

Arizona Department of Insurance and Financial Institutions

Department took steps to meet some statutory responsibilities but did not consistently determine if licensee violations were corrected and lacked documented explanations for some enforcement actions, increasing risk of future violations and public harm; did not comply with some State conflict-of-interest requirements; and did not ensure some grant monies were used as required

Performance audit and
sunset review

September 2024
Report 24-109

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Matt Gress**, Chair
Representative **Tim Dunn**
Representative **Nancy Gutierrez**
Representative **Alma Hernandez**
Representative **Beverly Pingerelli**
Representative **Ben Toma** (ex officio)

Senator **Sonny Borrelli**, Vice Chair
Senator **David C. Farnsworth**
Senator **Anthony Kern**
Senator **Juan Mendez**
Senator **Catherine Miranda**
Senator **Warren Petersen** (ex officio)

Audit Staff

Jeff Gove, Director
Monette Kiepke, Manager
Ashley Bjurstrom, Deputy Manager

Liam VanPelt, Team Leader
Elizabeth Hodge Smith

Contact Information

Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 19, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Barbara Richardson
Arizona Department of Insurance and Financial Institutions

Transmitted herewith is the Auditor General's report, *Performance audit and sunset review of the Arizona Department of Insurance and Financial Institutions*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all but 2 of the findings and plans to implement or implement in a different manner all but 1 of the recommendations. My Office will follow up with the Department in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Ms. Richardson and Department staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Department of Insurance and Financial Institutions

Department took steps to meet some statutory responsibilities but did not consistently determine if licensee violations were corrected and lacked documented explanations for some enforcement actions, increasing risk of future violations and public harm; did not comply with some State conflict-of-interest requirements; and did not ensure some grant monies were used as required

Audit purpose

To determine whether the Department took appropriate and consistent remedial action against licensees that violated insurance and financial regulations, monitored the use of Arizona Automobile Theft Authority (ATA) grants to ensure compliance with statutory and grant requirements, and complied with State conflict-of-interest requirements; and provide responses to the statutory sunset factors.

Key findings

The Department:

- Is statutorily responsible for regulating the insurance industry, financial institutions such as banks and credit unions, and financial service professionals and/or business entities, such as collection agencies, mortgage brokers, and loan originators; and distributing ATA Fund monies intended to deter automobile theft.
- Issued initial and renewal insurance producer licenses we reviewed to qualified applicants within applicable time frames required by rule and improved its process for prioritizing insurance fraud referrals for investigation.
- Inconsistent with recommended practices, did not always consider licensees' violations history when determining enforcement actions for some violations, including deceptive practices and untrustworthiness, and did not consistently follow up to ensure violations were corrected, increasing the risk of future violations and public harm.
- Lacked documentation explaining how it determined its enforcement actions for some insurance licensee violations we reviewed, increasing the risk of treating licensees unequally and of facing allegations of unequal treatment.
- Did not comply with some State conflict-of-interest requirements or fully align its conflict-of-interest processes with recommended practices, increasing the risk that employees and board/committee members did not disclose substantial interests that could influence or affect their official conduct.
- Did not monitor recipients' use of ATA Fund monies to ensure they were used for authorized purposes, including \$4.5 million appropriated to the Arizona Vehicle Theft Task Force in fiscal year 2023.

Key recommendations

The Department should:

- Develop and implement policies and procedures consistent with recommended practices for all license types, including requirements to consider licensee history, follow up to ensure violations are corrected, and document how it determined enforcement actions.
- Revise and implement its conflict-of-interest policies and procedures to align with all State requirements and recommended practices.
- Ensure ATA Fund monies are used for authorized purposes.



TABLE OF CONTENTS

Introduction	1
Finding 1: Department did not consistently consider licensee history or determine if violations were corrected and lacked a documented explanation for some enforcement actions, increasing risk of harm to public welfare and unequal treatment of licensees	13
Department is responsible for taking enforcement action in response to licensee violations, and recommended practices provide guidance for taking consistent and sufficient enforcement actions to protect the public by deterring and preventing future violations	
Department did not consistently consider licensee history or follow up to ensure violations were corrected, and lacked documentation explaining how it determined some enforcement actions, increasing risk of public harm and unequal treatment of licensees	
Department lacks enforcement guidance that is consistent with recommended practices, including following up to determine if violations have been corrected, for most licensees	
Recommendations	
Finding 2: Department did not comply with some State conflict-of-interest requirements, increasing risk that employees and board/committee members did not disclose substantial interests that might influence or could affect their official conduct	19
Statute addresses conflicts of interest for public agency employees and public officers	
Department did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices	
Department's noncompliance with some State conflict-of-interest requirements increased risk that employees and board/committee members did not disclose substantial interests that might influence or affect their official conduct	
Department lacks comprehensive conflict-of-interest policies and procedures that align with State requirements and recommended practices	
Recommendations	
Sunset factors	24
Summary of recommendations: Auditor General makes 32 recommendations to the Department	44
Appendix A: Department license, certification, permit, and registration types active as of March 2024	a-1
Appendix B: Department has implemented or implemented in a different manner 6 of 13 outstanding recommendations from our 2019 sunset review	b-1
Appendix C: Scope and methodology	c-1



TABLE OF CONTENTS

Auditor General’s comments on the Department response	d-1
Department response	
Figures	
1 As of March 2024, Department reviewed and approved or disapproved 19 calendar year 2022 long-term care rate filings but had not yet reviewed 26 filings submitted in calendar years 2022 and 2023	28
2 Department’s average review time increased by more than 200 days from 2017 to 2022	29
3 Department policies and procedures outline public records request process to help it comply with public records law	36
Tables	
1 Automobile Theft Authority Fund Schedule of revenues, expenditures, and changes in fund balances Fiscal years 2022 through 2024 (Unaudited)	6
2 Schedule of revenues, expenditures, and changes in fund balances Fiscal years 2022 through 2024 (Unaudited)	10
3 Examples of enforcement and remedial actions established in statute and rule for license types we reviewed	14
4 Department did not consistently consider and document licensees’ history of violations and aggravating and mitigating factors	16
5 Department met time frame goals/requirements for investigating and resolving 24 of 30 calendar year 2023 complaints we reviewed	39
6 Department licensed more than 403,000 insurance professionals and businesses across 19 different license types As of March 2024 (Unaudited)	a-2
7 Department certified/licensed/permitted 199 financial institutions across 4 different certificate, license, and permit types As of March 2024 (Unaudited)	a-4
8 Department licensed/certified/registered more than 26,000 financial enterprises across 19 different license, certificate, and registration types As of March 2024 (Unaudited)	a-5



The Arizona Auditor General has completed a performance audit and sunset review of the Arizona Department of Insurance and Financial Institutions (Department). This performance audit and sunset review determined whether the Department took appropriate and consistent remedial action against licensees that violated insurance and financial regulations, monitored the use of Arizona Automobile Theft Authority (ATA) grants to ensure compliance with statutory and grant requirements, and complied with State conflict-of-interest requirements. It also provides responses to the statutory sunset factors.

History, mission, and responsibilities

Effective July 1, 2020, Laws 2019, Ch. 252, established the Department by consolidating the Arizona Department of Financial Institutions and the ATA as divisions within the Arizona Department of Insurance and renaming the combined agency the Arizona Department of Insurance and Financial Institutions (see textbox for the Department's mission).¹

The Department is statutorily responsible for regulating the insurance industry.² The National Association of Insurance Commissioners (NAIC)—in partnership with state insurance regulatory agencies—has established regulatory standards and model regulations for regulating insurance.³ Similarly, the Department is also responsible for regulating financial institutions, such as banks and credit unions, and shares this regulatory responsibility with federal regulators. The Department is also responsible for regulating financial service professionals and/or business entities, such as collection agencies, mortgage brokers, and loan originators, and administering programs to deter automobile theft. The Department's key statutory responsibilities in these 3 areas include:

- **Licensing insurance professionals and businesses**—The Department is statutorily responsible for licensing qualified individuals, such as insurance producers and adjusters, and qualified businesses in the insurance industry (see textbox, page 2, for definitions of key insurance industry terms).^{4,5} The Department relies on the National Insurance Producer Registry (NIPR), an independent, nonprofit affiliate of the NAIC, that established an electronic national repository system that receives data from all 50 states, the District

Department mission

To protect consumers, provide certainty on regulatory matters, and perform with efficiency and integrity as good stewards of taxpayer money.

Source: Auditor General staff review of the Department's website.

¹ The State Constitution established the regulation of insurance within the Arizona Corporation Commission in 1912, and the Arizona Department of Insurance was established as a separate State agency by a constitutional amendment in 1968. The Arizona State Banking Department was established in 1973 and was renamed the Arizona Department of Financial Institutions in 2004. The Arizona Automobile Theft Authority was established in 1992.

² Arizona Revised Statutes (A.R.S.) §20-142.

³ The NAIC is a standard-setting and regulatory support professional organization created and governed by insurance regulators from the 50 states, the District of Columbia, and 5 U.S. territories.

⁴ A.R.S. §§20-321, 20-321.01, 20-285, and 20-287.

⁵ The Department also issues more than 30 other certifications, registrations, and permits to businesses and individuals in the insurance industry such as life and disability insurers. For example, insurers are required to apply for certificates of authority to sell certain types of insurance, such as property, life, and casualty.

of Columbia, and Puerto Rico to streamline the licensing process for insurance professionals. Applicants use the NIPR system to apply for reciprocal licensure in any state, including demonstrating they have passed all required examinations for the license(s) for which they are applying and paying any required, state-specific licensing fees. The Department receives notification through the system when a license application is complete and the fee has been paid. The Department then processes the application.

Insurance professionals and businesses are required to meet certain requirements to renew their license. For example, A.R.S. §20-2902(A)(2) requires insurance professionals to complete at least 48 hours of continuing education to qualify for license renewal (see Sunset Factor 2, pages 24 through 25, for more information on the Department's licensing process for insurance producers). According to Department data, as of March 2024, there were more than 403,000

licensed insurance professionals and businesses in the State. See Appendix A, Table 6, pages a-2 through a-3, for a description of the different insurance licenses and number of licensed insurance businesses and professionals.

- **Licensing, certifying, and registering financial enterprises, including mortgage brokers and collection agencies**—The Department is also statutorily responsible for licensing, certifying, and registering financial enterprises, such as collection agencies, mortgage bankers, mortgage brokers, premium finance companies, and sales finance companies. Financial enterprises are required to meet various qualifications to receive a license, certification, registration, or license renewal. For example, A.R.S. §32-1021(A)(2) requires collection agencies to have a bond on file with the Department to conduct business in the State (see Sunset Factor 2, pages 26 and 31 through 32, for more information on the Department's licensing process for collection agencies). According to Department data, as of March 2024, there were more than 26,000 licensed, certified, or registered financial enterprises in the State. See Appendix A, Table 8, pages a-5 through a-6, for a description of the different license, certification, and registration types and number of active financial enterprises.
- **Certifying and permitting financial institutions, including State-chartered banks and credit unions**—The Department is statutorily responsible for permitting State-chartered banks and certifying credit unions and trust businesses. For example, A.R.S. §6-203 requires entities applying for a banking permit to submit an application and various documentation, including the articles of incorporation, business plan summary, and projected organizational budget, to the Department. According to Department data, as of March 2024, there were 199 certified or permitted financial institutions in the State. See Appendix A, Table 7, page a-4, for a description of the different certification and permit types and number of active financial institutions.
- **Examining and investigating insurance and financial service professionals and businesses and taking action in response to violations of law**—Statutes authorize the Department to conduct examinations and investigations of professionals, businesses, and complaints related to insurance, financial institutions, and financial enterprises.⁶ Specifically, the Department is responsible for:

Key insurance industry terms¹

Claim—A request made to an insurer to pay for a loss that is covered under an insurance policy.

Claims adjuster—A person who is paid to adjust, investigate, or negotiate insurance claims.

Producer—A licensed person who sells, solicits, or negotiates insurance policies.

Rate—A value of insured losses expressed as a cost per unit of insurance.

¹ See Appendix A, pages a-1 through a-6, for more licensing descriptions.

Source: Auditor General staff review of A.R.S. §§20-321 and 20-281 and NAIC Consumer Glossary.

⁶ A.R.S. §§6-124, 20-142, and 32-3605.

- **Conducting scheduled examinations of licensed professionals and businesses to ensure they meet federal and State requirements**—A.R.S. §6-122 requires the Department to conduct examinations of licensed financial service professionals and businesses. Additionally, A.R.S. §6-128 authorizes it to conduct these examinations jointly by coordinating with authorized federal examinations or other state examinations.⁷ Statute and/or Department policy outline the various time frames for examination frequency. For example, A.R.S. §6-122 requires the Department to conduct examinations of credit unions every 2 years, while Department policy requires it to conduct examinations of mortgage brokers at least once every 5 years.⁸ Statute and rule also establish various actions the Department can take against professionals and businesses in response to any violations it identifies, including assessing civil money penalties, issuing cease-and-desist orders, and license revocation.⁹ According to Department data, in calendar year 2023, the Department conducted 463 examinations of financial enterprises, including mortgage brokers, collection agencies, and escrow agents, and according to Department data, it issued 16 actions resulting from examinations of financial enterprises in calendar year 2023.
- **Investigating complaints against licensed professionals and businesses for allegations of violations**—The Department has statutory authority to investigate complaints against insurance and financial service professionals and businesses for allegations such as fraud, deceptive practices, unprofessional and dishonest conduct, claim delays, and unfair claim settlement practices.¹⁰ As previously mentioned, statutes and rule establish various actions the Department can take against professionals and businesses in response to any violations it identifies, such as assessing civil money penalties, license suspension, and license revocation.¹¹

Our work in this area found that the Department did not consistently consider licensee history or follow up to ensure violations were corrected, which may increase the risk of harm to public welfare and unequal treatment of licensees (see Finding 1, pages 13 through 18, for more information on enforcement actions in response to violations the Department identified through examinations and complaint investigations, and Sunset Factor 6, pages 38 through 40, for more information on issues we identified with the Department’s complaint-handling process).

- **Monitoring insurance companies’ financial conditions and solvency**—A.R.S. §20-142(C) authorizes the Department to conduct examinations of insurance professionals and businesses, and A.R.S. §20-157 allows the Department access to insurers’ financial records and documents. As previously mentioned, statute requires the Department to regulate insurance. As part of this requirement, the Department reported using the NAIC-provided Financial Analysis Handbook to monitor insurance companies’ financial health. For example, the Financial Analysis Handbook directs Department analysts to review insurance companies’ Financial Profile Reports, which provide short summaries of insurance companies’ quarterly or annual financial statements. In fiscal year 2023, the Department reported it used this handbook to conduct 152 reviews of insurance companies, according to Department data.¹²
- **Reviewing healthcare appeals to determine if the denied claim or service is covered under the health insurance policy**—The Department is responsible for administering a healthcare appeals process for health insurance policyholders who have been denied a medical service or insurance claim

⁷ See Sunset Factor 2, page 32, for more information on the Department’s joint examinations of banks and credit unions.

⁸ According to Department policy, examinations for mortgage brokers may be more frequent based on the risk rating of the prior examination. As such, examination time frames may be as frequent as 1.5 years. Additionally, at the highest risk rating, special procedures could include monitoring every 3 months.

⁹ A.R.S. §§6-132 *et seq.*, 6-137, 20-295 *et seq.*, 32-1053 *et seq.*, and 32-3631 *et seq.*, Arizona Administrative Code (AAC) R4-46-301.

¹⁰ A.R.S. §§6-124 and 20-142.

¹¹ A.R.S. §§6-132 *et seq.*, 20-295 *et seq.*, 32-1053 *et seq.*, and 32-3631 *et seq.*, AAC R4-46-301.

¹² According to Department data, it conducted 135 desk audits and 17 insurance company examinations in fiscal year 2023.

for a medical service.¹³ For cases where a medical treatment or service or claim for a medical treatment or service has been denied by the insurance company because it believes the treatment or service is not covered by the insurance policy, the Department is responsible for reviewing the policy to determine whether the treatment or service is covered by the policy. In addition, for cases where the policyholder has been denied medical treatments or services or a policyholder's claims for medical treatments or services has been denied because the treatment or service is not medically necessary, A.R.S. §20-2538 requires the Department to contract with independent review organizations (IROs) to determine whether the service is medically necessary.¹⁴ Statute establishes conflict-of-interest requirements for the IROs and time frames for reviewing and responding to healthcare appeals (see Finding 2, pages 19 through 23, for issues we identified with the Department's process for assessing its contracted IROs' conflicts of interest and Sunset Factor 6, pages 38 through 40, for more information on time frames for reviewing healthcare appeals).

- **Reviewing insurance advertisement, policy, and rate filings and rating systems**—Various types of insurance providers, such as life and disability insurance providers, are statutorily required to file policy forms and advertisement materials with the Department. For example, A.R.S. §20-1110 requires life and disability insurers to file policy forms and advertising materials with the Department before they are used by the insurer. The policy forms go into effect 30 days after they are filed with the Department, but the Department can, though is not required to, review the forms to assess their compliance with statutory and rule requirements, including that the policy forms are not false or misleading. Additionally, the Department is statutorily required to regulate insurance rates to promote public welfare by reviewing rate filings to ensure insurance rates are not excessive, inadequate, or unfairly discriminatory, and every insurer is required to file rates and rating systems with the Department.^{15,16,17} For most lines of insurance, such as property and casualty insurance, insurers must file all rates and supplementary rate information with the Department within 30 days of the effective date. The Department can, though is not required to, review the rate filing, and if it determines that a rate is noncompliant with statute, the Department shall, after holding a hearing, issue an order specifying how the rate does not meet statutory standards and when it will no longer be in effect.¹⁸
- **Approving long-term care insurance rates before they go into effect**—Pursuant to A.R.S. §20-1691.08, the Department is responsible for reviewing and approving long-term care insurance rates before they go into effect. Insurance companies file proposed long-term care rate increases and policy changes with the Department for review, and statute permits the Department up to 60 days to review and approve or disapprove the proposed changes.¹⁹ Long-term care rates or policies may not be issued in Arizona until the Department has approved the rate or policy, in accordance with statute. The review process includes an actuarial analysis and is intended to ensure that long-term care insurance rates are not excessive, inadequate, or unfairly discriminatory. To conduct these reviews, the Department employs a part-time actuary and contracts for actuarial services. See Sunset Factor 2, pages 28 through 29, for more

¹³ Statute establishes a multitiered healthcare appeal process for insurance policyholders to follow to appeal denied medical services or claims, which includes first appealing to the insurer company, and the final appeal being submitted to the Department.

¹⁴ IROs are composed of physicians and other healthcare professionals who are licensed in Arizona or physicians and healthcare professionals in another state who are certified by a U.S. medical specialty board.

¹⁵ A.R.S. §§20-341 and 20-357.

¹⁶ According to A.R.S. §20-383, rates are excessive if they are likely to produce an unreasonably high underwriting profit, inadequate if they are clearly insufficient to sustain projected losses and expenses, and not unfairly discriminatory if they reflect equitably the difference in expected losses and expenses.

¹⁷ A.R.S. §20-357(A) states that a rating system includes every manual of classifications, rules and rates, rating plans, and all modifications to those plans.

¹⁸ A.R.S. §20-358(A) requires the Department to hold a hearing with the insurers and rating organizations before the Department can issue an order specifying how the rate does not meet requirements and when the rate filing is no longer effective.

¹⁹ Unless the Department issues an order affirmatively approving or disapproving the form or rate within 60 days after the filing, the form or rate is deemed approved. On written notice given to the insurer within the 60-day period, the Department may extend the 60-day review period for up to 15 additional days.

information on issues we identified with the Department's process for reviewing and approving long-term care insurance rates.

- **Investigating suspected insurance fraud**—A.R.S. §20-466 establishes a fraud unit within the Department and authorizes the unit to investigate insurance fraud. Insurance companies and consumers can report instances of suspected insurance fraud, known as fraud referrals, to the Department. The Department is responsible for reviewing the insurance fraud referrals and determining whether to open an investigation (see Sunset Factor 2, pages 25 through 26, for more information on the results of our review of the Department's process for prioritizing insurance fraud referrals for investigation and its ability to investigate high-priority insurance fraud referrals). The Department coordinates with the Arizona Attorney General's Office and county attorneys to prosecute insurance fraud. In fiscal year 2023, the Department reported it received 4,459 insurance fraud referrals, opened 155 new cases, and submitted 16 cases to the Arizona Attorney General or county attorneys for prosecution, who obtained convictions to recover \$2,633,041 in court-ordered restitution.²⁰
- **Providing grant monies to law enforcement and dedicated prosecutors for combating vehicle theft**—The ATA is established within the Department and is responsible for administering the Automobile Theft Authority Fund (ATA Fund) including distributing grant monies to public agencies for the purpose of establishing, maintaining, and supporting programs that are designed to prevent vehicle theft. A.R.S. §41-3451(G) requires monies to be used for financial support for public awareness programs and grant monies to law enforcement and prosecution agencies for programs that are designed to increase the effectiveness of vehicle theft prosecution. To meet this requirement, the ATA administers 4 types of local grants—law enforcement, public awareness, professional training, and vertical prosecution grants (see textbox for additional information about these grant types). As shown in Table 1, page 6, in fiscal year 2024, the ATA awarded an estimated \$1.28 million in vertical prosecution grants, more than \$65,000 in law enforcement grants, and more than \$4,500 in professional training grants. Additionally, the ATA is responsible for overseeing monies appropriated from the ATA Fund to the Arizona Department of Public Safety's (DPS) Arizona Vehicle Theft Task Force. As shown in Table 1, page 6, in fiscal year 2024, the Arizona Vehicle Theft Task Force was estimated to spend more than \$4.5 million from the ATA Fund to operate the Task Force. See Sunset Factor 2, pages 27 through 28, for information on issues we identified with the ATA's process for overseeing grant monies awarded from the ATA Fund.

Types of ATA local grants

Law enforcement—Awarded to law enforcement agencies for promoting efficient and effective vehicle theft investigations, enforcement, and prevention. Grant monies may be used to help pay for equipment used to investigate vehicle theft, such as GPS trackers and surveillance equipment.

Professional training—Awarded to law enforcement and prosecutorial agencies to provide professional training and development of law enforcement officers and prosecutors.

Public awareness—Awarded to law enforcement and prosecutorial agencies to promote public awareness and community education on vehicle theft prevention.

Vertical prosecution—Awarded to prosecutorial agencies to support the prosecution of vehicle theft and related criminal activity. Grant monies may be used to pay the salary and related benefits of attorneys and paralegals responsible for working on vehicle-theft-related cases and, in some cases, may be used to pay for equipment.

Source: Auditor General staff review of ATA policies and procedures and grant agreements.

²⁰ A.R.S. §20-466(G) requires insurers to report any instances of insurance fraud to the Department. According to the Department, it receives some referrals from insurers where the insurer has uncovered the fraudulent activity and resolved the issue before referring it to the Department. Additionally, the Department reported that due to limited investigative staffing and the large number of fraud referrals it receives, it only prioritizes referrals that have a greater monetary loss or impact to public safety.

Table 1
Automobile Theft Authority Fund
Schedule of revenues, expenditures, and changes in fund balances
Fiscal years 2022 through 2024
(Unaudited)

	2022 Actual	2023 Actual	2024 Estimate
Revenues			
Assessment fees ¹	\$7,034,238	\$7,262,175	\$7,293,677
Investment income	41,925	327,435	468,391
Miscellaneous income ²	3,064	56	61,561
Total revenues	7,079,227	7,589,666	7,823,629
Expenditures and transfers			
Arizona Vehicle Theft Task Force ³	4,343,500	4,452,600	4,521,200
Vertical prosecution grants	930,942	888,551	1,284,963
Law enforcement grants	20,000	67,616	65,300
Professional training grants ⁴	5,000	-	4,555
Public awareness grants ⁴	1,758	-	-
Administrative costs	297,599	283,048	387,318
Transfers to Department of Public Safety ⁵	370,000	335,000	200,000
Total expenditures and transfers	5,968,799	6,026,815	6,463,336
Excess of revenues over (under) expenditures	1,110,428	1,562,851	1,360,293
Fund balance, beginning of year	7,718,204	8,828,632	10,391,483
Total fund balance, end of year	\$8,828,632	\$10,391,483	\$11,751,776

¹ Assessment fees are semiannual assessment fees of 50 cents for each insured vehicle from insurers issuing motor vehicle liability insurance policies in the State.

² Miscellaneous income includes a portion of civil penalty payments made by scrap metal dealers and automotive recyclers, pursuant to A.R.S. §28-2098(K)(2).

³ Arizona Vehicle Theft Task Force expenditures are monies included in the general appropriations act for Task Force operating costs, pursuant to A.R.S. §41-3451(E)(2).

⁴ The ATA did not award any professional training grants in fiscal year 2023 or any public awareness grants in fiscal years 2023 and 2024. According to the Department, it did not award public awareness grants because the ATA Board determined that local grant monies should be used on law enforcement, vertical prosecution, and professional training grants.

⁵ Transfers to Department of Public Safety include internal service agreement monies for purchasing new vehicles, related equipment, and technology projects for administering the Arizona Vehicle Theft Task Force.

Source: Auditor General staff review and analysis of the Arizona Financial Information System/AZ360 Accounting Event Transaction File and the State of Arizona Annual Financial Report for fiscal years 2022 and 2023 and Department-provided estimate information for fiscal year 2024.

Organization and staffing

According to the Department, as of April 2024, the Department has 143 filled full-time equivalent (FTE) positions and 14 vacant FTEs organized into the following 12 divisions:²¹

- **Administrative Services Division (6 FTEs, 0 vacancies)**—Responsible for providing support to the Department to perform its duties, including accounting, budgeting, procurement, payroll, facilities management, and human resources services.
- **Automobile Theft Authority and Public Information Division (4 FTEs, 0 vacancies)**—Responsible for assisting the ATA Board of Directors in administering the ATA Fund by overseeing grant monies distributed from the Fund, including local grants and allocations to the Arizona Vehicle Theft Task Force (see pages 8 and 9 for information on the ATA Board of Directors). This division is also responsible for distributing press releases and managing information on its website and social media platforms.
- **Enforcement, Innovation, and Regulatory Policy Division (8 FTEs, 2 vacancies)**—Responsible for conducting legal research, responding to public records requests, rulemaking, and investigating misconduct complaints involving insurance producers, bail bond agents, adjusters, and unlicensed financial institutions, financial enterprises, and insurers operating in the State.
- **Financial Enterprises Division (21 FTEs, 1 vacancy)**—Responsible for regulating and conducting examinations on advance fee loan brokers, collection agencies, commercial bankers, commercial brokers, consumer lenders, debt management companies, escrow agents, loan originators, money transmitters, mortgage bankers, mortgage brokers, premium finance companies, and sales finance companies. This division is also responsible for investigating complaints filed against appraisers and appraisal management companies related to noncompliance with State and federal laws.
- **Financial Institutions Division (14 FTEs, 0 vacancies)**—Responsible for conducting financial examinations of State-chartered banks, credit unions, and trust companies to assess compliance with State and federal laws.
- **Information Technologies Division (3 FTEs, 0 vacancies)**—Responsible for maintaining the operations of the Department’s information technology (IT) and online resources, including managing the Department’s IT security infrastructure, coordinating support with third-party service providers, and providing IT technical support for Department staff.
- **Insurance Guaranty Funds Office (4 FTEs, 1 vacancy)**—Responsible for processing and paying policyholders’ claims from the Arizona Life and Disability Insurance Guaranty Fund and the Arizona Property and Casualty Insurance Guaranty Fund when an insurance company becomes insolvent and cannot pay insurance claims (see page 8 for more information on the 2 guaranty funds and its associated boards).
- **Insurance Financial Affairs Division (21 FTEs, 5 vacancies)**—Responsible for conducting examinations and analyses of financial and transactional filings to monitor the solvency of insurers doing business in Arizona. This division is also responsible for receiving and reviewing insurers’ financial filings and reviewing and approving various certification, registration, and permit applications, including applications for certificates of authority to sell certain lines of insurance, such as property, disability, and life insurance, and auditing financial filings.
- **Insurance Fraud Unit (14 FTEs, 1 vacancy)**—Responsible for receiving and investigating insurance fraud referrals from insurance companies, Arizona citizens, and other law enforcement agencies, and presenting completed cases to county attorneys and/or the Arizona Attorney General’s Office for prosecution.

²¹ The total number of filled and vacant FTE includes 4 filled positions—the executive deputy director, deputy director of operations, chief deputy finance director, and human resource analyst—and 3 vacant positions—the director, the assistant director of insurance, and the business operations administrator—who are not reflected in the FTE numbers for the Department’s divisions.

- **Licensing Division (16 FTEs, 0 vacancies)**—Responsible for issuing licenses and license renewals to individuals and business entities, including insurance, real estate appraiser, and financial enterprise licenses.
- **Market Regulation and Consumer Services Division (17 FTEs, 1 vacancy)**—Responsible for investigating complaints against insurance and financial service professionals and businesses, reviewing healthcare appeals to determine if the denied claim or service is covered under the health insurance policy, and handling complaints of surprise out-of-network (SOON) billing.^{22,23,24} This division also provides consumer assistance on insurance matters, such as when consumers inquiries need to be referred to another agency in this State, in another state, or at the federal level. See Sunset Factor 6, pages 38 through 40, for more information on the Department’s complaint handling.
- **Product Filing and Compliance Division (11 FTEs, 0 vacancies)**—Responsible for reviewing insurance form, rate, and advertising filings for compliance with State laws, including reviewing and approving long-term care insurance rates.

Boards and committees established within the Department

Statutes establish the following boards and committees within the Department:

- **Arizona Life and Disability Insurance Guaranty Fund Board and the Arizona Property and Casualty Insurance Guaranty Fund Board**—The Arizona Life and Disability Insurance Guaranty Fund Board and Arizona Property and Casualty Insurance Guaranty Fund Board are responsible for overseeing Arizona’s 2 guaranty funds, which are intended to help pay insurance claims for Arizona residents insured by a licensed insurance company that becomes insolvent.²⁵ The Arizona Life and Disability Insurance Guaranty Fund is intended to pay claims on life and disability insurance policies, and the Arizona Property and Casualty Insurance Guaranty Fund is intended to pay claims on automobile, workers’ compensation, and homeowners’ insurance policies. The 2 boards that oversee the guaranty funds are responsible for (1) verifying that the claimants affected by the insolvency are Arizona residents who hold a valid policy with the insolvent insurance company; (2) guaranteeing, assuming, reissuing, or reinsuring policies or contracts or assuring payment of the contractual obligations of an insolvent insurer; and (3) approving or denying claims submitted to them.
- **ATA Board of Directors**—The ATA Board of Directors is responsible for determining the scope of the problem of vehicle theft, including areas of the State where the problem is greatest, and analyzing the various methods for combating the problem of motor vehicle theft, including administering the ATA Fund, awarding grants, and funding programs that combat vehicle theft (see textbox, page 9, for 2023 Arizona vehicle theft statistics). Pursuant to A.R.S. §41-3451, the ATA Board of Directors consists of 12 members, including 2 police chiefs appointed by an Arizona association of chiefs of police, 2 sheriffs appointed by an Arizona sheriffs association, 2 county attorneys who are appointed by the Governor, 2 governor-appointed

²² Healthcare appeals are a process for members of health insurance and dental and vision plans to appeal denied claims or services.

²³ SOON billing refers to unexpected out-of-pocket costs resulting from situations such as individuals needing emergency care but who are unable to choose an in-network provider or when an individual obtains services from an in-network provider such as a hospital, but some medical providers that provide care at the hospital, such as an anesthesiologist or radiologist, are not contracted with their healthcare insurer.

²⁴ The Department reported that although Arizona has a SOON bill program established through A.R.S. §20-3111 *et seq.* and AAC R20-6-2401 *et seq.*, it receives decreasing requests through this program because the federal No Surprises Act, effective for policies that are new or renewed as of January 1, 2022, provides broader consumer protection, such as including self-insured plans. According to Department reports, it received 427 inquiries for SOON bills in calendar year 2022 and 166 inquiries in calendar year 2023.

²⁵ A.R.S. §20-684 requires the Life and Disability Insurance Guaranty Fund Board to consist of 11 members appointed by the Governor from a list of persons submitted to the governor by the director of the Department. A.R.S. §20-663 requires the Arizona Property and Casualty Insurance Guaranty Fund Board to consist of 11 Governor-appointed members—9 members who represent a different insurer that is authorized to transact property or casualty business in this State, including at least 1 member who represents a workers’ compensation insurer authorized to transact workers’ compensation business in this State for at least 10 consecutive years, 1 member who is a casualty insurance producer residing in this State, and 1 member who represents the general public. As of June 2024, the Life and Disability Insurance Guaranty Fund Board had 11 members and 1 vacancy, and the Property and Casualty Insurance Guaranty Fund Board had 7 members and 5 vacancies.

employees of insurers who are authorized to write motor vehicle liability insurance in this State, 2 governor-appointed members of the general public, the assistant director of the Motor Vehicle Division in the Department of Transportation or their designee, and the director of the Department of Public Safety or their designee. According to the Department, as of June 2024, the ATA Board had 11 members and 1 vacancy.

- **Mental Health Parity Advisory Committee—**

This committee was established to advise the Department director and the Arizona Department of Health Services director on matters pertinent to mental health parity, including recommendations related to case management, discharge planning, and expedited review and appeals processes for behavioral health cases involving suicidal ideation. Pursuant to A.R.S. §20-3505, the committee consists of at least 10 members appointed by the Department director, including 4 members who represent healthcare insurers;

1 licensed behavioral health services provider; 1 member who represents a behavioral health advocacy organization; at least 3 members or family members who are not employed by or contracted with the State and who have been affected by suicide, substance use, or a mental health disorder; and at least 1 member who represents a hospital that provides inpatient behavioral health services. Further, the Arizona Health Care Cost Containment System director may serve on the committee in an advisory capacity. As of June 2024, the Metal Health Parity Advisory Committee had 10 members and 1 vacancy.

- **Arizona Workers' Compensation Appeals Board—**This board is responsible for hearing appeals from individuals and companies claiming that an insurance company's rating system was not correctly applied to the insurance afforded to them.²⁶ An insurance company's rating system comprises classification codes that specify categories of work and the employer's claims history, as compared to similar businesses. Individuals and companies may appeal to the Board if they dispute the classification codes or claims history comparison applied by the insurance company. Pursuant to A.R.S. §20-367, the Board consists of at least 9 but not more than 11 members appointed by the Department director, including 5 representatives of insurers, 1 of which is the insurer with the largest Arizona workers' compensation market share as reported by the Department, and 4 representatives of the public—2 representing employers and 2 members who are knowledgeable about workers' compensation insurance.^{27,28}

2023 Arizona vehicle theft statistics

According to Department data, in calendar year 2023, there were:

- 20,367 vehicle thefts in the State, including 6,209 sedan thefts and 3,202 pickup truck thefts.¹
- 14,789 stolen vehicles recovered.

According to National Insurance Crime Bureau data, in 2023, Arizona had the sixteenth highest number of vehicle thefts of U.S. states.

¹ Other vehicle thefts included vans, trailers, motorcycles, and other types of motor vehicles.

Source: Auditor General staff review of the Department's vehicle theft data for calendar year 2023 and information from the National Insurance Crime Bureau.

Revenues and expenditures

The Department receives State and other monies including insurance premium taxes, licensing fees, and other fees and charges for services. As shown in Table 2 (see pages 10 through 12), in fiscal year 2024, the Department's revenues are estimated to total nearly \$868.7 million; however, most of these monies are statutorily required to be remitted to the State General Fund, the Firefighters' Relief and Pension Fund, and the Public Safety Personnel Retirement System, resulting in an estimated net revenue totaling nearly \$22.2

²⁶ The Workers' Compensation Appeals Board last met in August 2020. The Department reported that this board only meets when a workers' compensation appeal is submitted and that as of March 2024, it had not received a workers' compensation appeal since August 2020.

²⁷ A.R.S. §20-367(C)(2) requires 1 representative from any designated statistical agent to serve as a nonvoting advisory member on the Arizona Workers' Compensation Appeals Board. A.R.S. §20-371(D) allows the Department to designate an organization as a statistical agent required to gather and compile information related to insurers' workers' compensation experience with rating organizations.

²⁸ As of June 2024, the Arizona Workers' Compensation Appeals Board had 5 members and 4 vacancies.

million in fiscal year 2024. The Department's fiscal year 2024 expenditures are estimated to total approximately \$24.4 million. Most of the Department's expenditures were for payroll and related benefits, transfers to the Arizona Department of Public Safety primarily for the Arizona Vehicle Theft Task Force, professional and outside services, and other operating costs.

Table 2
Schedule of revenues, expenditures, and changes in fund balances¹
Fiscal years 2022 through 2024
(Unaudited)

	2022 Actual	2023 Actual	2024 Estimate
Revenues			
State General Fund appropriations	\$7,344,133	\$7,838,637	\$7,627,561
Federal grants	118,753	120,034	29,352
Insurance premium taxes ²	762,740,578	827,743,832	813,425,181
Licenses and fees	27,527,568	24,616,849	24,299,206
Fees and charges for services	19,355,661	17,351,135	16,222,861
Examination fees	2,735,368	3,166,977	3,537,401
Filing fees	563,347	557,850	566,816
Fines, penalties, and restitution ³	662,380	913,647	1,539,390
Interest income	57,615	441,772	622,733
Miscellaneous receipts ⁴	1,133,366	869,244	816,505
Other revenue	6,644	8,659	5,701
Gross revenues	822,245,413	883,628,636	868,692,707
Net credit card fees	(10,749)	(40,948)	(36,544)
Remittances to the State General Fund ⁵	(741,580,541)	(794,944,610)	(762,675,664)
Remittances to the Firefighters' Relief and Pension Fund ⁶	(22,243,723)	(27,324,457)	(38,991,239)
Remittances to the Public Safety Personnel Retirement System ⁷	(27,522,673)	(28,079,433)	(44,802,257)
Total revenues	30,887,727	33,239,188	22,187,003
Expenditures and transfers			
Payroll and related benefits	11,722,053	13,560,352	12,971,756
Professional and outside services	2,647,647	3,218,311	3,460,176

Table 2 continued

	2022 Actual	2023 Actual	2024 Estimate
Travel	36,975	110,641	257,376
Aid to other organizations ⁸	957,700	956,166	1,354,818
Other operating ⁹	1,654,674	1,467,808	1,519,920
Capital equipment	47,998	71,613	739
Noncapital equipment	181,831	160,554	124,968
Transfers:			
Transfers to the Department of Public Safety ¹⁰	4,713,500	4,787,600	4,721,200
Transfers to other State agencies	46,628	1,315	6,396
Total expenditures and transfers	22,009,006	24,334,360	24,417,349
Excess of revenues over (under) expenditures	8,878,721	8,904,828	(2,230,346)
Fund balance, beginning of year	35,086,741	43,965,462	52,870,290
Total fund balance, end of year	\$43,965,462	\$52,870,290	\$50,639,944

- ¹ The table includes only the financial activity of the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund pertaining to the administration of those programs. The assets the State holds on behalf of others for these funds are not included. As of December 31, 2022, these funds had ending net position balances of approximately \$111 million and \$24 million, respectively.
- ² Insurance premium taxes are paid by insurers on net premiums and AHCCCS contractors based on rates charged for medical services provided to AHCCCS-eligible patients, including long-term care, as required by A.R.S. §§20-224, 20-224.01, 36-2905, and 36-2944.01. The taxes are intended to help defray the cost of the State government and to lessen the tax burden upon tangible property. As indicated in footnotes 5, 6 and 7, these taxes are remitted to the State General Fund, the Firefighters' Relief and Pension Fund, and the Public Safety Personnel Retirement System, in accordance with statute.
- ³ Fines, penalties, and restitution revenues include monies collected for late license renewals and financial enterprise examinations, restitution for fraud-related cases, and penalties assessed on licensees in court orders and consent agreements.
- ⁴ Miscellaneous receipts comprise monies from the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund to pay for the costs of administering the Guaranty Funds.
- ⁵ As required by A.R.S. §20-227, the Department remits insurance premium taxes, except those remitted to other entities as indicated in footnote 2, to the State General Fund. Additionally, the remittances to the State General Fund include unencumbered monies from the Department's Captive Insurance Regulatory and Supervision Fund, pursuant to A.R.S. §20-1098.18, which requires the Department to revert the unencumbered monies exceeding \$200,000 at year-end to the State General Fund.
- ⁶ Remittances to the Firefighters' Relief and Pension Fund consist of fire insurance premium taxes that the State Treasurer is responsible for remitting to qualified municipal fire departments, legally organized fire districts, and public agencies that hire private fire protection services, as required by A.R.S. §9-952.
- ⁷ Remittances to the Public Safety Personnel Retirement System consists of insurance premium taxes collected from vehicle insurance policies that the State Treasurer is responsible for remitting to the Public Safety Personnel Retirement System's Highway Patrol Account, as required by A.R.S. §20-224.01.
- ⁸ Aid to other organizations comprises grant monies awarded from the Department's ATA Fund for vertical prosecution grants, law enforcement grants, professional training grants, and public awareness grants. The Department estimated it would spend an additional \$399,000 in fiscal year 2024 for vertical prosecution grants, which is consistent with the Arizona Joint Legislative Budget Committee's Fiscal Year 2024 Appropriations report, which reported an increase of \$431,200 for vertical prosecution grants. See Table 1, page 6, for a breakout of the ATA Fund grant expenditures.

Table 2 continued

⁹ Other operating expenditures included payments for rent, software support and maintenance, telecommunications, and risk management fees.

¹⁰ Transfers to the Department of Public Safety include monies appropriated from the Department's ATA Fund for the Arizona Vehicle Theft Task Force and internal service agreements for the purchase of new vehicles, related equipment, and technology projects for administering the Arizona Vehicle Theft Task Force. See Table 1, page 6, for revenue, expenditure, and fund balances for the ATA Fund.

Source: Auditor General staff review and analysis of the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023 and Department-provided estimate information for fiscal year 2024.



Department did not consistently consider licensee history or determine if violations were corrected and lacked a documented explanation for some enforcement actions, increasing risk of harm to public welfare and unequal treatment of licensees

Department is responsible for taking enforcement action in response to licensee violations, and recommended practices provide guidance for taking consistent and sufficient enforcement actions to protect the public by deterring and preventing future violations

As discussed in the Introduction (see pages 1 through 3), the Department is responsible for licensing and regulating financial institutions, financial enterprises, and insurance professionals and companies. This responsibility includes investigating and adjudicating complaints against licensees alleging violations of laws and rules, such as engaging in unsafe and unsound business practices. Statute and Department rules outline various remedial/disciplinary actions the Department can take after it substantiates that a violation(s) has occurred, such as suspending or revoking a license or issuing civil money penalties (see Table 3, page 14, for more examples of the Department's authorized enforcement actions for license types we reviewed).

The National State Auditors Association (NSAA) has identified best practices for carrying out a State regulatory program, including enforcing compliance with all requirements and standards.²⁹ According to NSAA, regulatory agencies should develop systematic, fair, and progressively stringent enforcement processes to ensure that public health, safety, and welfare are protected, including:

- Establishing a graduated and equitable system of sanctions, such as letters of noncompliance, fines, license suspension, and license revocation, that addresses any legal or regulatory requirements. The sanctions should be set sufficiently high to help achieve the desired results (compel the person to comply or stop operating).
- Specifying and considering the number or severity of violations that should trigger each level of sanction.
- Requiring the regulatory agency to take appropriate, consistent, and timely enforcement actions that address the violations cited against the regulated people/entities.
- Following up as needed—such as through written reports, inspections, or special investigations—to determine whether the problem has been corrected or whether additional enforcement action is needed.

²⁹ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/23/2024 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

Table 3**Examples of enforcement and remedial actions established in statute and rule for license types we reviewed¹**

License type	Appraisal ²	Insurance ³	Financial institution ⁴	Financial enterprise ⁵
Enforcement options established in statute				
Revocation	✓	✓	✓	✓
Refuse to renew	✓	✓	✓ Consumer lenders N/A Banks, credit unions, trust companies	N/A
Suspension	✓	✓	✓	✓
Probation	✓	N/A	N/A	N/A
Fine or civil money penalty	✓	✓	✓	✓
Enforcement options established in rule				
Corrective education	✓	The Department has not established rules for insurance-, financial institution-, or financial enterprise-related licensee complaint handling.		
Restriction on the nature and scope of practice	✓			
Monitoring	✓			
Mentorship	✓			

¹ The Department is responsible for regulating more than 40 different license, certificate, permit, and registration types (see Appendix A, pages a-1 through a-6, for a list and description of the various license/certificate/permit/registration types). We reviewed a sample of enforcement actions for a selection of license types the Department regulates (see footnote 30, page 15, for more information).

² Although appraisers are statutorily classified as financial enterprises, the Department has complaint-handling and enforcement rules for appraisal licenses that do not apply to other financial enterprises. Appraisal licenses include several license/certification types, such as certified general real estate appraisers and certified residential real estate appraisers.

³ Insurance licenses include various license types, including producers, adjusters, and bail bond agents.

⁴ Financial institution licenses include various license/permit/certificate types, such as credit unions, trust companies, and consumer lenders.

⁵ Financial enterprise licenses include multiple license types, such as collection agencies, sales finance companies, and mortgage bankers.

Source: Auditor General staff review of A.R.S. §§6-101, 6-123.01, 6-132, 6-205, 6-605, 6-863, 6-905, 6-945, 6-982, 20-220, 20-295, 20-418, 32-1053, 32-3605, 32-3631, and 44-283 and AAC R20-6-101 through R20-6-2406, R20-4-101 through R20-4-1911, AAC R4-46-101, and R4-46-301.

Department did not consistently consider licensee history or follow up to ensure violations were corrected, and lacked documentation explaining how it determined some enforcement actions, increasing risk of public harm and unequal treatment of licensees

Our review of 15 enforcement cases where the Department took enforcement action between October 24, 2022 and April 16, 2024, found that the Department:^{30,31}

- **Did not consistently consider licensee disciplinary and nondisciplinary history when determining enforcement actions for some similar violations and did not consistently follow up to determine whether problems were corrected, increasing the risk of future violations and public harm**—Two of the enforcement cases in our review—1 for a residential appraiser license and 1 for a bail bond agent license—had similar violations, including unethical conduct and deceptive practices, and both licensees had a history of prior violations. However, the Department did not consistently consider and document the licensees' history of violations and aggravating and/or mitigating factors when determining its enforcement actions based on that history.³² For example:
 - When determining its enforcement and remedial actions for the residential appraiser licensee, as shown in Table 4 (see page 16), the Department's enforcement file indicates that it considered the number and nature of the licensee's prior violations and the prior disciplinary and nondisciplinary enforcement actions the Department had taken in response to the previous violations. Additionally, the Department identified repeat violations as an aggravating factor and escalated its enforcement action after substantiating repeat violations for this licensee. Specifically, the Department's escalated enforcement action included penalties, a license suspension, and remedial actions designed to prevent future violations, including corrective education related to the violation, and ongoing monitoring by Department staff.
 - Although the Department's enforcement file for the bail bond agent licensee noted that the individual licensee had received 14 prior complaints and the business licensee had received 60 prior complaints, it did not include any documentation indicating that the Department considered the licensees' enforcement history or aggravating and/or mitigating factors when determining how to address the violation. For example, as shown in Table 4 (see page 16), the enforcement file did not indicate whether its investigations into the licensees' previous complaints had identified violations or resulted in the Department taking any disciplinary or nondisciplinary enforcement actions. Additionally, despite the enforcement file indicating that that the licensee had potentially committed similar violations in the past, as shown in Table 4 (see page 16), the Department's enforcement file did not include documentation demonstrating it had considered aggravating and/or mitigating factors, such as the various prior complaints when taking its enforcement action. Although the Department's enforcement action consisted of a \$2,500 civil money penalty and payment of restitution to the victim, it did not require any remedial actions designed to prevent future violations, such as ongoing monitoring or other follow-up procedures by Department staff to determine whether the problem had been corrected or whether additional enforcement action was needed.³³

³⁰ The 15 enforcement actions we reviewed included 2 enforcement actions that resulted from complaints we reviewed as part of our Sunset Factor 6 work (see page 38 for additional information about that sample); a random sample of 3 of 38 enforcement actions that resulted from financial examinations the Department conducted in calendar year 2023; and 5 from each of the most recent insurance- and financial enterprise-related enforcement actions posted on the Department's website as of April 19, 2024. See Appendix C, page c-1, for additional information on the methods used in conducting the work for this finding.

³¹ Our review of the sample of 15 enforcement actions found that the Department revoked 4 licenses, suspended 4 licenses, and assessed civil money penalties totaling \$28,500.

³² As shown in Table 3, page 14, the Department's available enforcement and remedial actions established in statute and rule vary by license type. As a result, final enforcement actions for different license types may not be comparable.

³³ The Department's statutes for bail bond agent licenses do not include the option to require corrective education in response to violations, and the Department has not established rules for insurance-related licensee complaint handling (see Table 3, page 14, for examples of different enforcement and remedial options by license type).

Table 4**Department did not consistently consider and document licensees' history of violations and aggravating and mitigating factors**

	Residential appraiser	Bail bond agent
Violations	Unprofessional and unethical conduct	Deceptive practices and untrustworthiness
Complaint history	2 prior complaints	14 prior individual licensee complaints 60 prior business licensee complaints ¹
Enforcement history	Complaint 1: letter of concern Complaint 2: disciplinary letter	No consideration documented
Aggravating/ mitigating factors	Repeat violations requiring escalated enforcement action	No consideration documented

¹ Both the business and the business owner had Department-issued bail bond agent licenses, and Department staff reported that the owner is responsible for all actions of the business. In June 2024, Department staff reported that between April 2017 and April 2024, the Department received a total of 64 complaints related to these 2 bail bond agent licenses.

Source: Auditor General staff review of Department documentation related to enforcement actions, such as complaint letters, investigation disposition reports, Attorney General referral documents, and final actions.

Additionally, for the enforcement cases we reviewed, although the Department tracked and oversaw that the licensees complied with enforcement actions as applicable, such as ensuring civil money penalties were paid, it did not consistently follow up to determine whether the problem was corrected. Specifically, our review of the Department's enforcement cases found that the Department did not follow up through written reports, inspections, or special investigations to determine whether the problems were corrected or whether additional enforcement action was needed for 7 of 8 cases for which follow up was applicable.³⁴ For example, although the Department determined that the bail bond agent licensee had paid the \$2,500 civil money penalty, it did not follow up through written reports or examinations to determine whether the licensee continued to commit similar violations and to take additional enforcement action as needed.

When the Department's enforcement and remedial actions are not consistent with the nature and severity of the violations and do not include following up to determine whether the problems were corrected, the public is at increased risk of harm that may occur if licensees commit a repeat violation. In fact, in June 2024, Department staff reported that they had received another complaint against the same 2 bail bond agent licensees, resulting in a total of 64 complaints against the individual and/or business licensee.³⁵

- Lacked documentation explaining how it determined enforcement actions for some insurance licensee violations we reviewed, increasing the risk of future harmful actions and unequal treatment of licensees**—Our review of the Department's files for 3 insurance producer licensee enforcement cases found that the Department did not document how it determined the enforcement actions it took in response to substantiated violations, including if and how it considered aggravating and mitigating factors when determining which of the available enforcement options it should take in response to the violations. Specifically, for the 3 cases we reviewed, the Department substantiated violations of

³⁴ For 7 of 15 enforcement cases we reviewed, Department followup was not applicable because the license had been revoked, surrendered, or suspended indefinitely or until the Department lifted the suspension upon receiving information and determining the business met licensing requirements.

³⁵ The Department reported that the complaint was still under investigation as of June 2024, so it was unknown if the alleged violations would be substantiated or the applicable enforcement action, if any.

A.R.S. §20-295(A)(8), which could result in a license suspension, license revocation, and/or a civil money penalty.³⁶ However, the Department's enforcement files lacked an explanation of how it determined its enforcement actions for the 3 cases we reviewed. For example:

- For 1 case we reviewed, although the Department's investigator recommended a civil money penalty and the case file included documentation that the Department initially moved forward with assessing a civil money penalty of \$5,000, the final Department order in the case file indicated the Department revoked the licensee's license. In response to our questions about this case, Department staff reported that the licensee voluntarily offered to give up their license; however, this explanation was not included in the Department's enforcement case file.
- The Department's case files lacked documentation explaining how it determined the enforcement actions for the 2 other cases we reviewed, which included another license revocation and a civil money penalty of \$7,500.

Absent a documented explanation for its enforcement actions, including its consideration of aggravating and mitigating factors, it is not clear whether the Department's enforcement actions were sufficiently high to deter the licensees from committing future violations that could harm consumers. Additionally, without considering and documenting these factors, the Department is at increased risk of treating licensees unequally and of facing allegations of unequal treatment.

Department lacks enforcement guidance that is consistent with recommended practices, including following up to determine if violations have been corrected, for most licensees

The Department has various policies and procedures related to its complaint-handling process that outline steps for investigating complaint allegations, including required documentation that should be gathered and maintained for investigating allegations and staff responsibility for summarizing investigation outcomes in disclosure reports. However, the Department:

- **Lacks written guidance for taking consistent enforcement actions for most licensees but has written guidance for determining enforcement actions in response to violations identified in appraisal license complaint investigations and financial examinations**—As previously discussed on page 14, the Department is responsible for regulating more than 40 different license types; however, it has not established written guidance consistent with recommended practices for taking appropriate and consistent enforcement actions in response to violations identified for most of these license types, including violations by insurance licensees and most financial enterprise licensees, and violations by financial institution licenses identified through complaint investigations.

Conversely, the Department requires its staff to use written guidance consistent with recommended practices when determining enforcement actions for appraisal licensees and in response to violations identified during financial examinations. Specifically, the Department:

- Uses the Appraisal Foundation's *Voluntary Disciplinary Action Matrix* when determining enforcement actions for violations identified during appraisal complaint investigations, which includes a graduated system of sanctions and guidance for taking enforcement action based on the severity of violations, including monitoring.
- Has developed an enforcement matrix that its staff are required to use when determining enforcement actions for violations identified during financial enterprise examinations (see Introduction, pages 2 and 3, for more information on financial enterprise examinations). The matrix includes a list of factors for staff to consider, including aggravating factors, such as willfulness and history of violations, and

³⁶ A.R.S. §20-295(A)(8) states that using fraudulent, coercive, or dishonest practices or demonstrating incompetence, untrustworthiness, or financial irresponsibility is cause for license suspension, license revocation, and/or a civil money penalty.

mitigating factors, such as self-disclosure, that are used to identify enforcement actions, including civil money penalty amounts.

Because the Department's various licenses have different licensing requirements and available enforcement options, it likely could not use this guidance for other license types. However, it could use this guidance and the NSAA-recommended practices as a basis for developing written enforcement guidance for its other license types.

- **Lacks process and requirements for following up to determine if violations have been corrected—** Pursuant to A.R.S. §6-123, the Department is authorized to collect records, documents, and information for financial institution and financial enterprise licensees. Additionally, A.R.S. §20-142 authorizes the Department to secure information useful in administering insurance laws under Title 20, including determining whether insurance licensees violated insurance laws. However, the Department lacks written policies and procedures outlining requirements and a process for using these authorities to follow up with licenses after they have committed violations to determine whether problems have been corrected or if additional enforcement action is needed, as recommended by NSAA.

Recommendations

The Department should:

1. Ensure its enforcement actions address the violations identified by developing and implementing policies and procedures for all license types that are consistent with recommended practices, including:
 - a. Establishing a graduated and equitable system of enforcement actions, such as civil money penalties, corrective education, monitoring, license suspension, and license revocation, to address any legal or regulatory requirements, and ensuring the enforcement actions are set sufficiently high to help compel the licensee to comply or stop operating.
 - b. Specifying and requiring consideration of the number or severity of violations that should trigger each level of enforcement action(s), including whether the licensee has had prior violations.
 - c. Working with licensees who have committed violations as needed—such as through written reports or examinations—to determine whether the problem has been corrected or whether additional enforcement action is needed.
 - d. Documenting an explanation for how it determined enforcement actions, including its consideration of the number or severity of violations and aggravating and/or mitigating factors.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement or implement in a different manner the recommendations.



Department did not comply with some State conflict-of-interest requirements, increasing risk that employees and board/committee members did not disclose substantial interests that might influence or could affect their official conduct

Statute addresses conflicts of interest for public agency employees and public officers

Arizona law requires employees of public agencies and public officers to avoid conflicts of interest that might influence or affect their official conduct. To determine whether a conflict of interest exists, employees/public officers must first evaluate whether they or a relative has a “substantial interest” in (1) any contract, sale, purchase, or service to the public agency or (2) any decision of the public agency.

If an employee/public officer or a relative has a substantial interest, statute requires the employee/public officer to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as an employee/public officer.^{37,38} The interest must be disclosed in the public agency’s official records, either through a signed document or the agency’s official minutes. To help ensure compliance with these statutory requirements, the Arizona Department of Administration’s (ADOA) *State Personnel System Employee Handbook* and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an “affirmative no.” In addition, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and official meeting minutes, and to make this file available for public inspection.

Key terms

- **Substantial interest**—Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a “remote interest.”
- **Remote interest**—Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona Agency Handbook*. Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Retrieved 5/6/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

³⁷ See A.R.S. §§38-502 and 38-503(A) and (B).

³⁸ A.R.S. §38-502(8) defines “public officer” as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State Constitution, or statute. According to the *Arizona Agency Handbook*, public officers include directors of State agencies and members of State boards, commissions, and committees—whether paid or unpaid.

Finally, the Department's independent review organization (IRO) and its individual reviewers that are contracted to review healthcare appeals are prohibited from having substantial interests in certain entities related to cases under review or any other conflict of interest that would preclude the reviewer from making a fair and impartial decision.^{39,40} The Department's contract with its IRO includes these requirements and requires the Department to evaluate potential conflicts of interest related to the IRO. Although not required by statute or the contract with its IRO, the Department developed a form for IRO's individual reviewers to sign attesting that they meet the statutory requirement of not having a conflict of interest with the healthcare appeal case reviewed.

In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁴¹ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.⁴² Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an "affirmative no," if applicable.⁴³ These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met. Finally, recommended practices indicate that publicly disclosing board members' interest as the reason for refraining from participating in decisions is important for fully disclosing and memorializing the disclosure of interest as they relate to those decisions.

Department did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices

The Department did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices designed to help ensure that employees/public officers comply with State requirements. Specifically:

- **Department used a disclosure form for employees and board/committee members that did not address all statutorily required disclosures**—The Department developed annual conflict-of-interest disclosure forms for employees and board/committee members to either disclose substantial financial interests or provide an "affirmative no," if applicable, attesting that they do not have any potential conflicts of interest. However, the forms do not specifically require disclosure of a substantial interest in Department

³⁹ As previously discussed in the Introduction (see pages 3 through 4), the Department is responsible for reviewing healthcare appeals related to denied medical claims or services, and its review process includes contracting with an IRO composed of physicians and other healthcare professionals to determine whether the denied medical claim or service is covered.

⁴⁰ Pursuant to A.R.S. §20-2538(C), the IRO and its individual reviewers shall not have a substantial interest in the member, provider, or healthcare insurer for a case under review or any other conflict of interest that would preclude the reviewer from making a fair and impartial decision. Additionally, an individual reviewer cannot be a policyholder or insured member of a company whose case is being reviewed.

⁴¹ See, for example, Arizona Auditor General reports 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*; 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*; and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁴² Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2024). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Retrieved 5/6/2024 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 4/1/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Retrieved 4/1/2024 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>

⁴³ As previously discussed, the ADOA disclosure includes a field for the individual to provide an "affirmative no."

decisions, as required by statute.⁴⁴ Our 2019 audit of the Arizona Department of Insurance similarly found that the Department used a form that did not require the disclosure of both substantial financial and decision-making interests.⁴⁵ At the time of our 18-month followup of the 2019 audit, although the Department updated its conflict-of-interest disclosure forms to require the disclosure of substantial financial interests, it had not yet fully implemented the recommendation because it had not updated its form to also require the disclosure of substantial decision-making interests and still has not done so.

- **Board members did not fully disclose substantial interests in Department’s official public records**—The Department reported that only 1 board/committee had members recuse themselves during meetings due to a substantial interest disclosure in the last 2 years as of April 2024. Although the 2 Board members recused themselves and refrained from participating in the decision for the 3 meetings we reviewed, neither the meeting minutes nor the conflict-of-interest disclosure forms for these 2 members fully disclosed their conflict of interest.
- **Department’s special disclosure file did not contain all disclosures of a substantial interest as required by statute**—The Department reported that it used its special disclosure file to contain all employee disclosure forms, regardless of if a disclosure of a substantial interest is made. However, although a spreadsheet the Department used to track employee disclosures in 2023 indicated 44 employees disclosed a potential conflict, the special file it provided to us contained only 12 employee disclosure forms that disclosed a potential conflict. Additionally, the special disclosure file did not contain the disclosure forms we reviewed for 4 board/committee members that disclosed a financial interest in an entity regulated by the Department.⁴⁶ Further, as previously discussed, 2 Board members recused themselves from voting on matters in meetings in 2022 and 2023 due to substantial interests, but the Department’s special disclosure file did not contain these Board members’ disclosures.
- **Department did not ensure its contracted IRO complied with statutory conflict-of-interest requirement for 1 healthcare appeals case we reviewed**—Our review of a sample of 2 of 277 healthcare appeals for denied medical services found that the IRO’s individual reviewer did not sign the Department’s form attesting that they met the statutory conflict-of-interest requirements for 1 of the cases.⁴⁷

In addition, although the Department had aligned its conflict-of-interest process with some recommended practices, it did not always follow its process. Specifically, although not required by statute or ADOA, Department policies and procedures require it to annually remind and require employees and board/committee members to annually complete a disclosure form. However, we found that 1 board/committee was not sending this annual reminder, and another reported sending these reminders but could not provide evidence of doing so. Additionally, we reviewed a sample of 15 employees and 15 board/committee members as of January 2024 and found that 3 of the 15 board/committee members had not completed a conflict-of-interest disclosure form.⁴⁸

Finally, the Department had not fully aligned its conflict-of-interest process with other recommended practices. Specifically, when board/committee members recuse themselves during public meetings and refrain from participating in decisions, the meeting minutes do not publicly disclose the board/committee member’s interest as the reason from refraining from participating. Additionally, although the Department developed

⁴⁴ A.R.S. §38-503.

⁴⁵ Arizona Auditor General report 19-110 *Arizona Department of Insurance—Performance audit and sunset review*.

⁴⁶ We reviewed the disclosure forms for a sample of 15 employees and 15 board/committee members as of January 2024. See footnote 48 for more information.

⁴⁷ As part of our work to assess the Department’s complaint-handling processes, we reviewed a sample of complaints that included 2 of 277 medical necessity appeals the Department received in calendar year 2023. See Sunset Factor 6, pages 38 through 40, for more information on our work related to the Department complaint handling, and Appendix C, page c-3 through c-4, for information about our sample.

⁴⁸ Of the 140 Department employees as of January 2024, we selected 15 employees for our review—11 judgmentally selected based on their leadership position within the Department and 4 randomly selected. Additionally, of the 50 board/committee members as of January 2024, we selected 15 board/committee members for our review—6 who were judgmentally selected based on their executive member position on their board/committee, such as board/committee chair, and 9 who were randomly selected.

and implemented a remediation process for employees who disclose conflicts, such as requiring employees' supervisors to review disclosed secondary employment to determine if it is compatible with Department employment, it lacked a similar process for conflicts disclosed by its board/committee members.

Department's noncompliance with some State conflict-of-interest requirements increased risk that employees and board/committee members did not disclose substantial interests that might influence or affect their official conduct

By not requiring employees and board/committee members to complete a disclosure form that addressed all statutorily required disclosures, including substantial decision-making interests, and by not reminding all board/committee members to update their forms at least annually or as their circumstances changed, the Department could not ensure that all employees and board/committee members disclosed both financial and decision-making substantial interests and refrained from participating in any manner related to these interests, as required by statute.⁴⁹ Consequently, the Department might have been unaware of potential conflicts and the need to take action to mitigate those conflicts. For example, 3 board members we reviewed who had not completed a conflict-of-interest disclosure form hold positions on boards that make decisions to award grant monies or hear appeals related to insurance companies' rating systems. Additionally, by not obtaining a signed form from the contracted IRO's independent reviewer attesting that they met the conflict-of-interest requirements, the Department lacked assurance that the IRO's individual reviewer did not have any conflicts of interest with the healthcare appeal case it reviewed.

Finally, although Department employees and most board/committee members completed forms for disclosing substantial financial interests, because the Department did not store all completed forms or meeting minutes disclosing substantial interests in a special disclosure file, it lacked a method to track which and how many employees and board/committee members disclosed an interest and make this information available in response to public requests, as required by statute.

Department lacks comprehensive conflict-of-interest policies and procedures that align with State requirements and recommended practices

The Department had not developed comprehensive conflict-of-interest policies and procedures that align with State requirements and recommended practices, which contributed to the problems noted previously. Specifically, the Department's policies and procedures do not require it to review and evaluate whether disclosures made by Department employees and board/committee members are of a substantial interest and must be saved into the special disclosure file. Instead, the policies and procedures require staff to save all completed forms into separate folders by calendar year, with employee forms saved in a human resources folder and board/committee member disclosure forms saved in separate folders for each board or committee. Similarly, the policies and procedures do not require the Department to include the board/committee's official records, such as meeting minutes, in the special file when substantial interests are disclosed.

The Department's policies and procedures also do not require it to publicly document and fully disclose in board/committee minutes any substantial interest disclosures. However, in our 2019 audit of the Arizona Department of Insurance, we recommended the Department update and implement its policies and procedures to define a process to allow board members to fully disclose substantial interests during public meetings and document these disclosures in the board's meeting minutes, including the name of the person with an interest (i.e., board member or board member's relative), the interest's description, and the reason the board member is refraining from discussing or otherwise participating. Additionally, the Department's policies and procedures do not require the Department to review board/committee member disclosure forms to determine

⁴⁹ A.R.S. §38-503.

if any substantial interests are disclosed to therefore know whether they need to remediate the potential conflict. Further, the Department does not have a centralized process to monitor and track whether each board/committee is complying with policy to require public officers to fill out annual disclosure forms.

Finally, the Department reported that it did not obtain a signed attestation for the 1 case we reviewed because of a staff oversight. Department policy does not require the Department to obtain a signed attestation from IRO's independent reviewers, which may have contributed to this oversight. In July 2024, the Department revised its procedures to require Department staff to review and verify that the IRO's independent reviewers signed the attestation.

Recommendations

The Department should:

2. Revise its conflict-of-interest disclosure form to include the disclosure of substantial decision-making interests to help ensure employees and board/committee members comply with conflict-of-interest statutes.
3. Revise and implement its conflict-of-interest policies to include all State conflict-of-interest requirements and further align them with recommended practices, including:
 - a. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.
 - b. Establishing a process to review and remediate disclosed conflicts by board/committee members.
 - c. Developing guidance for board/committee members to fully disclose substantial interests related to meeting agenda items either through a signed document or during public meetings and documenting these disclosures in the board/committee's meeting minutes, including the name of the person with an interest (i.e., board/committee member or board/committee member's relative), the interest's description, and the reason the board/committee member is refraining from discussing or otherwise participating.
 - d. Establishing a centralized process to track and monitor whether each board/committee member has annually completed a disclosure form in line with Department policy.
4. Continue to implement its policies and procedures requiring Department staff to review and verify that the IRO's individual reviewers have signed the Department form attesting that they have met the statutory requirement of not having a conflict of interest with the healthcare appeal case reviewed.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department. The following sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The key statutory objectives and purposes in establishing the Department.

Laws 2019, Ch. 252, established the Department by consolidating the Arizona Department of Financial Institutions and the Arizona Automobile Theft Authority (ATA) as divisions within the Arizona Department of Insurance and renaming the combined agency. The Department's key statutory objectives and purposes include:

- Examining and licensing/permitting/certifying insurance, financial institution, and financial enterprise professionals and businesses.
- Investigating complaints against insurance, financial institution, and financial enterprise professionals and businesses, such as insurance producers, insurance adjusters, mortgage brokers, and collection agencies.
- Monitoring the financial solvency of insurance companies.
- Administering the Arizona Life and Disability and Property and Casualty Insurance guaranty funds.
- Reviewing insurance rate filings, forms, and advertisements.
- Investigating insurance fraud.
- Administering the ATA, which is responsible for determining the scope of automobile theft; analyzing methods to combat automobile theft; and issuing grants from the ATA Fund to local police departments and county attorney offices.

Sunset factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

The Department has developed processes and/or taken steps to fulfill its key statutory objectives and purposes for several programs we reviewed and could improve some of its processes. Specifically, the Department:

- **Issued initial and renewal insurance producer licenses we reviewed to qualified applicants within applicable time frames required by rule**—We reviewed a stratified random sample of 12 (7 resident and 5 nonresident) of 61,432 initial insurance producer license applications received in fiscal year 2023 and a random sample of 9 of 35,371 insurance producer renewal license applications received in fiscal year 2023.⁵⁰ As previously mentioned in the Introduction, page 1 through 2, the Department issues reciprocal licenses to insurance professionals from other states (see textbox, page 25, for more information on reciprocal licensing requirements for insurance producers). Our review found that the Department:
 - **Issued initial insurance producer licenses to qualified applicants**—Our review of 12 initial insurance producer license applications found that 1 license application was withdrawn by the

⁵⁰ We selected insurance producer licenses for review because they represent the largest number of licensees the Department licenses. See Appendix C, page c-2, for more information about our stratified random sample.

nonresident applicant, and the Department issued 11 licenses to qualified applicants.

Reciprocal licensing requirements for insurance producers

- Arizona residents are required to submit a completed application, licensing fee, and fingerprints for a criminal history background check to the Department.
- Non-Arizona residents are only required to hold a license in good standing in another state and submit a completed application and licensing fee to the Department.

Source: Auditor General staff review of A.R.S. §§20-285 and 20-287 and the Department's license application.

- **Issued license renewals to qualified applicants and appropriately denied license renewals to applicants who did not meet renewal requirements**—Our review of 9 insurance producer license renewal applications found that the Department approved license renewals for 6 qualified applicants and appropriately denied license renewals for 3 applicants, 2 resident applicants who failed to complete 48 hours of continuing education, as required by statute, and 1 nonresident applicant who disclosed criminal history in another state.
- **Processed insurance producer licenses and renewals within required time frames**—The Department issued/denied all 12 insurance producer license applications we reviewed within 120 days, as required by rule.⁵¹ Additionally, although there is no time frame requirement for issuing insurance producer license renewals, we found that the Department took an average of 19 days to issue/deny insurance producer license renewals for the 9 renewal applications we reviewed.
- **Followed *State of Arizona Accounting Manual (SAAM)* policies and procedures for purchasing and travel card transactions we reviewed**—State agencies are required to follow SAAM requirements for using purchasing cards and central travel accounts to help protect the use of public monies by ensuring that purchasing and travel card expenditures are allowable and for a public purpose.⁵² Our review of a judgmental sample of 17 of 111 purchasing card and 5 of 67 central travel account transactions from fiscal year 2023 found that the Department complied with the SAAM for these purchases.⁵³
- **Improved its process for prioritizing insurance fraud referrals for investigation but has not investigated all high-priority referrals**—Our 2019 Department of Insurance sunset review found that the Department's fraud-referral prioritization process lacked components to ensure it investigates high-priority referrals.⁵⁴ We assessed whether the Department implemented recommendations related to its fraud-prioritization process from the 2019 sunset review and found that the Department has implemented or implemented in a different manner most recommendations related to its Insurance Fraud Unit. For example, we recommended that the Department strengthen its fraud-referral prioritization process by developing and implementing instructions to guide investigators' efforts to input referral and investigation information into the database completely and consistently. In February 2024, the Department updated its policies and procedures to define, guide, prioritize, and review fraud referral cases and its prioritization process, including implementing a process for scoring incoming referrals. Additionally, as recommended in our 2019 sunset review, we found that the Department developed and implemented a risk-based supervisory review process for referrals that are not investigated to help ensure that Department staff do not inappropriately close referrals that should be prioritized for investigation.

⁵¹ A.A.C. R20-6-708, Table A.

⁵² The SAAM contains the State's accounting policies and procedures and is published by the Arizona Department of Administration's (ADOA) General Accounting Office. All State agencies shall follow the SAAM unless exempt by law or in writing by the ADOA director.

⁵³ We reviewed a judgmental sample of 17 of 111 purchasing card transactions and 5 of 67 central travel account transactions from fiscal year 2023. We judgmentally selected items for review based on risk, including high-dollar purchases and unusual vendors and expenditure descriptions.

⁵⁴ Arizona Auditor General Report 19-110 *Arizona Department of Insurance—Performance audit and sunset review*.

Despite these improvements, in March 2024, our observation of the Department’s prioritization process found that, inconsistent with its revised process, some referrals the Department had classified as high priority had not been assigned to an investigator. According to the Department, these referrals had not yet been assigned because of a vacancy in its investigations staff that resulted from the retirement of one of its investigators. The Department reported that it plans to hire an investigator in fiscal year 2025 to fill the vacant position, which it reported should allow it to assign all high-priority referrals to investigators pursuant to its revised process.

- **Ensured that applicants met most statutory requirements for initial collection agency licenses we reviewed but does not have a process for ensuring applicants have not defaulted on payments collected or received**—Collection agencies and its active managers are required to meet certain statutory requirements to be licensed in the State (see textbox for examples). Our review of a random sample of 10 of 91 initial collection agency license applications the Department received in fiscal year 2023 found that the Department:

Collection agencies and its active managers are required to meet certain statutory requirements to be licensed in the State (see textbox for examples). Our review of a random sample of 10 of 91 initial collection agency license applications the Department received in fiscal year 2023 found that the Department:

- Issued all licenses within 45 days as required by rule.
- Required applicants to complete a fingerprint background check to ensure they have not been convicted of a crime involving moral turpitude.
- Required applicants to submit documents demonstrating they had a surety bond of an amount specified in statute.⁵⁵

Additionally, although the Department did not obtain adequate documentation to verify U.S. citizenship for the 10 initial collection agency license applications we reviewed, in October 2023, it revised its process to require applicants to submit either a U.S. passport, birth certificate, or naturalization certificate to demonstrate they meet the U.S. citizenship requirement.⁵⁶ Our review of an additional random sample of 2 of 56 initial collection agency applications the Department received between November 2023 and March 2024 found that both applicants submitted a U.S. passport to demonstrate U.S. citizenship.

However, the Department does not require applicants to provide documentation demonstrating that they meet the statutory requirement that they have not defaulted on payments of money collected or received for a customer. Instead, the Department relies on applicant-reported information, requiring applicants to answer a number of background questions related to this requirement. Although our review found that all 10 collection agency applicants we reviewed answered no to those background questions, the Department lacked a process for corroborating this applicant-reported information, despite having processes to do so for the other statutory requirements. As such, the Department is at increased risk of issuing licenses to collection agencies that have a history of defaulting on payments and harming consumers.

- **Revised its policies and procedures for the Guaranty Funds in response to our 2019 sunset review recommendation but has not fully implemented the revisions**—Our 2019 Department of

Examples of collection agency licensing requirements we reviewed

Statute requires collection agencies and collection agencies’ active managers to meet various licensing requirements, including:

- Be a U.S. citizen.
- Have no convictions of a crime involving moral turpitude.¹
- Have not defaulted on payments of money collected or received.
- Have a surety bond of an amount specified by statute.

¹ A.R.S. §1-215 defines moral turpitude as an offense, whether a misdemeanor or felony, that is related to extortion, burglary, larceny, bribery, embezzlement, robbery, racketeering, money laundering, forgery, fraud, murder, voluntary manslaughter, or a sexual offense that requires the individual to register pursuant to A.R.S. §13-3821.

Source: A.R.S. §§ 32-1023(A)(B) and 32-1021.

⁵⁵ See page 31 for information on issues we identified with the Department’s collection agency license-renewal process.

⁵⁶ The Department reported that prior to October 2023, it only required applicants to attest to being a U.S. citizen.

Insurance performance audit and sunset review found that the Department had not updated its policies and procedures manual for the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund, including for its administration of the Workers' Compensation Insurance Account, which was transferred to the Department from the Arizona Industrial Commission by Laws 2014, Ch. 186, §2. Although we did not identify any issues with claims processing, the absence of updated policies and procedures put the Department at risk for not consistently and appropriately processing claims, and we recommended that it update these policies and procedures. In response to our 2019 recommendation, in July 2023, the Department revised its policies and procedures related to its responsibilities for overseeing workers' compensation claims and the workers' compensation insurance account. The revised policies and procedures require the Department's claim manager to conduct a quarterly review of all workers' compensation claims handled by the Department's contracted third party. However, the Department was unable to provide documentation demonstrating that its claim manager conducted these quarterly reviews.

Finally, we identified several deficiencies in Department processes we reviewed. Specifically, the Department:

- **Did not monitor ATA grants to ensure monies were used consistent with grant and statutory requirements**—As previously discussed in the Introduction (see page 5), the Department is responsible for overseeing monies appropriated to the Arizona Vehicle Theft Task Force (Task Force) and distributing ATA Fund grant monies to public agencies. Our review of the Department's process for overseeing monies appropriated to the Task Force and a judgmental sample of 1 of 5 law enforcement grants and 1 of 6 vertical prosecution grants the ATA awarded in fiscal year 2023 found that the Department:⁵⁷
 - **Did not ensure monies appropriated to the Task Force were spent on authorized uses**—As shown in Table 1, page 6, in fiscal year 2023, the Legislature appropriated the Task Force, managed by DPS, \$4,452,600 from the ATA Fund. The appropriation required these monies to be used to pay 75 percent of the salaries and employee-related expenses for city, town, and county sworn officers who participate in the Task Force. In fiscal year 2023, the Department required the Task Force to submit monthly financial reports describing the use of the monies, and it received the financial reports for each month during the fiscal year 2023. Although the reports listed reported expenditures DPS summarized into different categories, including travel, equipment, and personal services, they did not include details and/or any explanation of how the Task Force's use of the monies complied with the requirement to pay for 75 percent of employee salaries and expenses. The Department reported that it does not require DPS to submit information that it could review to verify and ensure Task Force expenditures meet this requirement.
 - **Did not ensure vertical prosecution grant monies for an awarded grant we reviewed were used for intended purposes related to reducing automobile theft**—The Department has a checklist for its staff to review grantees' vertical prosecution grant expenditures to determine if monies were used in accordance with grant agreements. The checklist includes steps for staff to review grantee documentation including payroll registers, general ledgers, employee contracts, time sheets, and time and effort certifications to determine if grantees' expenditures were for allowable purposes and incurred during the grant period. Our review of the file for 1 vertical prosecution grant the Department awarded in fiscal year 2023 found that the review checklist was incomplete and there was no other evidence in the file that the supporting documents provided by the grantee had been reviewed. Additionally, although Department staff reported they had reviewed all supporting documentation the grantee submitted, our review of the documentation found that the file included a payroll report for 2 prosecutors and 1 paralegal but included time and effort certifications for only 1 prosecutor and the paralegal. Further, the file contained no indication that the Department identified or resolved this discrepancy prior to distributing grant monies to the grantee. The Department's policies and procedures do not include a supervisory review process, which could have helped to identify the discrepancy. As such, the

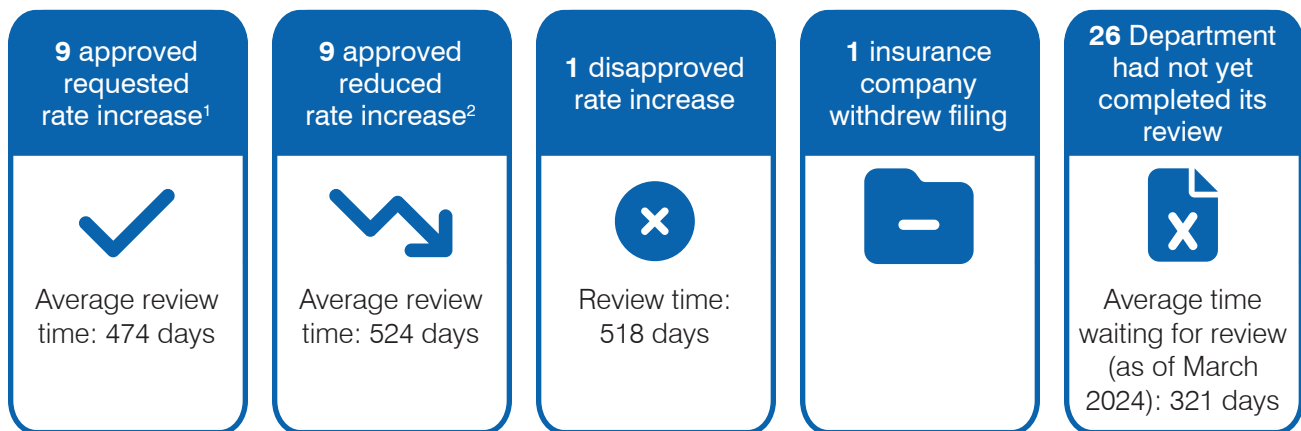
⁵⁷ We judgmentally selected items for review based on the dollar amount awarded and the results of the Department's compliance review. See Appendix C, page c-2, for more information about our judgmental sample.

Department did not ensure that the grant monies were used to establish, maintain, and support programs designed to prevent automobile theft.

Additionally, although our review of 1 law enforcement grant the Department awarded in fiscal year 2023 found that grant monies were used for the intended purpose, the Department does not have a documented process for reviewing grant monies. For example, the Department required the grantee to provide a report showing how the grant monies were spent and required the grantee to return unused grant monies; however, Department staff reported that they typically do not review invoices or other documentation to assess how the law enforcement grant monies were spent. Although the Department reported it may review invoices and other documents provided by law enforcement agencies, it does not have a documented process for doing so. As a result, the Department cannot demonstrate it ensured law enforcement agencies used the monies to help reduce automobile theft.

- **Did not review long-term care insurance rate filings submitted in calendar years 2022 and 2023 within statutory time frame, and although it took steps to revise its review process in March 2024, it has not finalized its revised procedures for improving timely reviews**—A.R.S. §20-1691.08 requires the Department to review long-term care rate and form changes submitted to it within 60 days. According to Department data, the Department did not review within 60 days any of the long-term care insurance rate-filing increases it received in calendar years 2022 and 2023.⁵⁸ Specifically:
 - The Department took between 103 and 582 days to review and approve or disapprove 19 of 27 long-term care insurance rate filings the Department received in calendar year 2022 (see Figure 1 for more information). Of the remaining 8 long-term care insurance rate filings the Department received in calendar year 2022, as of March 2024, the Department had not yet completed its review of 7, which had been open between 510 and 531 days, and 1 application had been withdrawn.

Figure 1
As of March 2024, Department reviewed and approved or disapproved 19 calendar year 2022 long-term care rate filings but had not yet reviewed 26 filings submitted in calendar years 2022 and 2023



¹ The Department's approved requested rate filings included increases ranging between 22 and 65 percent.

² The Department's reduced rate approvals ranged between 3 and 65.4 percent.

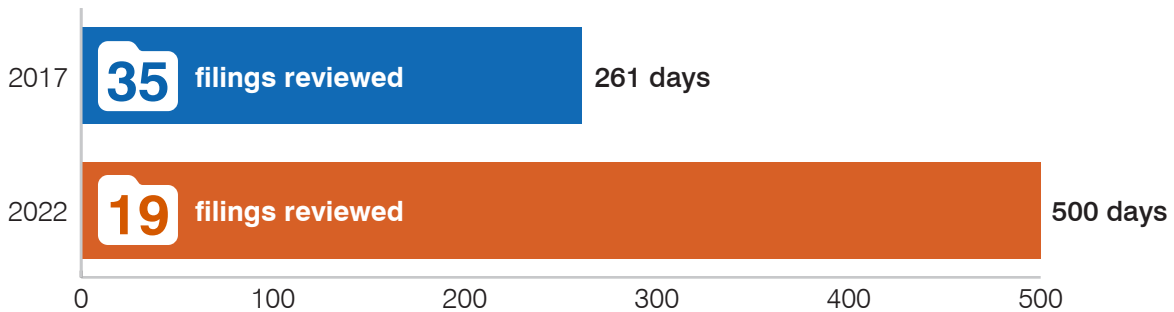
Source: Auditor General staff review of Department long-term care rate-filing data.

⁵⁸ According to A.R.S. §20-1691.08(A), the form or rate is deemed approved 60 days after it is filed with the Department, unless the Department issues an order affirmatively approving or disapproving the form or rate. However, when it receives a filing, the Department sends a notice, known as a "deemer waiver," to the insurance company to request that it waive the statutory time frame requirement. Department staff reported that insurance companies have elected to waive the time frame requirement because the insurance companies want to ensure the Department has approved the rate.

- As of March 2024, the Department had not yet completed its review of any of the 19 long-term care insurance rate filings it received in calendar year 2023, which had been open between 96 and 449 days.

Additionally, as shown in Figure 2, the Department took nearly twice as long, on average, to review and approve or disapprove just over half as many filings as it did in calendar year 2017.⁵⁹

Figure 2
Department’s average review time increased by more than 200 days from 2017 to 2022



Source: Auditor General staff review of Department’s long-term care rate-filing data.

The Department reported that its reviews are untimely primarily because it required its part-time staff actuary to review all rate-filing information to determine whether or not to approve a rate increase, even though it also uses a contracted actuarial firm to perform a portion of its review of each filing. To address this issue, the Department reported it implemented a revised process in March 2024 to expand its contracted actuarial firm’s scope of work to include reviewing all rate filings and to allow its part-time actuary to focus only on filings that require additional review after the contracted actuarial firm’s review, including recording the final determination. In April 2024, after revising its review process, Department data indicated it had reviewed and approved 5 of the previously mentioned 26 long-term care rate filings that had not yet been reviewed—4 from calendar year 2022, which had been unreviewed for more than 500 days, and 1 from calendar year 2023, which had been unreviewed for more than 300 days.

However, the Department has not fully revised its policies and procedures to reflect its modified review process. For example, although the Department reported that Department staff will communicate with insurers to discuss and address any deficiencies its actuaries identify during their reviews of long-term care rate filings, this process is not included in its long-term rate-filing review policies and procedures, which it revised in March 2024. Additionally, although its policies and procedures include a requirement for tracking its progress in completing long-term care review rate filings on a spreadsheet, the policies and procedures do not require tracking all steps and decisions in its revised process, including tracking the contracted actuary’s review completion date and their recommended outcome, or if/when a filing is routed to the part-time staff actuary for review and the part-time staff actuary’s determination. Without a process to track the progress of rate-filing reviews, the Department cannot accurately monitor the status of and help ensure the timely review of the filings it receives. Further, although the policies and procedures require staff to update the tracking spreadsheet with the approval date, our review of the Department’s spreadsheet for a rate review approved in April 2024 found that an approval date had been recorded, but the rate filing was not listed as approved on the public website. Department staff reported this discrepancy would have been identified in its weekly meeting; however, the weekly meeting occurred after we conducted our review, and its policies and procedures do not include requirements for reviewing the tracking spreadsheet in a weekly meeting or other oversight mechanisms to ensure the information on its tracking spreadsheet is complete and accurate.

⁵⁹ See Arizona Auditor General report 19-110 *Arizona Department of Insurance—Sunset Review* for more information on our review of 2017 long-term care insurance rate review data.

- **Has not implemented our previous recommendations to develop State-required information technology (IT) procedures**—Arizona State agencies are required to develop IT-security-specific procedures consistent with Arizona Department of Homeland Security (AZDOHS) State-wide policies.⁶⁰ AZDOHS’ policies are intended to help State agencies implement recommended IT security practices and to protect the State’s IT infrastructure and the data contained therein. Our 2019 Department of Insurance sunset review recommended that the Department conduct a risk assessment to evaluate, document, and prioritize the areas in the Department’s IT systems with the highest security risks and use the results of its risk assessment to guide its efforts to develop and implement IT security and procedures in line with State policy requirements and credible IT standards, focusing on high-risk areas first.⁶¹ In December 2022, our 36-month follow-up report found that the Department was still in the process of addressing areas identified by a December 2020 network cybersecurity assessment conducted by an ASET third-party contractor.⁶² However, as of February 2024, our review of a judgmental sample of 12 of 17 AZDOHS-required policy areas found that the Department had still not developed procedures for implementing policies in 10 AZDOHS-required areas, including identification and authentication; logging and monitoring; and security awareness.⁶³ Additionally, although the Department developed procedures for the remaining 2 areas, we identified some deficiencies in these procedures. Specifically, the Department:
 - **Had developed an incident response plan, but its plan does not fully align with AZDOHS requirements**—An incident response plan is intended to increase an agency’s ability to rapidly detect security incidents such as hacking attacks, minimize losses, mitigate weaknesses that were exploited, and restore computing services. Although the Department has developed an incident response plan and reported reviewing it annually as required by AZDOHS policy, it lacked documentation that its staff reviewed the plan or revised it as a result of the review. Additionally, Department staff reported that its staff responsible for responding to incidents do not receive training on their duties outlined in the incident response plan. Further, the incident response plan lacks testing requirements, such as conducting an incident simulation, as required by ADOHS policy, preventing the Department from holding lessons-learned meetings and making applicable modifications to its plan. As a result, the plan may not meet its intended purpose to help the Department rapidly detect incidents and restore computing services after an incident occurs, such as a cybersecurity or data loss incident.
 - **Has not developed specific IT account management procedures related to user accounts and access**—Account management policies and procedures are intended to help agencies restrict access to IT systems to only those individuals who need access to perform their job duties. Although the Department had developed account management policies and procedures that included information for creating and disabling accounts for systems used by the Department, it lacks some specific procedures for restricting access to IT systems. For example, the policy did not include information for limiting privileged/super-user accounts, steps for identifying user responsibilities when granting users access to Department-used systems to help ensure proper segregation of duties, or steps for monitoring the use of agency system accounts, including those granted to vendors. As a result, the Department may not be able to ensure that access to Department systems is restricted to necessary Department staff, increasing the risk of unauthorized access to Department systems.
- **Has not documented Department staff and ASET responsibilities for specific IT services and support**—Our 2019 Department of Insurance sunset review found that although the Department has an interagency service agreement with ASET to obtain IT security services and support, the agreement states that the specific services ASET agrees to provide to the Department should be identified in a separate

⁶⁰ Effective September 24, 2022, Laws 2022, Ch. 50, §10, transferred the responsibility for State agency IT and data security oversight from ADOA’s Arizona Strategic Enterprise Technology Office (ASET) to AZDOHS.

⁶¹ See Arizona Auditor General report 19-110 *Arizona Department of Insurance—Sunset Review*.

⁶² See 36-month followup of the Arizona Auditor General report 19-110 *Arizona Department of Insurance—Sunset Review* in December 2022.

⁶³ We reviewed a judgmental sample of 12 of 17 ADOHS-required policy areas based on Department-related risks.

“Scope of Services.”⁶⁴ Department staff reported that they have requested but not yet received separate services orders or a Scope of Services from ASET, and as a result, the Department did not have assurance that the services it expected to obtain from ASET were being provided. Further, our 36-month followup found that the Department requested a 6-month accounting of services provided by ASET and associated invoices for these services. However, as of January 2024, Department staff reported that it has not received this information from ASET.

- **Lacks procedures for verifying that fee waiver applicants meet statutory requirements—**A.R.S. §41-1080.01 allows individuals applying for some State-agency-issued licenses who meet at least 1 of the following 3 criteria to receive a license fee waiver: (1) individuals who have family income that does not exceed 200 percent of federal poverty guidelines, (2) spouses of active military members, and (3) honorably discharged veterans.⁶⁵ Our review of a stratified random sample of 12 of the 61,432 initial insurance producer applications received in fiscal year 2023 found that 1 applicant submitted a fee waiver because their family income qualified them for a fee waiver. However, the Department did not verify whether the applicant's family income did not exceed 200 percent of federal poverty guidelines. As a result, the Department potentially waived the fee for an unqualified applicant. Although the Department reported it requires applicants seeking a military spouse or veteran fee waiver to provide documentation including discharge paperwork for veterans and a dependent military ID for military spouses, it was unclear what if any documentation it could require to assess eligibility for applicants seeking a fee waiver based on the income criteria. Our review of licensing fee waiver forms for other State agencies found that the forms either require applicants to submit documentation, such as a federal tax return, to verify income eligibility or the form states that the agency will work with the Arizona Department of Revenue to verify income eligibility. The Department also lacks policies and procedures requiring applicants to submit and its staff to review documentation to demonstrate eligibility before approving a license fee waiver.

Finally, as of April 2024, the Department's fee waiver form on its website listed only the family income criteria and did not include the military spouses and veteran criteria outlined in statute. In May 2024, after we brought this issue to Department staff's attention, the Department revised the form available on its website to include all 3 statutory criteria.

- **Lacks a process for ensuring collection agency renewal applicants held surety bonds in amounts required by statute, increasing the risk of issuing collection agency license renewals to unqualified applicants—**As previously discussed, A.R.S. §32-1021 requires collection agencies to have a surety bond, and A.R.S. §32-1021(B)(2) requires the bond be calculated based on the gross annual income of the licensee generated from business transacted in Arizona the preceding year. However, our review of a random sample of 10 of 148 collection agency renewal applications the Department received in fiscal year 2023 found that the Department did not ensure that any of the applicants had surety bonds in the amounts required by statute, such as by requiring the applicants to submit annual income documentation to compare with the surety bond amounts.⁶⁶ The Department reported that it verifies the correct bond amount during collection agency examinations rather than during annual license renewals. However, pursuant to Department policy, initial collection agency examinations are required to occur within the first 24 months of licensure, and subsequent examinations should occur thereafter no more than every 5 years. As a result, the Department is at an increased risk of annually issuing collection agency renewal licenses to unqualified applicants because it has not ensured that licensees hold surety bonds in the required amounts.
- **Lacks a process for ensuring collection agency licensees biannually submit fictitious names reports as required by rule—**Federal law prohibits debt collectors from operating under false, deceptive,

⁶⁴ We have reported on ASET's lack of specific, formal agreements with State agencies seeking to obtain specific IT services in the State's single audit reports since fiscal year 2014 and in our August 2012 IT procedural review of the State Data Center.

⁶⁵ The statutory fee waiver applies to several of the Department's license types, including adjusters, insurance producers, bail bond agents, and property tax agents, with license fees ranging from \$120 to \$1,000.

⁶⁶ We selected collection agency licenses to review because collection agencies are the largest financial enterprise licensee population that is not part of an accreditation program, which reviews the Department's licensing process as part of the accreditation reviews.

or misleading representation.⁶⁷ To help ensure collection agency staff are not misrepresenting themselves, rule requires collection agencies to submit a fictitious names report to the Department by July 1 and December 31 of each year, which the Department reported it uses to identify any fictitious names used by collection agency staff in the State. Although the Department’s licensing system includes a reminder for collection agency licensees to submit the required fictitious names reports during license renewal, the Department lacks a process for tracking and monitoring whether licensees have submitted fictitious names reports by the required deadlines. Instead, the Department reported that it verifies whether licensees have submitted the fictitious names reports during its examination process which, as previously discussed, are required to occur within the first 24 months of licensure, and subsequent examinations should occur thereafter no more than every 5 years. As a result, the Department’s process does not ensure that collection agency licensees have complied with this reporting requirement and are not operating under false, deceptive, or misleading representation. In August 2024, the Department reported that it is in the process of implementing a new IT system that will track whether collection agency applicants submit the required reports and will allow Department staff to follow up with licensees who miss deadlines for submitting the reports.

- **Is accredited for its bank and credit union regulatory programs but has outstanding recommendations from its most recent reaccreditation reviews**—The Department is accredited for its bank regulatory program by the Conference of State Bank Supervisors (CSBS) and for its credit union regulatory program by the National Association of Credit Union Supervisors (NASCUS) (see textbox for information on the importance of accreditation programs). The Department’s banking and credit union regulatory programs were first accredited in 1996, and the most recent reaccreditation took place in 2023. Although the Department was reaccredited for both programs, both CSBS and NASCUS made recommendations for improvements to the Department’s practices during the 2023 reaccreditation. For example:

- Accreditation standards require that bank and credit union regulatory oversight functions be self-supporting, and both accrediting bodies recommended that the Department seek a dedicated funding mechanism for its banks and credit union regulatory responsibilities and develop a contingency plan to ensure it can pay for at least 3 months of expenses. The Department has taken some steps to seek a dedicated funding mechanism and develop a contingency plan, which is discussed further in Sunset Factor 9, page 42.
- A.R.S. §6-128 authorizes the Department to conduct joint financial institution examinations in coordination with authorized federal examinations or other State examinations, and the Department has agreements with its federal counterparts for conducting joint examinations of financial institutions of both federal and State requirements. CSBS recommended that the Department assess and increase its bank examination staff needs for participation in and alternating the lead on joint examinations and to serve as the processing agency on alternating bank examinations. In September 2023, the Department reported to CSBS that it assessed its staffing needs and found that it needed 3 additional examiners,

Importance of accreditation programs

Although the Department is not statutorily required to participate, accreditation programs are designed to strengthen and provide guidance for state regulatory agencies and evaluate them against nationwide performance standards, including for examination policies and practices, supervisory procedures, and training programs. They also assist in promoting consistent rules and examination procedures across the states. Being accredited demonstrates that the accredited regulator is trusted throughout the country to provide adequate supervision, which may also allow other regulators to accept the results of those examinations without having to perform them independently. This promotes regulatory efficiencies for companies and regulators.

Source: Auditor General staff review of Department’s fiscal year 2025 budget request; CSBS Accreditation Handbook for State Agencies; and NASCUS Accreditation Handbook.

⁶⁷ 15 U.S.C. §1692e.

which the Department began recruiting for in July 2023. As of April 2024, the Department had hired all 3 bank examiners and reported it will take the lead in 2 bank examinations scheduled for August and November 2024.

Recommendations

The Department should:

5. Continue to prioritize, assign, and investigate all high-priority fraud referrals.
6. Revise and implement its collection agency initial licensing policies and procedures to include a process for obtaining documentation from initial collection agency licensing applicants to determine that they have not defaulted on any payments collected or received for a customer.
7. Implement its policies and procedures for conducting quarterly reviews of all workers' compensation claims handled by its contracted third party, including documenting the results of its quarterly reviews.
8. Work with DPS to determine what information it can collect to ensure that monies appropriated to the Task Force are used to pay for 75 percent of the personal services and employee-related expenses for city, town, and county sworn officers participating on the Task Force and implement a process for reviewing the information it collects from DPS.
9. Ensure ATA vertical prosecution grant monies are used consistent with grant and statutory requirements by:
 - a. Requiring Department staff to document their review of vertical prosecution grant information it receives, ensuring all grant expenditure information it receives is accurate and complete, and that discrepancies are investigated and resolved.
 - b. Implementing a supervisory review process to review staff's documentation of its review of vertical prosecution grant information received, ensuring any noted discrepancies were investigated and resolved, and information was consistent with grant and statutory requirements.
10. Ensure ATA law enforcement grant monies are used consistent with grant and statutory requirements by developing and implementing written procedures for reviewing grantee expenditure reports, invoices, and other documents provided by law enforcement agencies to demonstrate how grant monies were used and ensuring law enforcement grant monies were spent in accordance with grant requirements.
11. Review long-term care insurance rate filings within 60 days, as required by statute.
12. Revise and implement its policies and procedures to include all aspects of its revised process for reviewing and approving long-term care insurance rates, including:
 - a. Procedures for tracking its progress for all key review steps, such as contracted actuary review completion date, recommended outcome, date routed to staff actuary for review, and final outcome.
 - b. Procedures requiring a supervisory review of information recorded on its tracking spreadsheet to ensure information is complete and accurate so it can accurately monitor the status of the filings it receives.
13. Evaluate whether its new process for reviewing long-term care insurance rate filings has facilitated its ability to review and approve long-term care insurance rate filings within its statutory time frame of 60 days, and determine what changes to its process, if any, are needed to ensure filings are reviewed within its statutory time frame. The Department should make corresponding changes to its policies and procedures, as needed.
14. Require its Chief Information Officer to develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities. The plan should

include steps for further revising the Department's incident response plan and account management procedures to include:

- a. Incident response plan testing requirements to allow the Department to make applicable modifications to its plan based on the testing results and providing training to those individuals responsible for carrying out the plan when an incident occurs.
 - b. Specific procedures for restricting access to IT systems, including steps for identifying user responsibilities when granting user access to Department-used systems to help ensure proper segregation of duties, limiting privileged/super-user accounts, and steps for monitoring the use of agency system accounts, including those granted to vendors.
15. Hold the Chief Information Officer accountable to the written plan outlined in recommendation 14, including requiring the Chief Information Officer to provide quarterly written progress reports to the Department director.
 16. Once it has developed all required IT policies and procedures, provide training to its employees on these policies and procedures.
 17. Work with ASET to define and document the scope of IT security services ASET provides to the Department and ensure that ASET provides these services.
 18. Develop and implement written policies and procedures for verifying whether initial licensing applicants applying for a licensing fee waiver meet statutory eligibility requirements for a licensure fee waiver.
 19. Revise and implement its collection agency renewal policies and procedures to include steps for verifying collection agency applicants' surety bond amounts comply with statute beginning with its next annual renewal application review.
 20. Continue its efforts to develop and implement a process to track and monitor that collection agency licensees submit fictitious names reports by both July 1 and December 31 each year, as required by rule, and to follow up with licensees that do not submit the reports as required by rule.
 21. Continue its efforts to address the recommendations received from CSBS and NASCUS through the accreditation reviews of its bank and credit union regulatory programs.

Department response: As outlined in its [response](#), the Department agrees with all but 1 of the findings and will implement the recommendations.

Sunset factor 3: The extent to which the Department's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Although the Department coordinates with other governmental agencies or private enterprises in some areas, we did not identify any of the Department's key statutory objectives that duplicate those of other governmental agencies or private enterprises. For example, as previously discussed (see Introduction, page 5), the Department coordinates with law enforcement agencies and State and federal attorneys to investigate and prosecute insurance fraud. Additionally, insurance companies may have their own internal units to investigate insurance fraud but are required by A.R.S. §20-466 to submit fraud referrals to the Department.

Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Our review of the Department's statutes and rules found that the Department has not developed rules required by the following statutes:⁶⁸

⁶⁸ In conducting this assessment, we relied, in part, upon Department-reported information.

- A.R.S. §6-1203(B) requires the Department to adopt rules related to its regulation of money transmitters.
- A.R.S. §20-108.01(B) requires the Department to adopt rules for enforcing extended warranty insurers to deposit either a bond or eligible securities with the State treasurer.
- A.R.S. §20-211(B) requires the Department to adopt rules related to domestic, foreign, or alien insurers possessing and maintaining any additional free surplus that the director may require as a necessary condition to avoid rendering its transaction of insurance hazardous to its policyholders or the people of this State.⁶⁹
- A.R.S. §20-235(A) requires the Department to adopt rules to require each insurer licensed to write property or casualty insurance in this State to report its loss and expense experience, investment income, administrative expenses, and other data for classes of risks.

According to the Department, it has not developed these required rules because it does not believe the rules are necessary or needed. Specifically, the Department reported the statutes are not ambiguous and stakeholders have not required clarification or guidance related to the statutes. Further, the Department reported it has not developed rules related to extended warranty insurers as part of A.R.S. §20-108.01, in part because it does not license any extended warranty insurers as of May 2024. Although the Department believes rules are not needed, it reported it has not sought any statutory changes for these statutory rule requirements.

Recommendation

22. The Department should conduct and document an assessment of the need for rules related to A.R.S. §§6-1203, 20-108.01(C), 20-211(B), and 20-235(A). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute(s) to remove the requirements to adopt rules.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Department has provided public access to its rulemakings by informing the public and providing opportunities for public input as part of the 3 rulemakings it finalized in September and November 2023. Specifically, the Department published notices of its proposed rulemakings in the Arizona Administrative Register. Additionally, the Department provided opportunities for public input by listing in the notices the name of Department staff who could be contacted to provide input about the proposed rulemaking, allowing the public to submit written comments on proposed rule changes for at least 30 days after it published the Notice of Proposed Rulemaking, and providing opportunities for the public to provide input during meetings.⁷⁰

Additionally, we reviewed the Department's compliance with the State's public records law and found that as of March 2024, the Department had not posted contact information on its website for requesting public records, as required by statute, but did so during the audit by adding contact names and telephone numbers for 2 employees and the email address for its public records inbox.⁷¹ Further, although the Department had developed policies and procedures to help it comply with public records law (see Figure 3, page 36, for more information on the Department's process), we found that Department staff did not always follow the policies and procedures for responding to public records requests, increasing the risk of statutory noncompliance with

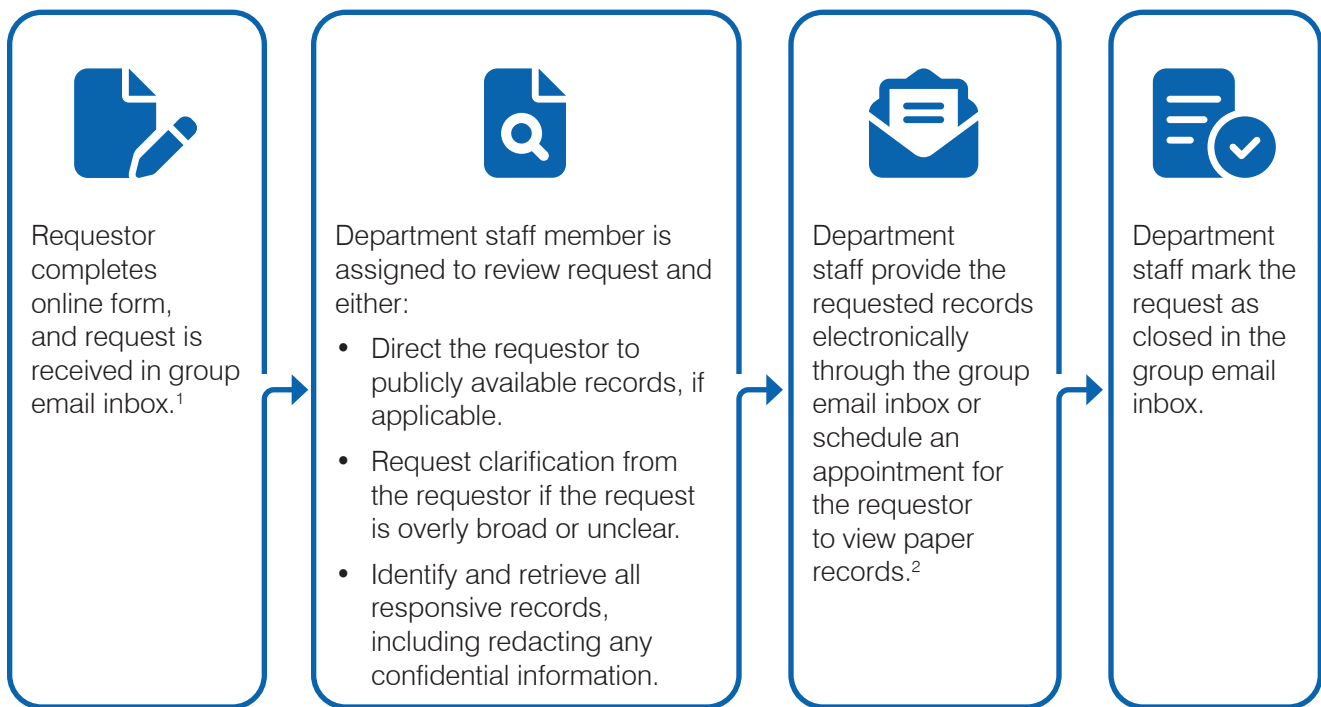
⁶⁹ According to the Department, additional free surplus is the amount above the face value of capital stock that has been issued.

⁷⁰ According to the Department's *Notice of Final Rulemaking* published in the Arizona Administrative Register, it received no public comments for all 3 rulemakings we reviewed.

⁷¹ A.R.S. §39-171 requires agencies to provide the name, telephone number, and email address of an employee or department that is authorized and able to provide the requested information or able to forward the request to another who is authorized and able to provide the requested information.

the State's public records law.⁷² Specifically, our review of 18 public record requests found that Department staff did not follow the Department's policies and procedures for 8 requests.⁷³ For example, Department staff responded to requestors without using the group email inbox for 4 closed requests we reviewed. As a result, the Department's public records managers may be unable to efficiently track and monitor whether assigned Department staff are promptly providing requested records in line with statute if response documentation is not maintained in the group email inbox and requires following up with individual staff to confirm their response. In addition, although requests should only be marked as closed once requests are responded to, Department staff closed 1 request in error and therefore did not respond to the requestor. After we brought this issue to the Department's attention, the Department staff notified the requestor after 311 days that the requested documents were publicly available and provided guidance on how to search for them.

Figure 3
Department policies and procedures outline public records request process to help it comply with public records law



¹ Any public records requests received outside of the group email inbox, such as through email or U.S. mail, are required to be added to the group email inbox.

² If a requestor wants copies of documents, Department staff are required to send an invoice for providing the copies, including any mailing costs, as permitted by A.R.S. §39-121.01(D).

Source: Auditor General staff review of Department's public records policies and procedures.

⁷² A.R.S. §§39-101 through 39-161.

⁷³ We reviewed a random sample of 13 of 146 closed public records requests received in the Department's group email inbox in calendar year 2023 and a random sample of 5 of 15 open public records requests as of March 4, 2024, received in calendar years 2023 and 2024. For the 146 closed public records requests, we randomly selected 1 of the 10 oldest requests and then systematically selected every tenth request thereafter until 13 closed public records requests were selected. Additionally, for the 15 open requests as of March 4, 2024, we judgmentally selected the oldest open request and then systematically selected every other open request until 5 open public records requests were selected.

We also found that the Department's policies and procedures do not include some processes to further help it comply with public records law, which may have contributed to the issues previously identified. Specifically, the policies and procedures lack processes for tracking and monitoring records requests, including internal time frames and processes for monitoring that all requests are responded to. Additionally, we identified some areas where the Department could further enhance its policies and procedures to be in line with recommended practices from the Arizona Ombudsman-Citizens' Aide Office and the *Arizona Agency Handbook* to help agencies comply with public records law.⁷⁴ Specifically, the Department's policies and procedures do not include procedures for providing requestors with an anticipated date of production based on the agency's resources, nature of request, content of the records, and location of the records and as appropriate, notifying the requestor of any delays. As a result, requestors may be unclear on when to expect their requested records, and the Department may not be able to ensure or demonstrate that it is providing requested records promptly. Department staff reported in May 2024 that it was modifying its policies and procedures to include additional guidance on providing records promptly, in line with statute.

Finally, we attended 5 Department public meetings held between January 2024 and March 2024 and found that the Department complied with some but not all of the open meeting law requirements we reviewed.⁷⁵ For all 5 meetings, the Department posted a meeting notice and agenda on its website at least 24 hours before the meetings and made meeting minutes or a recording available within 3 working days. However, for both of the Mental Health Parity Advisory Committee meetings we attended, the meeting agendas included an optional executive session but did not include a notice to the public of the statutory section authorizing the executive session, as required by A.R.S. §38-431.02(B). Additionally, the meeting agendas did not include a general description of the matters to be considered during executive session, as required by A.R.S. §38-431.02(I). The Mental Health Advisory Committee lacks any policies and procedures for ensuring compliance with open meeting law, which likely contributed to these issues. Finally, the ATA Board has policies and procedures stating that all meetings shall follow open meeting laws, but it did not reference the specific statutory requirements for open meeting law that needed to be followed. Although we did not identify any concerns with the open meeting law requirements we tested when attending an ATA Board meeting, written policies and procedures that include the applicable meeting law requirements would help ensure its continued compliance with open meeting law requirements.

Recommendations

The Department should:

23. Continue to revise and implement its public records policies and procedures to help it comply with the State's public records law and recommended practices, including procedures and guidance for:
 - a. Providing requests promptly, including developing internal time frames.
 - b. Providing requestors with an anticipated time frame for providing requested records, based on the Department's resources, nature of the request, content of the records, and location of the records, and notifying the requestor of any delays, as necessary.
 - c. Tracking and monitoring the group email inbox to ensure all records requests are recorded and responded to in line with the internal time frames or that the requestor is notified of any delays.
24. Ensure its meeting agendas for its Mental Health Parity Advisory Committee include a notice to the public of the statutory section authorizing the executive session and provide an agenda for the executive session that states a general description of the matters to be considered.

⁷⁴ Arizona Ombudsman-Citizens' Aide. (2023). *Arizona Public Records Law*. Retrieved 2/12/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

⁷⁵ We attended 2 meetings of the Mental Health Parity Advisory Committee and 1 meeting each of the ATA Board, the Arizona Property and Casualty Insurance Guaranty Fund Board, and the Arizona Life and Disability Insurance Guaranty Fund Board.

25. Develop and implement policies and procedures for the Mental Health Parity Advisory Committee to ensure it complies with all open meeting law requirements, including those related to executive sessions.
26. Revise and implement the ATA Board's policies and procedures to include the specific open meeting law requirements that need to be followed during meetings.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Sunset factor 6: The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

The Department is statutorily responsible for reviewing healthcare appeals related to denied medical services and denied insurance claims to determine if the denied service should be provided or if the denied claim is covered under the policy, and it also has statutory authority to investigate complaints against insurance and financial-service professionals and businesses, including allegations of misconduct and unlicensed activities.^{76,77} Our review of a stratified random sample of 30 of 4,634 healthcare appeals and complaints the Department received in calendar year 2023 found that the Department met its time frame goals and requirements for 24 of 30 healthcare appeals and complaints we reviewed (see Table 5, page 39, for time frame goals/requirements and outcome of our review, and see Sunset Factor 8, pages 41 and 42, for an issue we identified related to healthcare appeals).⁷⁸ These 24 appeals and complaints included healthcare appeals related to denied medical services and complaints related to unlicensed activities, fraud, theft, and mishandling of escrow accounts.

However, the Department did not meet its 80-day time frame goal for 6 insurance complaints we reviewed, taking between 86 and 192 days to resolve these complaints, which included complaints about policy renewals, claim delays, adjuster handling, and unsatisfactory claim settlements. Although the Department has written complaint investigation procedures for investigating complaint allegations, these procedures lack time frames for completing various investigation steps, which may have contributed to it not meeting its time frame goals for the 6 complaints. For example:

- Department procedures require staff to notify licensees about and request a response to a complaint within 15 days, unless expedited, and require staff to manage the case within 5 days of the response due date to identify next steps, including identifying nonresponsive licensees.⁷⁹ However, the policy does not include time frames for following up with nonresponsive licensees. For 1 complaint we reviewed that took 155 days to resolve, Department staff waited 24 days to follow up with a nonresponsive licensee.⁸⁰ Although the Department eventually obtained a licensee response, it received the response 27 business days after the initial due date.

⁷⁶ A.R.S. §§6-124 and 20-142. Per A.R.S. §20-2537, within 5 days of receiving a denied medical service appeal, the Department shall engage an independent review organization (IRO) to determine whether the service is medically necessary. The IRO has 21 days to send its decision to the Department, and the Department shall provide notice of the decision to the healthcare insurer within 5 days.

⁷⁷ According to the Department's consumer guidance document, a denied service is when the plan does not authorize a medical or health-related service that is covered by the plan, or the plan does not preauthorize any treatment or procedure that the person or doctor believes is medically necessary and covered by the plan, and a denied claim is when a person has already received care and the insurance company denies payment for that care. The Department refers to denied service complaints as medical necessity appeals and denied claim complaints as coverage appeals.

⁷⁸ We reviewed a random stratified sample of 30 of 4,634 closed complaints recorded in the Department's complaint-tracking systems as received in calendar year 2023 (see Appendix C, pages c-3 and c-4, for information about the methodology used to select this sample). Although the Department's complaint-tracking systems showed that it closed 4,634 complaints in calendar year 2023, this number may be inaccurate because the Department had complaints for which it had not recorded or incorrectly recorded received dates, see page 39 for additional information. Although the tracking systems included these errors, we determined the tracking systems were reasonably accurate for reviewing a sample of closed complaints; however, due to errors we identified, we did not review timeliness data for open complaints.

⁷⁹ The Department's procedures do not outline a time frame for expedited complaints.

⁸⁰ Additional factors contributed to this case taking 155 days to resolve, including the licensee requesting an extension for providing their response after the Department followed up with them and the Department requesting additional information from the licensee after the initial response was provided.

Table 5**Department met time frame goals/requirements for investigating and resolving 24 of 30 calendar year 2023 complaints we reviewed**

Complaint area	Time frame goal/requirement	Time frame met
Healthcare appeals:		
Denied services	10 days	2 of 2 met
Denied claims	15 days	3 of 3 met
Financial	80 days	5 of 5 met
Enforcement	92 days ¹	8 of 8 met
Insurance	80 days	6 of 12 met ²

¹ The Department's scorecard metrics do not have an overall time frame goal for complaint investigations conducted by its Enforcement, Innovation, and Regulatory Policy Division, referred to as "enforcement complaints." Instead, the Department's policies and procedures establish time frame requirements for each step in the investigative process. For example, Department policies require Department staff to conduct an initial review of the case within 2 business days and contact the respondent within 15 business days. Our review of the time frames for these various investigation steps found that the Department's cumulative time frame for investigating enforcement complaints is 92 business days.

² For the 6 insurance complaints that were resolved within the Department's time frame goal, 3 were subject to a 90-day goal before the Department revised its goal to 80 days.

Source: Auditor General staff review of A.R.S. §20-2537, the Department's scorecard metrics for fiscal years 2023 and 2024, and Department complaint-investigation policies and procedures.

- Although Department procedures require staff to manage the case within 5 days of the response due date to identify next steps, they do not specify if Department staff should have initiated and/or completed a review of the licensee response, including associated documentation, within those 5 days. For 1 complaint we reviewed that took 192 days to resolve, the case file indicated that Department staff took 89 days to review the licensees' initial responses and send a request for additional information.⁸¹ According to Department staff, this case review was delayed because the division was experiencing staff turnover, including the loss of 3 experienced investigators, and it needed to train 4 new investigators before they could handle cases. Although Department staff reported implementing case management procedures in September 2023 that require investigators to generate reports to identify open cases that may be delayed, the Department's policies and procedures do not include time frames for generating the reports or steps for supervisors to track and monitor the timeliness of open complaints and follow up with investigators to inquire about delays to facilitate complaint resolution.

We also identified issues with the accuracy and completeness of the Department's complaint data that could impact its complaint-handling timeliness. For example, the Department's insurance and financial enterprise consumer complaint policies and procedures require a monthly secondary review of at least 10 percent of complaints closed by each investigator during the past month. However, our observation of this secondary review process found that the Department identified a complaint with an erroneous receipt date recorded in the system, but our subsequent review of Department data found that the error had not been corrected. The secondary review process outlined in the Department's policies and procedures does not include requirements or time frames for correcting any identified errors, which likely contributed to this issue. Additionally, we identified gaps in the sequence of complaints in the Department's complaints data, and the Department reported that these gaps were the result of it not recording or incorrectly recording the received date for some insurance and financial enterprise consumer complaints it opened in calendar year 2023. As a result, although

⁸¹ Although Department staff reported that it took 89 days to review the initial response, the case file lacks documentation demonstrating that the case was actively being reviewed during this time frame.

the Department's complaint-tracking systems showed it resolved 4,634 complaints it received in calendar year 2023, this number may be incomplete because the Department incorrectly recorded the dates it received some complaints. Incorrect receipt dates can also impact the Department's ability to timely investigate and resolve open complaints because staff and supervisors may not know how long some complaints have been open.

Recommendations

The Department should:

27. Investigate and resolve insurance complaints within the time frames established through its goals and policies.
28. Revise and implement its complaint-handling procedures to include time frames for:
 - a. Following up with nonresponsive licensees that miss the deadline for responding to the complaint allegations.
 - b. Initiating and finalizing the review of licensee responses, including documenting instances where the final review may need to exceed the established time frame based on the circumstances of the case.
29. Revise and implement its case management procedures to include time frames for its investigators and supervisors to generate open complaint reports, including implementing steps for supervisors to track and monitor the timeliness of its open complaints and follow up with investigators to inquire about delays in investigating open complaints to facilitate complaint resolution.
30. Revise and implement its secondary review processes to include correcting errors in its complaint-tracking systems when identified.
31. Investigate and assess the extent of missing and incorrect dates in its complaint-tracking data, such as identifying missing dates or dates that are inconsistent with the sequence of case numbers and correct any errors it identifies. Once it corrects the errors, the Department should analyze its complaint-tracking data to determine the timeliness of its open complaints, and for any open complaints that are untimely, follow up with investigators to facilitate complaint resolution.

Department response: As outlined in its [response](#), the Department agrees with all but 1 of the findings and will implement or implement in a different manner all but 1 of the recommendations.

Sunset factor 7: The extent to which the level of regulation exercised by the Department is appropriate as compared to other states or best practices, or both.

The Department's level of regulation of insurance and financial-service professionals and businesses is similar to other states because it is required to follow national accreditation standards established by accrediting bodies, including NAIC, CSBS, and NASCUS, and follow federal regulations for regulating appraisers.⁸² These standards and regulations are intended to ensure states have similar regulations in place for regulating insurance, financial institutions, mortgage companies, and appraisers. Specifically, the Department:

- **Follows NAIC standards for regulating insurance, similar to all states and territories**—As of April 2024, all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands are accredited by the NAIC. As part of its accreditation, these states and territories are required to have similar laws, standards, and regulations in place for regulating insurance, including legal, financial, organizational, and licensing standards. For example, all accredited states are required to have laws and regulations that authorize the state insurance department to examine insurance companies whenever necessary.

⁸² As previously discussed, although not statutorily required, the Department participates in these accreditation programs (see Sunset Factor 2, page 32).

- **Follows accreditation standards for financial institutions and some enterprise professionals and businesses, consistent with at least 29 other states**—As previously discussed (see Introduction, pages 1 through 3), the Department is responsible for regulating financial institutions and enterprises, including licensing, certifying, and registering various financial-service professionals and businesses; and examining and investigating financial-service professionals and businesses. The Department is accredited and/or overseen by CSBS, NASCUS, and the Appraisal Subcommittee (ASC) and is required to follow certain regulatory standards to maintain its accreditations.⁸³ Specifically, the Department:
 - **Is accredited by CSBS and NASCUS for regulating state-chartered banks and credit unions**—As of October 2023, 30 states, including Arizona, are accredited by NASCUS for regulating credit unions, and as of January 2024, 45 states, including Arizona, are accredited by CSBS for regulating state-chartered banks. Accredited states are required to have similar laws and regulations in place for regulating state-chartered banks and credit unions. For example, both CSBS and NASCUS accreditation standards require agencies to have a written policy that requires that examinations of state-chartered banks and credit unions be performed at specific frequencies, which is dependent on the overall condition of the bank or credit union. Additionally, accredited states are required to have certain statutory enforcement authority over state-chartered banks, including the authority to issue cease-and-desist orders and civil money penalties.
 - **Is accredited by CSBS for regulating state-licensed mortgage companies**—As of January 2024, 30 states, including Arizona, were accredited by CSBS and, in order to maintain accreditation, are required to have similar regulatory standards for regulating mortgage companies. For example, like CSBS' bank accreditation, accredited states are required to have certain statutory enforcement authority over mortgage companies, including the authority to issue cease-and-desist orders and civil money penalties. Additionally, accredited states are required to have regulations requiring examinations of mortgage companies at least every 60 months.
 - **Is required to follow federal regulatory standards for appraisers**—Federal law authorizes each U.S. state or territory to establish a real estate appraiser regulatory agency but requires states to include certain requirements in their regulatory frameworks for appraisers and hold appraisers to a professional set of ethical standards.^{84,85} As of May 2024, all 50 states, the District of Columbia, and 4 U.S. territories have established a real estate appraiser regulatory agency.

Sunset factor 8: The extent to which the Department has established safeguards against possible conflicts of interest.

We assessed whether the Department established safeguards against possible conflicts of interest by reviewing its conflict-of-interest practices. The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. However, the Department did not comply with some State conflict-of-interest requirements and had not fully aligned its conflict-of-interest process with recommended practices, including using disclosure forms that did not address all statutorily required disclosures and having a special disclosure file that did not contain all substantial interest disclosures. Additionally, the Department did not ensure its contracted IRO's individual reviewers complied with statutory conflict-of-interest requirement for 1 healthcare appeals case we reviewed by requiring the IRO's individual reviewer to sign a Department form attesting that they have met the statutory requirement of not having a conflict of interest with the healthcare appeal case reviewed. We recommended that the Department develop and implement comprehensive conflict-of-interest policies and procedures that align with State conflict-of-interest requirements and recommended practices and require its contracted IRO's

⁸³ The ASC is a subcommittee of the Federal Financial Institutions Examination Council and is responsible for overseeing the real estate appraisal regulatory framework.

⁸⁴ 12 U.S.C. §§3345, 3346.

⁸⁵ The Appraisal Foundation, which is overseen by the ASC, developed the federal Uniform Standards of Professional Appraisal Practice to establish standards for all types of appraisal services.

individual reviewers sign the Department form demonstrating they comply with all conflict-of-interest requirements. See Finding 2, pages 19 through 23, for additional information and recommendations.

Sunset factor 9: The extent to which changes are necessary for the Department to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

The Department reported it had identified statutory changes it believes are needed to help it more efficiently and effectively fulfill its key statutory objectives and purposes. Specifically:

- The Department reported that A.R.S. §20-466(J) provides no ability for growth of the Department's Insurance Fraud Division.⁸⁶ This statute requires the Department to assess each insurer transacting business in this State up to \$1,050 for the administration and operation of the fraud unit and the prosecution of insurance fraud.⁸⁷ However, to increase its number of insurance fraud investigators, the Department reported it would need to increase the assessment fee in order to cover the associated costs for hiring more investigators. Further, unused monies revert back to the State's General Fund at the end of a fiscal year. The Department reported that if excess monies were put into a nonlapsing fund at the end of the fiscal year, the monies could be used for unexpected investigation costs or replacing equipment. Effective July 2025, Laws 2024, Ch. 212, §4, established the Fraud Unit Assessment Fund; however, these laws did not make any changes to the assessment fee amount or indicate that monies in this Fund are nonlapsing.
- Accreditation reviews of the Department's bank and credit union regulatory program, conducted by CSBS and NASCUS, found that the Department's financial institutions division is not financially self-supporting and lacks a specific contingency plan to cover at least 3 months' worth of expenses.⁸⁸ The Department reported it submitted a legislative proposal through the executive budget to address this issue by amending language in A.R.S. §6-135(B) to increase the annual transfer threshold of unencumbered funds from the Department's Revolving Fund to the Receivership Revolving Fund from \$200,000 to \$700,000.⁸⁹ Effective September 14, 2024, Laws 2024, Ch. 212, §1, increased the transfer threshold for the Department to \$700,000.
- A compliance review of the Department's Appraisal Management Company (AMC) regulatory program the ASC conducted in January 2023 found that the State's statutes and rules did not include provisions to fully comply with federal requirements for administering its AMC regulatory program.^{90,91} Although the Department did not explain the potential consequences of this issue, as of February 2024, the Department reported it plans to pursue a statutory change during the 2025 legislative session.

Recommendation

32. The Department should work with the Legislature to make necessary statutory changes to more efficiently and effectively fulfill its key statutory objectives and purpose.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

⁸⁶ Although statute uses the term fraud unit, the Department used the term Insurance Fraud Division.

⁸⁷ A.R.S. §20-466(J) also establishes that these monies be appropriated to the Department as a separate line item in the general appropriations act and that the Department use these monies exclusively to operate the fraud unit.

⁸⁸ See Sunset Factor 2, page 32, for more information on these accreditations.

⁸⁹ Governor's Office of Strategic Planning & Budgeting. (2024). *State of Arizona Executive Budget – State agency budgets*. Retrieved 5/13/2024 from <https://www.azospb.gov/Documents/2024/FY%202025%20Agency%20Detail%20Book.pdf>

⁹⁰ An AMC is an entity that administers a panel of independent contract appraisers who perform real estate appraisal services. The Department is statutorily responsible for registering AMCs that meet requirements under A.R.S. §32-3662.

⁹¹ Federal regulations establish requirements for the size of appraisal panels and also require panel sizes to be calculated on the calendar year or a 12-month period established in law or rule in the state where the AMC is registered. Although the Department's statutes include provisions on panel size, they do not provide requirements for annually calculating the appraisal panel size.

Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.

Terminating the Department could harm public health, safety, and welfare if its responsibilities were not transferred to another entity. For example, the Department's Insurance Fraud Unit is responsible for investigating allegations of insurance fraud, which helps protect consumers. As discussed in the Introduction, page 5, the Department reported its insurance fraud unit opened 155 new cases, and the Arizona Attorney General or county attorneys obtained convictions, recovering \$2,633,041 in court-ordered restitution in fiscal year 2023. Additionally, the Department is responsible for handling healthcare appeals, which help protect consumers' health by reviewing whether insurance companies cover necessary medical treatments. In calendar year 2023, the Department received 399 healthcare appeals, including 122 appeals regarding coverage and 277 appeals regarding medical necessity.⁹² The Department is also responsible for conducting examinations of financial enterprises, institutions, and insurance companies to monitor the solvency of those companies, which can help protect consumers of banking and financial products. Finally, the Department administers the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund, which helps protect insurance consumers by paying insurance claims for policyholders in the event of an insurer insolvency. If the Department was terminated, financial institutions, including banks and credit unions, would continue to receive federal oversight for federal regulations. Additionally, its statutory responsibility to regulate insurance professionals and businesses and financial enterprises, such as mortgage brokers and collection agencies, would need to be transferred to another State entity.

⁹² Under coverage healthcare appeals, the Department is responsible for determining whether a denied claim or service is covered in the appealing person's insurance policy. Under medical necessity healthcare appeals, the Department is responsible for working with contracted independent review organizations to determine if a denied claim or service is medically necessary.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 32 recommendations to the Department

The Department should:

1. Ensure its enforcement actions address the violations identified by developing and implementing policies and procedures for all license types that are consistent with recommended practices, including:
 - a. Establishing a graduated and equitable system of enforcement actions, such as civil money penalties, corrective education, monitoring, license suspension, and license revocation, to address any legal or regulatory requirements, and ensuring the enforcement actions are set sufficiently high to help compel the licensee to comply or stop operating.
 - b. Specifying and requiring consideration of the number or severity of violations that should trigger each level of enforcement action(s), including whether the licensee has had prior violations.
 - c. Working with licensees who have committed violations as needed—such as through written reports or examinations—to determine whether the problem has been corrected or whether additional enforcement action is needed.
 - d. Documenting an explanation for how it determined enforcement actions, including its consideration of the number or severity of violations and aggravating and/or mitigating factors (see Finding 1, pages 13 through 18, for more information).
2. Revise its conflict-of-interest disclosure form to include the disclosure of substantial decision-making interests to help ensure employees and board/committee members comply with conflict-of-interest statutes (see Finding 2, pages 19 through 23, for more information).
3. Revise and implement its conflict-of-interest policies to include all State conflict-of-interest requirements and further align them with recommended practices, including:
 - a. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.
 - b. Establishing a process to review and remediate disclosed conflicts by board/committee members.
 - c. Developing guidance for board/committee members to fully disclose substantial interests related to meeting agenda items either through a signed document or during public meetings and documenting these disclosures in the board/committee's meeting minutes, including the name of the person with an interest (i.e., board/committee member or board/committee member's relative), the interest's description, and the reason the board/committee member is refraining from discussing or otherwise participating.
 - d. Establishing a centralized process to track and monitor whether each board/committee member has annually completed a disclosure form in line with Department policy (see Finding 2, pages 19 through 23, for more information).
4. Continue to implement its policies and procedures requiring Department staff to review and verify that the IRO's individual reviewers have signed the Department form attesting that they have met the statutory

requirement of not having a conflict of interest with the healthcare appeal case reviewed (see Finding 2, pages 19 through 23, for more information).

5. Continue to prioritize, assign, and investigate all high-priority fraud referrals (see Sunset Factor 2, pages 24 through 34, for more information).
6. Revise and implement its collection agency initial licensing policies and procedures to include a process for obtaining documentation from initial collection agency licensing applicants to determine they have not defaulted on any payments collected or received for a customer (see Sunset Factor 2, pages 24 through 34, for more information).
7. Implement its policies and procedures for conducting quarterly reviews of all workers' compensation claims handled by its contracted third party, including documenting the results of its quarterly reviews (see Sunset Factor 2, pages 24 through 34, for more information).
8. Work with DPS to determine what information it can collect to ensure that monies appropriated to the Task Force are used to pay for 75 percent of the personal services and employee-related expenses for city, town, and county sworn officers participating on the Task Force and implement a process for reviewing the information it collects from DPS (see Sunset Factor 2, pages 24 through 34, for more information).
9. Ensure ATA vertical prosecution grant monies are used consistent with grant and statutory requirements by:
 - a. Requiring Department staff to document their review of vertical prosecution grant information it receives, ensuring all grant expenditure information it receives is accurate and complete, and that discrepancies are investigated and resolved.
 - b. Implementing a supervisory review process to review staff's documentation of its review of vertical prosecution grant information received, ensuring any noted discrepancies were investigated and resolved, and information was consistent with grant and statutory requirements (see Sunset Factor 2, pages 24 through 34, for more information).
10. Ensure ATA law enforcement grant monies are used consistent with grant and statutory requirements by developing and implementing written procedures for reviewing grantee expenditure reports, invoices, and other documents provided by law enforcement agencies to demonstrate how grant monies were used and ensuring law enforcement grant monies were spent in accordance with grant requirements (see Sunset Factor 2, pages 24 through 34, for more information).
11. Review long-term care insurance rate filings within 60 days, as required by statute (see Sunset Factor 2, pages 24 through 34, for more information).
12. Revise and implement its policies and procedures to include all aspects of its revised process for reviewing and approving long-term care insurance rates, including:
 - a. Procedures for tracking its progress for all key review steps, such as contracted actuary review completion date, recommended outcome, date routed to staff actuary for review, and final outcome.
 - b. Procedures requiring a supervisory review of information recorded on its tracking spreadsheet to ensure information is complete and accurate so it can accurately monitor the status of the filings it receives (see Sunset Factor 2, pages 24 through 34, for more information).
13. Evaluate whether its new process for reviewing long-term care insurance rate filings has facilitated its ability to review and approve long-term care insurance rate filings within its statutory time frame of 60 days, and determine what changes to its process, if any, are needed to ensure filings are reviewed within its statutory time frame. The Department should make corresponding changes to its policies and procedures, as needed (see Sunset Factor 2, pages 24 through 34, for more information).

14. Require its Chief Information Officer to develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities. The plan should include steps for further revising the Department's incident response plan and account management procedures to include:
 - a. Incident response plan testing requirements to allow the Department to make applicable modifications to its plan based on the testing results and providing training to those individuals responsible for carrying out the plan when an incident occurs.
 - b. Specific procedures for restricting access to IT systems, including steps for identifying user responsibilities when granting user access to Department-used systems to help ensure proper segregation of duties, limiting privileged/super-user accounts, and steps for monitoring the use of agency system accounts, including those granted to vendors (see Sunset Factor 2, pages 24 through 34, for more information).
15. Hold the Chief Information Officer accountable to the written plan outlined in recommendation 14, including requiring the Chief Information Officer to provide quarterly written progress reports to the Department director (see Sunset Factor 2, pages 24 through 34, for more information).
16. Once it has developed all required IT policies and procedures, provide training to its employees on these policies and procedures (see Sunset Factor 2, pages 24 through 34, for more information).
17. Work with ASET to define and document the scope of IT security services ASET provides to the Department and ensure that ASET provides these services (see Sunset Factor 2, pages 24 through 34, for more information).
18. Develop and implement written policies and procedures for verifying whether initial licensing applicants applying for a licensing fee waiver meet statutory eligibility requirements for a licensure fee waiver (see Sunset Factor 2, pages 24 through 34, for more information).
19. Revise and implement its collection agency renewal policies and procedures to include steps for verifying collection agency applicants' surety bond amounts comply with statute beginning with its next annual renewal application review (see Sunset Factor 2, pages 24 through 34, for more information).
20. Continue its efforts to develop and implement a process to track and monitor that collection agency licensees submit fictitious names reports by both July 1 and December 31 each year, as required by rule, and to follow up with licensees that do not submit the reports as required by rule (see Sunset Factor 2, pages 24 through 34, for more information).
21. Continue its efforts to address the recommendations received from CSBS and NASCUS through the accreditation reviews of its bank and credit union regulatory programs (see Sunset Factor 2, pages 24 through 34, for more information).
22. Conduct and document an assessment of the need for rules related to A.R.S. §§6-1203, 20-108.01(C), 20-211(B), and 20-235(A). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute(s) to remove the requirements to adopt rules (see Sunset Factor 4, pages 34 through 35, for more information).
23. Continue to revise and implement its public records policies and procedures to help it comply with the State's public records law and recommended practices, including procedures and guidance for:
 - a. Providing requests promptly, including developing internal time frames.
 - b. Providing requestors with an anticipated time frame for providing requested records, based on the

Department's resources, nature of the request, content of the records, and location of the records, and notifying the requestor of any delays, as necessary.

- c. Tracking and monitoring the group email inbox to ensure all records requests are recorded and responded to in line with the internal time frames or that the requestor is notified of any delays (see Sunset Factor 5, pages 35 through 38, for more information).
24. Ensure its meeting agendas for its Mental Health Parity Advisory Committee include a notice to the public of the statutory section authorizing the executive session and provide an agenda for the executive session that states a general description of the matters to be considered (see Sunset Factor 5, pages 35 through 38, for more information).
 25. Develop and implement policies and procedures for the Mental Health Parity Advisory Committee to ensure it complies with all open meeting law requirements, including those related to executive sessions (see Sunset Factor 5, pages 35 through 38, for more information).
 26. Revise and implement the ATA Board's policies and procedures to include the specific open meeting law requirements that need to be followed during meetings (see Sunset Factor 5, pages 35 through 37, for more information).
 27. Investigate and resolve insurance complaints within the time frames established through its goals and policies (see Sunset Factor 6, pages 38 through 40, for more information).
 28. Revise and implement its complaint-handling procedures to include time frames for:
 - a. Following up with nonresponsive licensees that miss the deadline for responding to the complaint allegations.
 - b. Initializing and finalizing the review of licensee responses, including documenting instances where the final review may need to exceed the established time frame based on the circumstances of the case (see Sunset Factor 6, pages 38 through 40, for more information).
 29. Revise and implement its case management procedures to include time frames for its investigators and supervisors to generate open complaint reports, including implementing steps for supervisors to track and monitor the timeliness of its open complaints and follow up with investigators to inquire about delays in investigating open complaints to facilitate complaint resolution (see Sunset Factor 6, pages 38 through 40, for more information).
 30. Revise and implement its secondary review processes to include correcting errors in its complaint-tracking systems when identified (see Sunset Factor 6, pages 38 through 40, for more information).
 31. Investigate and assess the extent of missing and incorrect dates in its complaint-tracking data, such as identifying missing dates or dates that are inconsistent with the sequence of case numbers and correct any errors it identifies. Once it corrects the errors, the Department should analyze its complaint-tracking data to determine the timeliness of its open complaints, and for any open complaints that are untimely, follow up with investigators to facilitate complaint resolution (see Sunset Factor 6, pages 38 through 40, for more information).
 32. Work with the Legislature to make necessary statutory changes to more efficiently and effectively fulfill its key statutory objectives and purpose (see Sunset Factor 9, page 42, for more information).



Department license, certification, permit, and registration types active as of March 2024

As discussed in the Introduction (see pages 1 through 2), the Department is responsible for licensing insurance professionals and businesses and certifying, licensing, permitting, or registering financial institutions and enterprises. Specifically, the Department issues more than 40 license, certification, permit, and registration types for the insurance, financial institution, and financial enterprise industries, including issuing licenses to both individuals and business entities, such as adjusters, insurance producers, and sales finance companies. As of March 2024, the Department:

- Licensed 403,436 insurance professionals and businesses across 19 different insurance licensing types (see Table 6, pages a-2 through a-3, for a description and count of licenses issued).
- Certified, licensed, or permitted 199 financial institutions across 4 different certification, license, or permit types (see Table 7, page a-4, for a description and count of certifications, licenses, and permits issued).
- Licensed, certified, or registered 26,536 financial enterprises across 19 different financial enterprise industries (see Table 8, page a-5 through a-6, for a description and count of licenses, certifications, and registrations issued).

Table 6**Department licensed more than 403,000 insurance professionals and businesses across 19 different license types¹****As of March 2024**

(Unaudited)

License	Insurance license description	Number of individuals licensed	Number of business entities licensed
Adjuster	An individual or business licensed to adjust, investigate, or negotiate insurance claim settlements on behalf of an insurance company or individual.	26,554	403
Bail bond agent	An individual or business entity licensed to execute or countersign an insurer's bail bond contracts for the release of arrested persons in connection with criminal judicial proceedings.	86	19
Certified application counselor	An individual licensed to assist other individuals with selecting and enrolling in qualified health plan options and insurance affordability programs.	187	N/A
Captive insurers, includes 5 license types ²	An entity licensed to solely insure a single organization or group of organizations that own the insuring entity.	N/A	168
Insurance producer	An individual or business entity licensed to sell, solicit, or negotiate insurance.	346,827	23,618
Life settlement broker	An individual or entity licensed to offer or negotiate life settlement contracts with an insurance company on behalf of a policy owner.	134	44
Navigator	An individual or entity licensed to help individuals select qualified health plans through the Health Insurance Marketplace, established as part of the Affordable Care Act.	139	1
Portable electronics vendor	An individual or entity licensed to provide insurance for the repair or replacement of portable electronic devices.	17	32
Rating organization	An entity licensed to receive, analyze, and interpret data and determine a rating system for a type of insurance.	N/A	4
Rate service organization	An entity licensed to assist insurers by compiling and furnishing loss or expense statistics and recommending, making, or filing rates, forms, or supplementary rate information.	N/A	27

Table 6 continued

License	Insurance license description	Number of individuals licensed	Number of business entities licensed
Risk management consultant	An employee of a political subdivision with a population of more than 1 million people who is licensed to procure insurance or establish a self-insurance program to provide health, accident, life, or disability benefits for employees or officers of the political subdivision, or to pay the political subdivision's property and casualty losses.	12	N/A
Risk retention group	A group of business entities that have similar liability exposure organized and licensed to self-insure pursuant to the Liability Risk Retention Act of 1986. ³	N/A	142
Self service storage agent	An individual or entity that owns or manages self-service storage facilities licensed to offer or sell property insurance for the rented units.	36	131
Surplus lines broker	An individual or entity licensed to procure insurance from a qualified unauthorized insurer after determining that coverage is not available from an Arizona-authorized insurer.	3,336	1,122
Title agent	A licensed entity authorized by a title insurer to solicit insurance and collect premiums for title insurance. ⁴	N/A	397
Total active insurance licenses		377,328	26,108

¹ The Department also issues more than 30 other certifications, registrations, and permits to businesses and individuals in the insurance industry such as life and disability insurers. For example, insurers are required to apply for certificates of authority to sell certain types of insurance, such as property, life, and casualty insurance.

² There are 5 types of captive insurers represented in this category, including pure captive insurers, 2 types of group captive insurers, protected cell captive insurers, and agency captive insurers. The license count presented here includes:

- 153 licenses for pure captive insurers that are owned by and provide insurance to 1 entity.
- 7 licenses for 2 types of group captive insurers that are owned by and provide insurance to a group of entities.
- 5 protected cell captive insurers that are owned by multiple entities, but separate assets and liabilities are protected in individual cells.
- 3 agency captive insurers, which is a captive insurer owned by 1 or more business entities and only insurers risks on policies placed through their owners.

³ The Liability Risk Retention Act allows businesses with similar liability exposure to self-insure as groups by forming risk retention groups and supersedes any state law, rule regulation, or order to the extent that such law, rule, regulation, or order would make unlawful, or regulate, directly or indirectly, the operation of a risk retention group.

⁴ Title insurance covers owners of real property or others with interest in the real estate against loss or damage suffered by liens, encumbrances, or defects of the property title.

Source: Auditor General staff review of various statutes under A.R.S. Title 20, the Department's website, and Department-provided data.

Table 7**Department certified/licensed/permitted 199 financial institutions across 4 different certificate, license, and permit types****As of March 2024**

(Unaudited)

Certificate/ License/Permit	Financial institution certificate/license/permit description	Number of active certificates/licenses/ permits¹
Bank	An entity permitted to engage in the business of receiving money on deposit and loaning money for commercial and other purposes.	9
Consumer lender	A license to make or procure consumer loans.	162
Credit union	A certified cooperative nonprofit association that encourages thrift among members and creates a source of credit and other financial services at a fair and reasonable cost.	17
Trust company	An entity certified to act as a fiduciary, agent, or trustee on behalf of a person or business.	11
Total active financial institution certifications, licenses, and permits		199

¹ The Department is also responsible for permitting savings and loan associations. However, as of March 2024, there were no active savings and loan associations in the State.

Source: Auditor General staff review of various statutes under A.R.S. Titles 6, the Department's website, and Department-provided data.

Table 8**Department licensed/certified/registered more than 26,000 financial enterprises across 19 different license, certificate, and registration types****As of March 2024**

(Unaudited)

License/certificate/registration	Financial enterprise license/certification/registration description	Number of active licenses, certifications, and registrations¹
Advanced fee loan broker	A registration to directly or indirectly procure or attempt to procure a loan of money or extension of credit for an advanced fee.	6
Appraisal management company	A registration to administer a panel of independent contract appraisers to perform real estate appraisal services, receive requests for real estate appraisal services from clients, and contract with 1 or more independent appraisers to perform appraisal services.	133
Certified general appraiser	A certification to appraise all types of real estate.	865
Certified residential appraiser	A certification to appraise complex properties with 1 to 4 family units valued at over \$1 million.	1,252
Collection agency	A license to directly or indirectly solicit claims for collection or collects claims owed or due.	911
Commercial mortgage banker	A license to engage in originating or servicing commercial mortgage loans.	37
Commercial mortgage broker	A license to either directly or indirectly make, negotiate, or offer to make or negotiate commercial mortgage loans.	70
Debt management company	A license to receive and distribute money from debtors to creditors in payment of obligations.	22
Escrow agent	A license to hold escrow payments or property until the conditions of a contract or agreement are met.	210
Licensed residential appraiser	A license to appraise noncomplex properties with 1 to 4 family units valued at less than \$1 million and complex properties with 1 to 4 family units valued at less than \$400,000.	149
Loan originator	A license to take, offer, or negotiate terms of a residential mortgage loan.	20,032
Money transmitter	A license to sell or issue written or electronic checks, money orders or other written or electronic payments and receive money for the transmission or exchange of written or electronic payments.	217
Mortgage banker	A license to make or negotiate mortgage banking loans or mortgage loans.	639

Table 8 continued

License/certificate/ registration	Financial enterprise license/certification/registration description	Number of active licenses, certifications, and registrations ¹
Mortgage broker	A license to make or negotiate mortgage loans, serving as an intermediary between borrowers and lenders.	893
Premium finance company	A license to finance insurance premiums by entering or acquiring premium finance agreements.	35
Property tax agent	A registration to act on behalf of a person who owns, controls, or possesses property valued by a county assessor, county or state board of equalization, or the Arizona Department of Revenue.	225
Registered trainee appraiser	A license to work with a qualified supervisory appraiser to gain experience as an appraiser.	284
Sales finance company	A license to create, hold, and/or purchase retail installment contracts from 1 or more retail sellers. ²	459
Temporary certified general appraiser	A certified appraiser who is not an Arizona resident and is temporarily certified to appraise real property in the State. ³	97
Total active financial enterprise licenses, certifications, and registrations		26,536

¹ The Department’s reports do not indicate if its financial enterprise licenses are issued to individuals or business entities. Further, although some statutes define these licensees as a person, some also define “person” as more than an individual. For example, although A.R.S. §44-281(11) defines a sales finance company as a person engaged in the business of creating, holding, and/or purchasing retail-installment contracts from 1 or more retail sellers, A.R.S. §44-281(6) further defines a “person” as an individual, partnership, association, trust, corporation, or other legal entity. As such, these licenses were not broken out by individual or business entity.

² Retail-installment contracts are agreements between retailers, such as automobile dealers, and consumers that allows the consumer to purchase a product and pay over a period of time, but the retailer retains the title, deed, or contract to the product until the debt has been paid.

³ The Department is also responsible for licensing nonresident temporary appraisers. However, as of March 2024, the Department reported there were no active nonresident temporary appraiser licensees in the State.

Source: Auditor General staff review of various statutes under A.R.S. Titles 6, 11, 20, 32, and 44; federal regulations; the Department’s website; and Department-provided data.



Department has implemented or implemented in a different manner 6 of 13 outstanding recommendations from our 2019 sunset review

The September 2019 Arizona Department of Insurance performance audit and sunset review found that the Department’s process to prioritize fraud referrals for investigation lacks important components, and its practices for managing conflicts of interest increase risk of nondisclosure. We made 23 recommendations to the Department to address these issues. Our 36-month followup found that the Department had implemented or implemented in a different manner 10 of 23 recommendations.

During our audit, we followed up on the 13 recommendations the Department had not fully implemented, and the Department’s status in implementing these 13 recommendations is as follows:

Status of 13 recommendations

Implemented	4
Implemented in a different manner	2
No longer applicable	7

The Department has implemented or implemented in a different manner 6 recommendations. The remaining 7 recommendations are no longer applicable because we identified similar issues during our audit, resulting in new recommendations in Finding 2 (see pages 19 through 23) and Sunset Factor 2 (see pages 24 through 33) that encompassed or expanded on these 7 recommendations.

Finding 1: Department’s new fraud prioritization process lacks components to ensure it investigates high-priority referrals

1. The Department should strengthen its fraud-referral prioritization process by:

- c. Developing and implementing instructions to guide investigators’ efforts to input referral and investigation information into the database completely and consistently.

Implemented during the audit—In February 2024, the Department finalized its policies and procedures for its case management system, including procedures for Department staff to follow when entering referral and investigation information into the system to ensure it is complete and consistent. Specifically, the Department’s policies include instructions for entering referral information into the case management system to score the priority level of the referral and for updating referral information, including location, and claim and loss amounts. In March 2024, we observed Department staff entering referral information into its database and found that they followed the process outlined in the policies and procedures.

- d. Developing and implementing policies and procedures to incorporate the information discussed during the outreach events it conducts into its fraud-referral prioritization process and evaluating the effectiveness of these events.

Implemented in a different manner during the audit—The Department reported that its staff attend outreach events with insurance companies’ special investigative units (SIUs) mainly for networking and education purposes. Additionally, according to the Department, although these

events may include discussions of some fraud topics, such as emerging fraud trends, these topics are not the main focus of the events, and it determined that the events do not provide information that would be useful to include in its fraud-referral prioritization process. Instead, in February 2024, the Department implemented a prioritization process that requires Department staff to use standard factors and criteria, such as the amount of monetary loss and the number of defendants related a fraud referral, to assess all fraud referrals and identify high-priority referrals for investigation.

- e. Developing and implementing a risk-based supervisory review process for referrals that are not investigated to help ensure that Department staff do not inappropriately close referrals that should be prioritized for investigation.

Implemented during the audit—In March 2024, we observed the Department’s fraud-referral prioritization process, including the fraud unit’s administrative supervisor’s risk-based monthly supervisory review process, which included selecting referrals that were closed without an investigation, reviewing the referral information, evaluating the referral’s score, claim information, and claim amount, and following up with Department staff to address questions or disagreements with a referral’s priority score. In April 2024, the Department revised its policies and procedures to reflect the supervisory review process we observed.

- f. Developing and implementing policies and procedures for its fraud-referral prioritization system and training additional staff on these policies and procedures.

Implemented in a different manner during the audit—In February 2024, the Department revised its policies and procedures for its fraud-referral prioritization system, including procedures for scoring fraud referrals based on risk factors, such as the amount of monetary loss and the number of defendants, to identify high-priority referrals for investigation. Instead of providing training to its staff, the Department required all Department staff involved in the fraud-referral review and prioritization process to sign an acknowledgement that they read and understand the policies and procedures. In March 2024, we observed the Department’s fraud-referral prioritization process and found it was following its policies and procedures. Additionally, in April 2024, the Department revised its policies and procedures to better reflect the process we observed, including implementing procedures for its monthly supervisory review of referrals with a certain priority score that are closed without investigation. Similar to its February 2024 revisions, the Department required all Department staff involved in the fraud-referral review and prioritization process to sign an acknowledgement that they read and understand the policy that was revised in April 2024.

- 2. The Department should evaluate whether its prioritization process has facilitated the Department’s ability to focus on high-priority referrals and determine and implement any changes needed to continue to improve the prioritization process.

Implemented during the audit—The Department reported it evaluated its prioritization process in December 2023 and determined that it had a backlog of high-priority referrals that were prioritized for investigation but had not been assigned to an investigator. To address this issue, it revised its case management practices in December 2023 to focus on assigning only high-priority referrals to investigators. In March 2024, we observed that the Department’s case management system allows it to identify high-priority referrals, and our observation found that the Department was assigning only high-priority referrals to its investigators.

- 3. Once the Department has taken steps to evaluate and strengthen its prioritization process, the Department should assess its fraud investigative staffing needs to help ensure it investigates all the high-priority fraud referrals it receives. This assessment should include a documented workload analysis that compares the Department’s workload, including an estimate of future workload, with its staff resources and then identifies the level of resources needed based on workload and responsibilities. If the Department determines additional resources are needed, it should work with the Legislature to obtain these resources.

No longer applicable—The Department conducted a documented workload analysis by comparing its workload from July 2023 to January 2024 to its investigating staffing resources and reported that in

order to ensure all high-priority referrals are investigated, it would need to replace an investigator who had retired. The Department reported that it plans to hire an investigator to fill the vacancy in fiscal year 2025 and will continue to assess its investigative staffing needs through periodic analyses of its workload and staffing resources and will collaborate with the Legislature as necessary to secure the resources required to investigate all high-priority referrals. We made a new recommendation in Sunset Factor 2 that incorporates this recommendation (see Sunset Factor 2, page 33, recommendation 5). Therefore, this recommendation is no longer applicable.

Finding 2: Department’s practices for managing conflicts of interest increase risk of nondisclosure

5. The Department should update and implement the policies and procedures for the Arizona Life and Disability Insurance Guaranty Fund Board, the Arizona Property and Casualty Insurance Guaranty Fund Board, and the Arizona Workers’ Compensation Appeals Board to (1) require board members to complete an annual disclosure form; (2) define a process to allow board members to fully disclose substantial interests during public meetings, document these disclosures in the board’s meeting minutes—including the name of the person with an interest (i.e., board member or board member’s relative), the interest’s description, and the reason the board member is refraining from discussing or otherwise participating; and (3) define a process for ensuring that completed forms are maintained in the Department’s separate special disclosure file for public inspection.

No longer applicable—Although the Department’s policies and procedures require it to annually remind and requires board and committee members to annually complete a disclosure form, our review of a sample of 15 of 50 board members as of January 2024 found that 3 had not completed a conflict-of-interest disclosure form (see footnote 48, page 21, for additional information about the sample). Additionally, we found that the Department’s policies and procedures do not require it to publicly document and fully disclose in board/committee minutes any substantial interest disclosures. Finally, we found that the Department’s special disclosure file did not contain all disclosures of substantial interests, as required by statute. We made a new recommendation in Finding 2 that encompasses and expands on this recommendation for all boards/committees within the Department (see Finding 2, page 23, recommendations 3a through 3d). Therefore, this recommendation is no longer applicable.

6. The Department should update its disclosure form to require employees and public officers to comply with conflict-of-interest statutes by requiring the disclosure of both substantial financial and decision-making interests.

No longer applicable—The Department’s disclosure form does not specifically require disclosure of substantial interest in Department decisions, as required by statute. As a result, we made a new recommendation in Finding 2 that encompasses this recommendation (see Finding 2, page 23, recommendation 2). Therefore, this recommendation is no longer applicable.

Sunset factor 2: The Department’s effectiveness and efficiency in fulfilling its key statutory objectives and purposes

7. The Department should improve its administration of long-term care insurance rate reviews by:
 - c. Implementing the NAIC long-term care insurance task force’s recommendations for improving long-term care insurance rate review when available and if appropriate and helpful.

Implemented during the audit—In April 2022, the NAIC’s long-term care insurance task force developed a framework for a multistate actuarial review process, which it reported is conducted by a team of state regulatory actuaries with expertise in long-term care insurance rate review. According to NAIC, the goal of the process is providing a consistent national approach for reviewing current

long-term care insurance rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminating cross-state rate subsidization. However, according to the framework, it is not specific to and does not account for state specific statutes and rules. As a result, the Department reported that it reviewed the framework and determined it was not appropriate or helpful because it does not consider state-specific statutes and rules, and, therefore, has not adopted the NAIC's multistate rate review framework.

10. The Department should update and finalize its policies and procedures manual for the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund.

No longer applicable—The Department revised its policies and procedures in July 2023 to include information related to its responsibilities for overseeing workers compensation claims and the workers' compensation insurance account, which was transferred to the Department from the Arizona Industrial Commission by Laws 2014, Ch. 186, §2. The policies require the Department's claim manager to conduct a quarterly review of all workers' compensation claims handled by its contracted third party. However, the Department was unable to provide documentation demonstrating that its claim manager conducted these quarterly reviews. As a result, we made a new recommendation in Sunset Factor 2 that incorporates this recommendation (see Sunset Factor 2, page 33, recommendation 7). Therefore, this recommendation is no longer applicable.

12. The Department should conduct a risk assessment to evaluate, document, and prioritize the areas in the Department's IT systems with the highest security risks, and use the results of its risk assessment to guide its efforts to develop and implement all required IT security program policies and procedures in line with ASET requirements and credible IT standards, focusing on high-risk areas first.

No longer applicable—As of February 2024, the Department has not implemented State-required information technology policies and procedures. Specifically, our review of 12 ADOHS-required policy areas found that the Department had not developed policies and procedures in 10 ADOHS-required areas and could further enhance the policies it created for 2 areas. As a result, we made a new recommendation in Sunset Factor 2 that incorporates this recommendation (see Sunset Factor 2, pages 33 through 34, recommendations 14 and 15). Therefore, this recommendation is no longer applicable.

13. The Department should, once it has developed and implemented all required IT policies and procedures, provide training to its employees on these policies and procedures.

No longer applicable—As discussed in recommendation 12 above, as of February 2024, the Department has not implemented AZDOHS-required information technology policies and procedures. Additionally, the Department has not provided training on the IT policies and procedures it has implemented. As a result, we made a new recommendation in Sunset Factor 2 that incorporates this recommendation (see Sunset Factor 2, page 34, recommendation 16). Therefore, this recommendation is no longer applicable.

14. Department should work with ASET to define and document the scope of IT security services ASET provides to the Department and ensure that ASET provides these services.

No longer applicable—The Department, as part of the consolidation of the Department of Insurance, Department of Financial Institutions, and ATA, requested a 6-month account of services provided by ASET and associated invoices for these services, but, as of January 2024, had not received the information from ASET. As a result, we made a new recommendation in Sunset Factor 2 that incorporates this recommendation (see Sunset Factor 2, page 34, recommendation 17). Therefore, this recommendation is no longer applicable.



Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit’s objectives. These methods included reviewing the Department’s statutes, rules, and policies and procedures; interviewing Department staff; and reviewing Department records and information from the Department’s annual reports and website. In addition, we used the following specific methods to meet the audit objectives:

- To assess whether the Department took appropriate, consistent, and timely remedial actions in response to licensee violations identified through its financial examinations and complaint investigations, we reviewed a total of 15 enforcement actions the Department took between October 24, 2022 and April 16, 2024, selected as follows:
 - 2 enforcement actions that resulted from complaints we reviewed as part of work to assess timeliness of the Department’s complaint handling (see pages c-3 and c-4 for additional information about that sample).
 - 3 of 38 randomly selected enforcement actions that resulted from Department examinations completed in calendar year 2023.
 - 5 each of the most recent insurance- and financial enterprise-related enforcement actions posted on the Department’s website as of April 19, 2024.⁹³

Our work included reviewing the Department’s enforcement documentation, such as investigation and examination reports; Department correspondence with licensees, internal staff, and Arizona Attorney General’s Office staff; documents submitted by licensees, such as completion certificates of corrective education records; and Department statutes and rules related to its enforcement options for different licenses.⁹⁴ We also reviewed National State Auditors Association (NSAA) recommended practices and compared the Department’s enforcement-handling processes to these recommended practices.⁹⁵

- To assess the Department’s compliance with the State’s conflict-of-interest laws and alignment with recommended practices, we reviewed statute, the *Arizona Agency Handbook*, Department and Board conflict-of-interest policies and procedures, and the Department’s special disclosure file and tracking spreadsheet for calendar year 2023. We also reviewed disclosure forms for a sample of 15 employees and 15 board/committee members, selected as follows:

⁹³ We reviewed a random sample of 3 of 38 enforcement actions that resulted from financial enterprise examinations in calendar year 2023. Additionally, to identify the 5 most recent insurance- and financial institution/enterprise-related enforcement actions, we reviewed the Department’s website on April 19, 2024, sorting by insurance and then financial institution/enterprise actions and selecting the 5 most recent actions from each category. While reviewing the website, we found that the Department posts other actions that are not derived from violations of statutes and rules, such as licensing appeal decisions and notifications of licensee mergers and acquisitions. As such, these items were excluded when selecting 5 from each of the most recent insurance- and financial enterprise-related enforcement actions for review.

⁹⁴ A.R.S. Titles 6, 20, and 32, and AAC R4-46-301.

⁹⁵ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/23/2024 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

- 15 of 140 Department employees, as of January 2024—11 judgmentally selected based on their leadership position within the Department and 4 randomly selected.
- 15 of 50 board/committee members as of January 2024—6 judgmentally selected based on their executive member position on their board/committee, such as board/committee chair, and 9 randomly selected.

We also reviewed Department-specific conflict-of-interest requirements for independent review organizations that assist with healthcare appeals of denied medical services and associated Department documents for a sample of 2 of 277 medical necessity appeals received in calendar year 2023.

- To assess whether the Department licensed only qualified insurance professionals and collection agencies and did so within required time frames, we reviewed various documents contained in applicant files, including citizenship documents, surety bond certificates, and financial statements, and Department database information for the following samples from the applications the Department received in fiscal year 2023:
 - A stratified random sample of 12 of 61,432 initial insurance producers license applications—7 residents and 5 nonresidents.
 - A random sample of 9 of 35,371 insurance producer renewal license applications.⁹⁶
 - A random sample of 10 of 91 initial collection agency license applications and 10 of 148 collection agency renewal license applications in fiscal year 2023.⁹⁷

Additionally, to assess the Department's October 2023 implementation of its revised process for verifying U.S. citizenship for initial collection agency applicants, we reviewed a random sample of 2 of 56 initial collection agency applications the Department received between November 2023 and March 2024.

- To determine if the Department has implemented outstanding recommendations from the Department of Insurance's 2019 Sunset Review related to the Insurance Fraud Unit, we reviewed the 36-month follow-up report to the 2019 Department of Insurance Sunset Review, Department policies and procedures, and Department referral and staffing information, and conducted observations of the Department staff's fraud-referral prioritization process.
- To assess the Department's compliance with SAAM requirements related to purchasing card and central travel account transactions, we reviewed the SAAM and Department purchasing card and central travel account policy requirements and transaction documentation including Department monthly purchase logs, travel receipts, and Department-required travel authorization forms for a judgmental sample of 17 of 111 purchasing card and 5 of 67 central travel account transactions the Department made in fiscal year 2023.⁹⁸
- To assess the Department's process for monitoring the use of ATA grants and monies appropriated from the ATA Fund to ensure compliance with statutory and grant agreement requirements, we reviewed a judgmental sample of 1 of 6 vertical prosecution grants and 1 of 5 law enforcement grants the Department awarded in fiscal year 2023 and reviewed associated documentation, including grant agreements, invoices, and time and effort certifications.⁹⁹ We also reviewed the ATA's grant-monitoring policies and procedures and monthly performance and financial reports provided by the Task Force for fiscal year 2023.

⁹⁶ We selected insurance producer licenses for review because they represent the largest number of licenses the Department issues.

⁹⁷ We selected collection agencies for review because they represent the largest financial enterprise licensee population that is not subject to an accreditation review.

⁹⁸ We judgmentally selected items for review based on risk, including high-dollar purchases and unusual vendors and expenditure descriptions.

⁹⁹ We judgmentally selected items for review based on the dollar amount awarded and the results of the Department's compliance review. Specifically, we selected the law enforcement and vertical prosecution grants with the second largest dollar amount awarded, which included a vertical prosecution grant where the Department identified issues during its compliance review.

- To assess the Department's process for reviewing long-term care insurance rate filings, including whether the Department reviewed insurance long-term care rate filings within the statutorily required 60-day time frame, we reviewed Department-provided data for long-term care rate filings it received in calendar years 2022 and 2023, the Department's long-term care rate-review policies and procedures, deemer waiver notice, tracking spreadsheet, and other documentation related to its rate-review process.¹⁰⁰
- To determine if the Department has implemented outstanding recommendations related to IT from the Department of Insurance's 2019 Sunset Review, we reviewed our 36-month follow-up report to the 2019 Department of Insurance Sunset Review and compared the Department's IT-related policies and procedures as of September 2023 to a judgmental sample of ADOHS's State-wide policies.¹⁰¹ We also reviewed the Department's interagency service agreement with ASET and interviewed Department IT staff.
- To determine if the Department's licensing fee waiver includes all statutory criteria and whether the Department verifies that applicants meet fee waiver requirements, we reviewed statute and the Department's licensing fee waiver and interviewed Department staff.
- To assess the Department's progress in implementing recommendations from its CSBS and NASCUS accreditation reviews, we interviewed Department staff and reviewed the Department's budget requests, Department-provided documents, and information from CSBS and NASCUS, such as websites and accreditation manuals/handbooks.
- To assess the Department's compliance with the State's open meeting law requirements, we reviewed the Arizona Attorney General's *Arizona Agency Handbook* and the Department's open meeting law policies and procedures and observed 5 public meetings held between January 2024 and March 2024 for 4 of the Department's 5 public bodies and reviewed these meetings' notices, agendas, and minutes or video recordings.¹⁰²
- To assess the Department's compliance with the State's public records law, we reviewed statutes and recommended practices from the Arizona Ombudsman-Citizens' Aide Office and the Arizona Attorney General's *Arizona Agency Handbook*; the Department's group email inbox where it stores public records requests; and the Department's public records policies and procedures.¹⁰³ Additionally, we reviewed a stratified random sample of 18 of 148 public records requests the Department received in its group email inbox in calendar year 2023—13 closed requests and 5 requests that were open as of March 2024.¹⁰⁴
- To assess the Department's complaint-investigation and resolution processes, including the timeliness of complaint resolution, we reviewed a stratified random sample of 30 complaints from the 4,634 complaints recorded in the Department's complaint-tracking systems as received in calendar year 2023, selected as follows:¹⁰⁵

¹⁰⁰ When the Department receives a long-term care rate filing, it sends a notice, known as a "deemer waiver," to the insurance company to request that it waive the 60-day statutory time frame requirement.

¹⁰¹ We reviewed a judgmental sample of 12 of 17 ADOHS-required policy areas based on Department-related risk.

¹⁰² We observed 2 public meetings for the Mental Health Parity Advisory Committee and 1 public meeting each for the ATA Board of Directors, Arizona Life and Disability Insurance Guaranty Fund Board, and Arizona Property and Casualty Insurance Guaranty Fund Board.

¹⁰³ Arizona Ombudsman Citizens' Aide. (2010). *Open Meeting Law 101 – Arizona's open meeting law in a nutshell*. Retrieved 11/27/2023 from <https://azoca.gov/wp-content/uploads/Open-Meeting-Law-101.pdf>; Arizona Attorney General. (2020, March 13). *Re: Concerns relating to Arizona's Open Meeting Law and COVID-19*. Retrieved 11/27/2023 from https://www.azag.gov/sites/default/files/2020-03/Covid-OML_202003131526.pdf

¹⁰⁴ For the 146 closed public records requests, we randomly selected 1 of the 10 oldest requests and then systematically selected every tenth request thereafter until 13 closed public records requests were selected. Additionally, for the 15 open requests as of March 4, 2024, we judgmentally selected the oldest open request and then systematically selected every other open request until 5 open public records requests were selected.

¹⁰⁵ Although the Department's complaint-tracking systems showed that it closed 4,634 complaints in calendar year 2023, this number may be inaccurate because the Department had complaints for which it had not recorded or incorrectly recorded received dates. Although the complaint-tracking data included these errors, we determined the complaint-tracking data was reasonably reliable for reviewing a sample of complaints.

- 12 of 3,244 insurance complaints.
- 5 of 640 financial institution and enterprise complaints.
- 3 of 122 healthcare coverage appeals.
- 2 of 277 medical necessity appeals.
- 8 of 351 enforcement complaints.

Our work included interviewing Department staff and reviewing Department complaint policies and procedures, complaint documentation, correspondence with complainants and respondents, and investigation and/or review reports. Additionally, we reviewed recommended practices by NSAA and compared the Department’s complaint-handling policies and procedures to these recommended practices.¹⁰⁶

- To obtain additional information for the Sunset Factors, we reviewed information from NAIC, CSBS, and NASCUS regarding its accreditation programs to gain an understanding of other states’ levels of regulation. Additionally, we reviewed the State of Arizona *Master List of Government Programs*, the Arizona Administrative Register, and Department documentation related to its rulemakings for types of insurance companies completed between September 2023 and November 2023.¹⁰⁷
- To obtain information for the Introduction, we reviewed and compiled information from Department-provided licensing count reports and other Department-prepared documents relating to its responsibilities, functions, boards and committees, and staffing. In addition, we analyzed and compiled unaudited financial information from the Arizona Financial Information System/*AZ360 Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023 and Department-prepared estimates for fiscal year 2024. We also reviewed reports from the Department and the National Insurance Crime Bureau related to vehicle theft statistics for calendar year 2023.

Our work on internal controls, including information system controls, focused on reviewing the Department’s policies, procedures, and/or processes for licensing insurance and financial professionals and businesses; administering and overseeing the use of grant monies for combating vehicle theft; disclosing conflicts of interest; reviewing long-term care insurance rates; complying with State IT requirements; complying with open meeting law requirements; and handling complaints. Through this work, we determined that the Department’s data was sufficiently reliable for audit purposes. We reported our conclusions on applicable internal controls in Findings 1 and 2 and Sunset Factors 2, 5, and 6.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit and sunset review of the Department 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to Barbara Richardson and Department staff for their cooperation and assistance throughout the audit.

¹⁰⁶ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/23/2024 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

¹⁰⁷ State of Arizona. (2022). *Master List of State Government Programs State Agencies’ Five-Year Strategic Plans*. Retrieved 10/11/2023 from <https://www.azospb.gov/documents/2023/FY%202024%20Master%20List.pdf>



AUDITOR GENERAL'S COMMENTS ON THE DEPARTMENT RESPONSE

The Joint Legislative Audit Committee requires all agencies to respond to whether they agree with our findings and plan to implement the recommendations. We appreciate the Department's response, including its agreement with all but 2 of the findings and its plan to implement or implement in a different manner all but 1 of the recommendations. However, the Department has included certain statements in its response that necessitate the following clarification:

In its response to Recommendation 29, the Department reported that it disagrees with the finding and will not implement the recommendation, explaining that "DIFI currently tracks team member performance, which is reviewed weekly, and has sufficient case management tools and procedures in place. DIFI will review its current processes and determine if there are more efficient tools and processes to improve its case management."

As discussed in Sunset factor 6 (see page 39), the Department's policies and procedures do not include time frames for generating reports to identify open cases that may be delayed or steps for supervisors to track and monitor the timeliness of open complaints and follow up with investigators to inquire about delays to facilitate complaint resolution. The lack of time frames and steps for supervisory oversight likely contributed to the Department not meeting its 80-day time frame goal for resolving some complaints we reviewed, such as a complaint that took more than 192 days to resolve, including Department staff taking 89 days to review the licensee's initial response and send a request for additional documentation. Our recommendation to revise and implement its case management procedures to include time frames and steps for supervisory oversight is designed to provide clear and consistent expectations and accountability mechanisms for all investigators and supervisors to help ensure the Department conducts timely complaint investigations.

DEPARTMENT RESPONSE



Arizona Department of Insurance and Financial Institutions
100 N 15th Avenue, Suite 261, Phoenix, Arizona 85007
(602) 364-3100 | difi.az.gov

Katie Hobbs
Governor

Barbara D. Richardson
Director

September 6, 2024

Lindsey Perry, CPA, CFE
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018-7571

RE: Auditor General's report, *Arizona Department of Insurance and Financial Institutions - Performance audit and sunset review*

Dear Ms. Perry:

The Arizona Department of Insurance and Financial Institutions (DIFI) has reviewed the Auditor General's report, *Arizona Department of Insurance and Financial Institutions - Performance audit and sunset review*. Attached please find DIFI's responses to the report's recommendations.

DIFI staff appreciate the opportunity to have participated in the audit process with members of your team and look forward to implementing changes to enhance the efficiency and effectiveness of carrying out DIFI's mission.

Sincerely,

Barbara D. Richardson

Barbara Richardson
Director

Finding 1: Department did not consistently consider licensee history or determine if violations were corrected and lacked a documented explanation for some enforcement actions, increasing risk of harm to public welfare and unequal treatment of licensees

Recommendation 1: The Department should ensure its enforcement actions address the violations identified by developing and implementing policies and procedures for all license types that are consistent with recommended practices, including:

Recommendation 1a: Establishing a graduated and equitable system of enforcement actions, such as civil money penalties, corrective education, monitoring, license suspension, and license revocation, to address any legal or regulatory requirements, and ensuring the enforcement actions are set sufficiently high to help compel the licensee to comply or stop operating.

Department response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: DIFI will establish procedures where department staff will fully document each factor it considered in assessing an administrative penalty or action, including factors like license history, severity of the cited conduct and all mitigating and aggravating factors. Through establishing these new procedures, the Department will ensure that all enforcement actions are decided on an equitable system that maintains uniformity and consistently documents how each factor contributed to the ultimate enforcement action.

Recommendation 1b: Specifying and requiring consideration of the number or severity of violations that should trigger each level of enforcement action(s) including whether the licensee has had prior violations.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI currently considers all factors relating to a case prior to imposing an administrative action, however, as discussed in 1a, DIFI will establish a process under which any reviewing party will be required to document all factors that were considered relating to an enforcement action, including the number and severity of violations.

Recommendation 1c: Working with licensees who have committed violations as needed—such as through written reports or examinations—to determine whether the problem has been corrected or whether additional enforcement action is needed.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will revise its current processes to incorporate the use of corrective action plans aimed at ensuring that licensees have corrected their actions and ensure compliance with the law. Under this process, DIFI, at its discretion, will place certain licensees on an agreed upon corrective action plan. Under the plan, the licensee might have to provide quarterly submissions of compliance, and attest to all actions the licensee has taken in order to remedy the cited violations.

Recommendation 1d: Documenting an explanation for how it determined enforcement actions, including its consideration of the number or severity of violations and aggravating and/or mitigating factors.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As discussed in 1a, DIFI will implement a process under which all reviewing parties will provide better documentation and explanation in support of the recommended administrative action.

Finding 2: Department did not comply with some State conflict-of-interest requirements, increasing risk that employees and board/committee members did not disclose substantial interests that might influence or could affect their official conduct

Recommendation 2: The Department should revise its conflict-of-interest disclosure form to include the disclosure of substantial decision-making interests to help ensure employees and board/committee members comply with conflict-of-interest statutes.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI is currently updating its conflict of interest procedures and forms. DIFI will further implement more training opportunities for employees and board members to better educate them on their duties under Arizona's conflict of interest laws.

Recommendation 3: The Department should revise and implement its conflict-of-interest policies to include all State conflict-of-interest requirements and further align them with recommended practices, including:

Recommendation 3a: Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special disclosure file available for public inspection.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI's revised policies will comply with all applicable conflict of interest laws.

Recommendation 3b: Establishing a process to review and remediate disclosed conflicts by board/committee members.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI's revised policies will include board member specific procedures relating to conflict of interest review and remediation.

Recommendation 3c: Developing guidance for board/committee members to fully disclose substantial interests related to meeting agenda items either through a signed document or during public meetings and documenting these disclosures in the board/committee's meeting minutes,

including the name of the person with an interest (i.e., board/committee member or board/committee member's relative), the interest's description, and the reason the board/committee member is refraining from discussing or otherwise participating.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI's revised policies will include board member specific procedures relating to the disclosure of potential conflict of interests.

Recommendation 3d: Establishing a centralized process to track and monitor whether each board/committee member has annually completed a disclosure form in line with Department policy.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI's new policy will establish a process to track and monitor whether each board member has completed their conflict of interest disclosure or updated disclosure form.

Recommendation 4: The Department should continue to implement its policies and procedures requiring Department staff to review and verify that the IRO's individual reviewers have signed the Department form attesting that they have met the statutory requirement of not having a conflict of interest with the healthcare appeal case reviewed.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will continue to consistently follow its policies in reviewing IRO applications.

Sunset Factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Recommendation 5: The Department should continue to prioritize, assign, and investigate all high-priority fraud referrals.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In April 1, 2023 the Department made changes to its referral processes. The new process defines high priority cases and ensures that such cases are timely reviewed and assigned for further investigation. The Department will continue to prioritize, assign and investigate all high-priority fraud referrals.

Recommendation 6: The Department should revise and implement its collection agency initial licensing policies and procedures to include a process for obtaining documentation from initial collection agency licensing applicants to determine they have not defaulted on any payments collected or received for a customer.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will revise and implement its collection agency initial licensing procedures to obtain documents relating to the entity's active manager defaulting on any payments collected or received for another.

Recommendation 7: The Department should implement its policies and procedures for conducting quarterly reviews of all workers' compensation claims handled by its contracted third party, including documenting the results of its quarterly reviews.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI currently conducts quarterly reviews, however, it will revise its current policies to include proper documentation of the results of each quarterly review.

Recommendation 8: The Department should work with DPS to determine what information it can collect to ensure that monies appropriated to the Task Force are used to pay for 75 percent of the personal services and employee-related expenses for city, town, and county sworn officers participating on the Task Force and implement a process for reviewing the information it collects from DPS.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AATA staff met with Department of Public Safety budget staff on July 25th, 2024, to discuss this expected recommendation. DPS committed to provide an annual summary that will include the total cost of each outside agency detective's salary and ERE and the amount reimbursed to the agency to ensure the 75% reimbursement requirement was met. AATA staff will determine a location to archive this DPS attestation.

Recommendation 9: The Department should ensure ATA vertical prosecution grant monies are used consistent with grant and statutory requirements by:

Recommendation 9a: Requiring Department staff to document their review of vertical prosecution grant information it receives, ensuring all grant expenditure information it receives is accurate, complete, and that discrepancies are investigated and resolved.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AATA staff will ensure recent revisions to Contract Compliance Review (CCR) policy and procedure adequately promote accuracy, completeness, and allow for discrepancies to be investigated and resolved. This recommendation will be accomplished through the development of enhanced checklists.

Recommendation 9b: Implementing a supervisory review process to review staff's documentation of its review of vertical prosecution grant information received, ensuring any noted discrepancies were investigated and resolved, and information was consistent with grant and statutory requirements.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AATA staff practice has been to have the grant administrator, budget administrator, and the AATA director present for the Contract Compliance Review process. AATA staff routinely reviews the relevant agencies to determine the level of contract compliance. If documents or other information were found to be deficient, the grants administrator would request follow-up from the agency and the additional information would be reviewed when submitted, until staff was satisfied with the agency response. To satisfy this recommendation, AATA staff will separate this review into two phases: a staff review consisting of the grant and budget administrators, and a supervisory review of the documentation and findings by the AATA director.

Recommendation 10: The Department should ensure ATA law enforcement grant monies are used consistent with grant and statutory requirements by developing and implementing written procedures for reviewing grantee expenditure reports, invoices, and other documents provided by law enforcement agencies to demonstrate how grant monies were used and ensuring law enforcement grant monies were spent in accordance with grant requirements.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AATA staff met on May 16, 2024 to review and revise the Contract Compliance Review policy and procedures to ensure all grants, not just Vertical Prosecution, are reviewed using the same criteria previously outlined in the Vertical Prosecution CCR policy and procedures. While AATA staff believes the Law Enforcement grants have been reviewed in this manner in practice, the development of written procedures within the policy and procedure documents is in process of being accomplished.

Recommendation 11: The Department should review long-term care insurance rate filings within 60 days, as required by statute.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's procedures and policies have been revised for the review of LTC rate filings. The new processes have been implemented for several months which has led to an immediate decrease in filings that were dated over the 60 days, as defined in statute.

Recommendation 12: The Department should revise and implement its policies and procedures to include all aspects of its revised process for reviewing and approving long-term care insurance rates, including:

Recommendation 12a: Procedures for tracking its progress for all key review steps, such as contracted actuary review completion date, recommended outcome, date routed to staff actuary for review, and final outcome.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's new policies for tracking all LTC rate filings with a shared tracking system ensures that the senior analyst, in-house actuary and the life and health oversight manager can be updated in real time to more accurately reflect the specific location of the file during the review process.

Recommendation 12b: Procedures requiring a supervisory review of information recorded on its tracking spreadsheet to ensure information is complete and accurate so it can accurately monitor the status of the filings it receives.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's life and health manager currently reviews the division's tracking spreadsheet for accuracy on a weekly basis under the Department's new process.

Recommendation 13: The Department should evaluate whether its new process for reviewing long-term care insurance rate filings has facilitated its ability to review and approve long-term care insurance rate filings within its statutory time frame of 60 days, and determine what changes to its process, if any, are needed to ensure filings are reviewed within its statutory time frame. The Department should make corresponding changes to its policies and procedures, as needed.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Recommendation 13 was initiated about 8 months ago and continued to develop over the last few months. The Department's policies and procedures system has now been updated with its new process. Recommendation 13 implementation has yielded significant progress since changes to the LTC rate filing process were implemented.

Recommendation 14: The Department should require its Chief Information Officer to develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities. The plan should include steps for further revising the Department's incident response plan and account management procedures to include:

Recommendation 14a: Incident response plan testing requirements to allow the Department to make applicable modifications to its plan based on the testing results and providing training to those individuals responsible for carrying out the plan when an incident occurs.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review its current policies and expand upon its payment card industry incident response plan testing to incorporate testing of all areas, including the use of the results of such testing to improve its preparedness.

Recommendation 14b: Specific procedures for restricting access to IT systems, including steps for identifying user responsibilities when granting user access to Department-used systems to help

ensure proper segregation of duties, limiting privileged/super-user accounts, and steps for monitoring the use of agency system accounts, including those granted to vendors.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will work on designing processes and procedures to provide greater definition of access level for on boarding and role assignments.

Recommendation 15: The Department should hold the Chief Information Officer accountable to the written plan outlined in recommendation 14, including requiring the Chief Information Officer to provide quarterly written progress reports to the Department director.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will implement processes that ensure all responsible personnel provide updates on compliance with all internal policies.

Recommendation 16: The Department should, once it has developed all required IT policies and procedures, provide training to its employees on these policies and procedures.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will provide training to its employees on any new policies relating to the Department's IT functions and procedures.

Recommendation 17: The Department should work with ASET to define and document the scope of IT security services ASET provides to the Department and ensure that ASET provides these services.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI has been working with ASET on an ongoing basis and will continue to improve ASET provided services.

Recommendation 18: The Department should develop and implement written policies and procedures for verifying whether initial licensing applicants applying for a licensing fee waiver meet statutory eligibility requirements for a licensure fee waiver.

Department response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: DIFI currently uses attestation forms but will review other available options to ensure applicants meet the requirements for licensee fee waiver. DIFI will start to require applicants to submit a copy of their most recent tax filings, on top of the applicant's attestation.

Recommendation 19: The Department should revise and implement its collection agency renewal policies and procedures to include steps for verifying collection agency applicants' surety bond amounts comply with statute beginning with its next annual renewal application review.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review all possible options and determine whether a statutory change is necessary in order to ensure that applicants maintain a sufficient surety bond throughout their license period, including whether licensees should provide, on an ongoing basis, reports including information that ensures compliance with the law.

Recommendation 20: The Department should continue its efforts to develop and implement a process to track and monitor that collection agency licensees have submit fictitious names reports by both July 1 and December 31 each year, as required by rule, and to follow up with licensees that do not submit the reports as required by rule.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI's new backend system, Thentia, was created with a more robust tracking system for filings. DIFI staff is now able to run reports that will show which filings have not been submitted. Once the new system is fully functional, DIFI will be able to more efficiently review missing filings and add notes to a licensee's record to ensure any missing information is submitted at renewal.

Recommendation 21: The Department should continue its efforts to address the recommendations received from CSBS and NASCUS through the accreditation reviews of its bank and credit union regulatory programs.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI is committed to addressing and implementing recommendations from CSBS and NASCUS.

Sunset Factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Recommendation 22: The Department should conduct and document an assessment of the need for rules related to A.R.S. §§6-1203, 20-108.01(C), 20-211(B), and 20-235(A). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute(s) to remove the requirements to adopt rules.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department continues to evaluate the need for updates to its enabling statutes to address deficiencies, redundancies, and modernization efforts as necessary. The Department will continue to work with the Arizona Legislature in the future to fulfill its mission and purpose.

Sunset Factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

Recommendation 23: The Department should continue to revise and implement its public records policies and procedures to help it comply with the State's public records law and recommended practices, including procedures and guidance for:

Recommendation 23a: Providing requests promptly, including developing internal time frames.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will revise its public records policies and procedures to provide the requesting party with a timeframe for fulfilling a request. DIFI revised policies will aim to better inform the requestor that their request is being worked on and provide approximate timeframe by which the request might be completed, barring any unforeseen circumstances.

Recommendation 23b: Providing requestors with an anticipated time frame for providing requested records, based on the Department's resources, nature of the request, content of the records, and location of the records, and notifying the requestor of any delays, as necessary.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As discussed in 23a, DIFI will review and revise its current policies to better inform requestors of anticipated timeframe of completion and of any unexpected delays in producing the requested records.

Recommendation 23c: Tracking and monitoring the group email inbox to ensure all records requests are recorded and responded to in line with the internal time frames or that the requestor is notified of any delays.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI is currently tracking all public record requests and will work to implement processes to notify requestors of any unexpected delays.

Recommendation 24: The Department should ensure its meeting agendas for its Mental Health Parity Advisory Committee include a notice to the public of the statutory section authorizing the executive session and provide an agenda for the executive session that states a general description of the matters to be considered.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review the Committee's public notice and ensure that it provides all information that is required under Arizona's open meeting laws.

Recommendation 25: The Department should develop and implement policies and procedures for the Mental Health Parity Advisory Committee to ensure it complies with all open meeting law requirements, including those related to executive sessions.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will implement policies that ensure the Committee's meetings comply with all applicable open meeting laws.

Recommendation 26: The Department should revise and implement the ATA Board's policies and procedures to include the specific open meeting law requirements that need to be followed during meetings.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AATA staff will incorporate specific open meeting law requirements into AATA policy and procedures that pertain to Board meetings.

Sunset Factor 6: The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

Recommendation 27: The Department should investigate and resolve insurance complaints within the time frames established through its goals and policies.

Department response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: DIFI consistently strives to handle all cases within the specified timeframes. However, certain extenuating circumstances may exist, such as 1) unexpected events or company system failures that result in sudden increased requests for assistance to the MRCS Division, 2) complex cases that may require a longer time to handle, 3) staff shortages, etc. DIFI will remain committed to meeting all internal time frames, barring any unexpected circumstances that could lead to reasonable delays.

Recommendation 28: The Department should revise and implement its complaint handling procedures to include time frames for:

Recommendation 28a: Following up with nonresponsive licensees that miss the deadline for responding to the complaint allegations.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review its existing policies that address non-responsive parties, and will determine the most efficient process by which to address such instances.

Recommendation 28b: Initiating and finalizing the review of licensee responses, including documenting instances where the final review may need to exceed the established time frame based on the circumstances of the case.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review existing policies and determine an efficient process of documenting instances where the final review may go beyond the established time frames based on circumstances.

Recommendation 29: The Department should revise and implement its case management procedures to include time frames for its investigators and supervisors to generate open complaint reports, including implementing steps for supervisors to track and monitor the timeliness of its open complaints and follow up with investigators to inquire about delays in investigating open complaints to facilitate complaint resolution.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: DIFI currently tracks team member performance, which is reviewed weekly, and has sufficient case management tools and procedures in place. DIFI will review its current processes and determine if there are more efficient tools and processes to improve its case management.

Recommendation 30: The Department should revise and implement its secondary review processes to include correcting errors in its complaint tracking systems when identified.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI will review its current processes to determine if there are more efficient practices to improve its secondary review.

Recommendation 31: The Department should investigate and assess the extent of missing and incorrect dates in its complaint tracking data, such as identifying missing dates or dates that are inconsistent with the sequence of case numbers and correct any errors it identifies. Once it corrects the errors, the Department should analyze its complaint-tracking data to determine the timeliness of its open complaints, and for any open complaints that are untimely, follow up with investigators to facilitate complaint resolution.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: DIFI has already adopted this recommendation and will continue to address the recommendation under its new revised policies.

Sunset Factor 9: The extent to which changes are necessary for the Department to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

Recommendation 32: The Department should work with the Legislature to make necessary statutory changes to more efficiently and effectively fulfill its key statutory objectives and purpose.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is always ready to provide the Legislature information to identify and discuss suggestions for statutory changes. The Department has worked with the Legislature in the past and will continue to provide information.

