

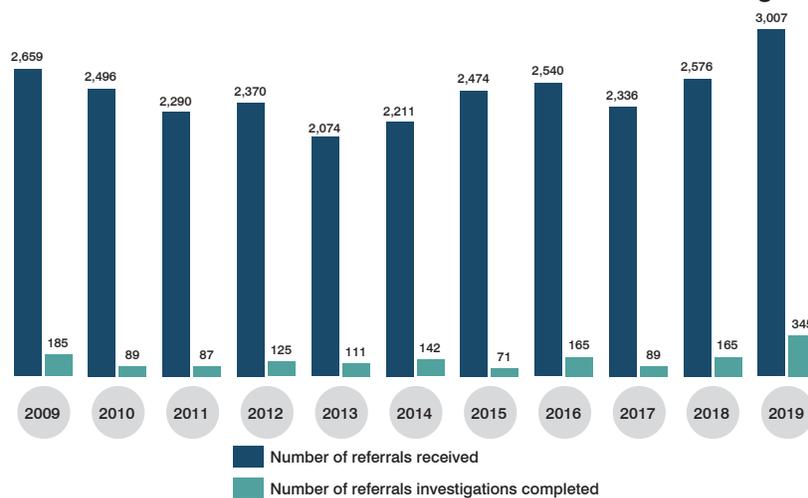
## Arizona Department of Insurance

**CONCLUSION:** The Arizona Department of Insurance (Department) regulates and monitors insurance companies and professionals operating in Arizona to protect the public and help ensure that these entities comply with State and federal laws. Key Department functions include licensing qualified insurance professionals and companies, investigating consumer complaints and suspected fraud, overseeing insurance companies' financial solvency, and reviewing insurance policies, rates, and products to protect the public from excessive, inadequate, or unfairly discriminatory rates. According to Department data, as of July 2019, there were 1,691 insurance companies licensed to operate in Arizona. We found that the Department's fraud-referral prioritization process lacks components to ensure it investigates high-priority referrals. Additionally, we identified deficiencies with the Department's conflict-of-interest process. Finally, the Department should improve its management and administration of long-term care insurance rate reviews and information technology (IT) security.

### Department's new fraud-referral prioritization process lacks components to ensure it investigates high-priority referrals

Investigating insurance fraud is critical for identifying and convicting wrongdoers, obtaining restitution, and helping to deter future fraud. The Department investigates suspected cases of insurance fraud against insurance companies referred by these companies. According to Department data, in fiscal year 2019, it received more than 3,000 fraud referrals and completed 345 investigations using its 6 investigators. Similar to other states, the Department does not investigate all of the fraud referrals it receives. For those referrals it does not investigate, the Department either closes the referral because it lacks merit or closes the referral and sends a notice to the insurance company indicating that the referral has merit but is determined to be a lower priority and cannot be investigated at that time due to a lack of investigative resources.

**Number of insurance fraud referrals received and number of referral investigations completed**



In August 2018, the Department began piloting a new prioritization process to ensure it effectively uses its investigative resources on high-priority referrals. However, the Department's prioritization process lacks important components to help ensure its effectiveness. For example, we found that other states we contacted require insurance companies' fraud referrals to include specific, standardized information to help ensure that these states have complete and accurate information to inform their prioritization efforts and focus on high-priority fraud referrals. These other states also use fraud referral data to identify fraud trends and then use this information to assist with prioritization efforts. Finally, we found that the Department has not established a risk-based supervisory review process to help ensure referrals are correctly prioritized and has yet to evaluate whether its new prioritization process effectively focuses the Department's investigative resources on high-priority fraud referrals.

## Recommendations

The Department should:

- Take several steps to strengthen its fraud-referral prioritization process, including developing and implementing a fraud referral template, a process for using available fraud referral data to help identify fraud trends and prioritize fraud referrals, and a risk-based supervisory process; and then evaluate the effectiveness of this process and determine and implement any changes needed to continue to improve its prioritization process.
- Once it has taken these actions, assess its fraud investigative staffing needs to help ensure it investigates all of the high-priority fraud referrals it receives.

## Department's practices for managing conflicts of interest increases risk of nondisclosure

Arizona law requires public officers and employees to avoid conflicts of interest that might influence or affect their official conduct and outlines several requirements for doing so. We found that the Department lacks a formal conflict-of-interest policy, did not require its employees or members of the boards it supports to annually disclose interests, and uses a disclosure form that did not address all required conflict-of-interest components. During the audit, the Department directed all employees to complete a conflict-of-interest disclosure form by March 1, 2019. However, as of April 2019, only 43 of its then 72.5 filled FTEs had completed a disclosure form that was available in the Department's special disclosure file, as required by statute.

### Recommendation

The Department should develop and implement conflict-of-interest policies that require its employees and board members to annually complete disclosure forms, define a process for managing disclosed conflicts, and ensure that disclosure forms are maintained in a special disclosure file for public inspection.

## Other Department improvements needed

As reported in the Sunset Factors section, we identified additional areas where the Department should improve. These include the following:

**Reviewing long-term care insurance rates in a timely manner**—The Department is statutorily responsible for approving long-term care insurance rates before they go into effect. However, the Department does not review long-term care insurance rates in a timely manner and lacks a formal process for notifying insurance companies when the review time frame will not be met. Absent a formal process, the Department is at risk for not notifying insurance companies, and thereby, not extending its review time frame, which could result in rate filings being automatically deemed approved.

**Complying with Arizona Strategic Enterprise Technology (ASET) requirements, conducting IT risk assessments, and documenting IT services and support**—Arizona State agencies are required to develop IT security-specific policies and procedures consistent with ASET's State-wide policies. The Department has begun drafting policies for 9 ASET-required areas; however, it has not yet finalized these draft policies or developed detailed procedures to implement these policies. Additionally, the Department has not conducted a formal IT risk assessment to identify IT system risks, such as weak security practices or outdated systems, which is recommended by credible industry standards. Finally, although the Department has an interagency service agreement with ASET to obtain IT security services and support, it does not have assurance that the services it expects to obtain from ASET are being provided.

## Recommendations

The Department should:

- Research an appropriate time frame and then provide information to the Legislature regarding the need to revise the statutory time frame for reviewing long-term care insurance rates and establish and implement a formal process for notifying insurance companies to waive the time frame requirement.
- Conduct a risk assessment to evaluate, document, and prioritize the areas in the Department's IT systems with the highest security risks; use the results of its risk assessment to guide its efforts to develop and implement all required IT security program policies and procedures; train its employees on these policies and procedures; and work with ASET to define and document the scope of IT security services provided by ASET.