process by which the complete financial activity of the Department, including the financial activity related to the services of contracted professionals, can be recorded and reported in the Department's financial accounts for financial reporting purposes.

- | | |
|--|-----|
| 3. Disaster Recovery And Business Continuity Plans Should Be Established | ● ● |
|--|-----|

The Department should continue in its efforts to develop disaster recovery and business continuity plans and include within those plans the establishment and operation of effective risk assessment policies and procedures addressing the risks faced by the Department's operations.

- | | |
|---|-----|
| 4. Controls Over Administrative Assessment Should Be Improved | ● ● |
|---|-----|

The Department should establish appropriate controls, including documented policies and procedures, to ensure accurate billing and collection of Administrative Assessment revenues.

- | | |
|---|-----|
| 5. Controls In Financial Receipts Database Should Be Improved | ● ○ |
|---|-----|

The Department should improve controls to minimize the risk of intentional or unintentional entry of incorrect transaction journal dates that could cause revenue errors or frauds to go undetected. (See Current Observation No. 2)

6. Billing For Examination Costs Should Be Subject To Review and Approval Control ● ●

The Department should establish an effective review and approval process for its invoicing of examined insurance companies and review examination billings procedures to determine if the current method of recalculating monthly per-diem rates is efficient.

7. Department-Drawn Checks Should Be Forwarded Directly To Payees ● ●

The Department should not have Department-requested checks forwarded to the Department prior to disbursement to the intended payee.

8. All Penalty Waiver Determinations Should Be Documented ● ●

The Department should document all penalty waiver determinations.

9. Coordination And Information Sharing Should Be Improved By Divisions Reviewing Retaliatory Fees ● ●

The Department should improve coordination and information sharing between divisions to ensure for the efficient and accurate processing of filing fee and retaliatory fee revenues.

State Compliance

10. Rule Describing Organizational Structure Should Be Current ● ●

The Department's administrative rules should accurately reflect the current operating structure of the Department.

Status Key

Count

Resolved ● ● 8

Remediation In Process (Action Beyond Meeting And Discussion) ● ○ 2

Unresolved ○ ○ 0

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INSURANCE DEPARTMENT**

**AUDITED FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2021**

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AUDITED FINANCIAL STATEMENT
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FINANCIAL SECTION



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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statement

We have audited the accompanying financial statement of the New Hampshire Insurance Department (Department), which comprises the Statement of Revenues and Expenditures – General Fund for the nine months ended March 31, 2021, and the related notes to the financial statement, which collectively comprise the Department’s basic financial statement.

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis For Qualified Opinion

As discussed in Note 1, the financial statement referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Department in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the Basis For Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department's portion of the State of New Hampshire's General Fund for the nine months ended March 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, the financial statement referred to above reports certain financial activity of the Department. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of March 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis information and the budget to actual schedule for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2021 on our consideration of the Department's internal control over financial

reporting and on our tests of its compliance with certain provisions of laws, rules, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

September 3, 2021

**State of New Hampshire
Insurance Department
Statement of Revenues and Expenditures – General Fund
For the Nine Months Ended March 31, 2021**

	General Fund
Revenues	
Unrestricted Revenues	
Premium Taxes	\$ 93,522,196
Producer And Adjuster Licensing Fees	17,158,020
Insurance Company Fees	1,326,476
Miscellaneous Fees	80,800
Total Unrestricted Revenues	112,087,492
Restricted Revenues	
Administrative Assessment	10,381,804
Examination Revenue	226,762
Federal Funds	1,405
Total Restricted Revenues	10,609,971
Total Revenues	122,697,463
Expenditures	
Salaries And Benefits	6,634,182
Transfers To Other State Agencies	630,898
Contracts	222,709
Consultants	207,474
Current Expenses	58,732
Indirect Costs	55,581
Telecommunications	39,341
Training	20,842
Other	17,548
Promotional	12,121
Equipment	10,174
Rent And Leases	8,948
Travel Reimbursements	4,730
Total Expenditures	7,923,280
Excess (Deficiency) Of Revenues	
Over (Under) Expenditures	114,774,183
Other Financing Sources (Uses)	
Transfers Out (Notes 2 and 4)	(8,603,890)
Total Other Financing Sources (Uses)	(8,603,890)
Excess (Deficiency) Of Revenues And	
Other Financing Sources Over (Under)	
Expenditures And Other Financing Uses	\$ 106,170,293

The notes to the financial statement are an integral part of this statement.

**State of New Hampshire
Insurance Department
Notes to the Statement of Revenues and Expenditures – General Fund
For the Nine Months Ended March 31, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Insurance Department (Department), has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The financial activity of the Department is accounted for and reported in the State's General Fund in the State of New Hampshire's Annual Comprehensive Financial Report (ACFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the ACFR. The Department, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the ACFR that are attributable to the Department cannot be determined. Accordingly, the accompanying General Fund financial statement is not intended to show, and does not report the financial position or fund balance of the Department in the General Fund.

B. FINANCIAL STATEMENT PRESENTATION

The State of New Hampshire and the Department use funds to report on their financial position and results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Department reports its financial activity in the fund described below:

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to the other funds are charged to the General Fund.

C. REPORTING PERIOD

The State's and the Department's fiscal year is the 12 months ended June 30. The accompanying financial statement of the Department is for the nine months ended March 31, 2021.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations and claims and judgments are recorded only when payment is due.

E. REVENUES AND EXPENDITURES

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted”. Unrestricted revenues are credited directly to the General Fund or other fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency’s authorization to expend funds.

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State’s general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State’s general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

In the governmental fund financial statements, expenditures are reported by function.

F. BUDGET CONTROL AND REPORTING

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor’s program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a

detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit within each department.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will generally lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as restricted, committed or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

H. UNEARNED REVENUE

In the governmental fund financial statements, unearned revenue is recognized when cash, receivables, or other assets are recorded prior to being earned. As of March 31, 2021, unearned revenue for the Department in the General Fund totaled \$30.5 million for premium taxes collected.

2. OTHER FINANCING SOURCES

Additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds and financing provided by bond proceeds. Transfers are

reported when incurred as “Transfers In” by the receiving fund and as “Transfers Out” by the disbursing fund.

3. COST OF CONTRACTED PROFESSIONALS

The financial activity related to the Department’s hiring of professionals to assist in meeting its statutory responsibility for examining insurance companies is not reflected in the financial accounts of the Department. As provided under RSA 400-A:37, III (d), the Department may retain attorneys, appraisers, independent actuaries, independent certified public accountants or other professionals and specialists as examiners, the cost of which shall be borne by the company subject of the examination without qualifying as a department expenditure under RSA 4:15. For the 9 months ended March 31, 2021, the Department estimates this amount to be \$1.0 million.

4. TRANSFER TO GRANITE STATE ADVANTAGE HEALTHCARE TRUST

Taxes attributable to premiums written for medical and other medical related services for the newly eligible Medicaid population collected by the Department are to be deposited into the New Hampshire Granite Advantage Health Care Trust Fund established in RSA 126-AA:3. On April 15, 2021, the Department transferred \$8.6 million to the Trust Fund in compliance with RSA 126-AA:3. This transfer has been reflected in the financial statement.

5. RISK MANAGEMENT AND INSURANCE

The State and the Department are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The State generally retains the risk of loss except where the provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, inland marine insurance, foster parent liability, ski area liability for Cannon Mountain, data security and privacy cyber liability insurance, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage. The State’s exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State’s current fleet policy coverage is \$250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to worker’s compensation claims and health benefit claims.

6. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. NHRS is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.667%) of average final compensation multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at $1/66$ (1.515%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5 but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by $1/4$ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

All covered Division employees are member of either Group I or II.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, RSA 100-A:52-a, and RSA 100-A:52-b, NHRS also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 10.88% of gross payroll for Group I members, 26.43% of gross payroll for Group II firefighter members, and 24.77% of gross payroll for Group II police officer members.

The Department's required and actual contributions for the nine months ended March 31, 2021 were \$554,449, which included an amount for other postemployment benefits of 48,799.

OTHER POSTEMPLOYMENT BENEFITS

The State also participates in two other postemployment benefit (OPEB) plans - (1) New Hampshire Retirement System (NHRS) which is a cost sharing OPEB plan (medical subsidy portion of the pension trust) administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Trusted OPEB Plan), and (2) State's single employer (primary government with component units) defined benefit OPEB plan which is not administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Non Trusted OPEB Plan). The actuarial liabilities and expenses of the OPEB plans do not flow to the Division level financial statement.

General Information about the New Hampshire Retirement System Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a, and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type ("medical subsidy plan"). The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 1.05% of gross payroll for Group I members, 3.66% of gross payroll for Group II firefighter members, and 3.66% of gross payroll for Group II police officer members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to \$48,799 for the nine months ended March 31, 2021.

General Information about the Non Trusted OPEB Plan

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses through a single employer (primary government with component units) defined postemployment benefit plan, previously defined as the Non Trusted OPEB Plan. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, previously defined as the Fund, a single-employer group health fund, which is the state's self-insurance internal service fund implemented in October 2003 for active state employees and retirees. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees and eligible spouses. The Department's contributions for the nine months ended March 31, 2021 were \$193,744.