



Department of Insurance

Electronic Licensing System

Audit Period: July 1, 2011 through March 20, 2012



Executive Summary

Background

The Department of Insurance (INS) is charged with the responsibility of regulating the activities of approximately 1,650 insurance companies that write more than \$55.2 billion in insurance premiums, and pay about \$435 million each year in premium taxes to the General Revenue Fund. The insurance industry employs more than 71,000 people in Ohio, not including agents. In addition, the Department issues licenses, monitors the conduct of more than 297,000 insurance agents, and oversees 21,038 insurance agencies doing business in Ohio. The Department's licensing division issues initial and renewal licenses to individuals and business entities only after the Department has determined the specified minimum qualifications have been met. Effective January 2011, state legislation was passed requiring insurance agents to renew their licenses biennially; previous legislation left agents' licenses as perpetual and were connected to continuing education requirements. At approximately the same time the new legislation went into effect, INS was developing new procedures for accepting license applications through the National Insurance Producer Industry (NIPR). In May 2011, INS went live with a new licensing system, Ohio Department of Insurance Information System (ODIIS), that was designed to accept applications submitted through NIPR, as well as capture all information related to the licensing process, including related license fee payments.

During the audit, OIA identified opportunities for INS to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank INS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

The scope of this audit included the reconciliation and deposit of license fees collected by way of NIPR. It also included a review of IT controls in place over application systems development and IT security, as well as vendor management. Because the agency is currently working on enhancements to the continuing professional education function, our audit did not include the processing of license applications, though a general understanding was obtained in order to identify fiscal controls.

OIA financial staff were also engaged to review the revenue collections process for electronic application fees submitted through the National Insurance Producer Registry (NIPR) system.



The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ¹
Determine the new application system's functionality is consistent with business requirements and the system operates within specifications.	Improvement Needed (IT Observations – Security Records)
Determine the administrative and logical controls adequately protect the confidentiality, integrity and availability of computer resources per business requirements.	Well-Controlled with Improvement Needed
Ensure vendors, contracted to provide IT resources or perform IT functions, meet the needs of the business and comply with applicable contractual agreements and regulatory requirements in an effective and efficient manner.	Well-Controlled
Evaluate the design and effectiveness of controls over the electronic application fee collections and reconciliation process.	Well-Controlled with Improvement Needed

¹ Refer to Appendix A for classification of audit objective conclusions.

Summary of Observations

The Summary of Observations includes only those risks which were deemed high or moderate. There were two moderate risk IT observations for the first objective and no high or moderate risk observations for the remaining objectives. IT security records and low risk observations were discussed with individual agency management and are not part of this report. However, the IT security records and low risk observations were considered as part of the audit objective conclusions above.



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)