

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 practices for managing conflicts of interest increase risk of nondisclosure. We made 23 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 23 recommendations

Implemented	9
Implemented in a different manner	1
Partially implemented	1
In process	7
In process in a different manner	1
Not implemented	4

We will conduct a 48-month followup with the Department on the status of the recommendations that have not yet been implemented.

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

1. The Department should strengthen its fraud-referral prioritization process by:
 - a. Developing and implementing a referral template, reporting requirements, and/or instructions that define the specific information and level of detail that insurance companies should provide when reporting suspected instances of insurance fraud.

Implemented in a different manner at 18 months—Rather than implementing a referral template with reporting requirements, the Department requires insurance companies to report suspected instances of insurance fraud to the Department through the National Association of Insurance Commissioners’ (NAIC) online fraud reporting system, from which the Department receives data and reports. This online reporting system includes instructions that define the specific information that insurance companies should provide when reporting suspected instances of insurance fraud.

- b. Developing and implementing a process to use available referral data to help identify fraud trends and prioritize fraud referrals.

Implemented at 36 months

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

Implementation in process—The Department implemented a new case management system in September 2021 and developed an associated process for reviewing and entering fraud referral information into this system. Additionally, the Department reported that it is in the process of drafting policies and procedures for this process, which will include an initial staff review of all fraud referrals to identify if the referral is related to any other cases and potentially part of a larger fraud trend, entering key fraud referral information for all

fraud referrals into the case management system, and then based on this information, the system will assign a score to the fraud referral to help determine its priority for investigation. Finally, a supervisor will review the fraud referral information, including the assigned priority level to ensure that the information is entered correctly and the referral is appropriately prioritized before assigning it to an investigator. The Department reported that it plans to complete the policies and procedures for this process by January 2023. We will further assess the Department's implementation of the policies and procedures during our 48-month followup.

- 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.

Partially implemented at 18 months—As of February 2021, the Department has updated its fraud unit case management policies and procedures to include flexibility for changing the fraud referral prioritization process based on fraud trends identified from outreach events. However, the Department has not yet evaluated the effectiveness of its outreach events and does not plan to do so, indicating that performing such an evaluation is not an effective use of fraud unit staff's time.

- 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.

Implementation in process in a different manner—As previously mentioned (see explanation for Recommendation 1c), the Department developed a new process for reviewing and prioritizing fraud referrals. Under this new process, the Department reported that each fraud referral it receives will undergo multiple reviews, including referrals not prioritized for investigation. The Department is in the process of developing policies and procedures for this process and plans to finalize them by January 2023.

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

Implementation in process—As indicated in the explanation for Recommendation 1c, the Department is in the process of developing policies and procedures for its fraud referral review and prioritization process and plans to finalize them by January 2023. However, although the Department reported that it trained its staff on its new case management system, because it has not finalized policies and procedures, it has not trained its staff on these policies and procedures. The Department reported that once it finalizes the policies and procedures in January 2023, it plans to train fraud unit staff on them during weekly staff meetings.

- 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.

Implementation in process—As indicated in the 18-month followup, the Department evaluated its prioritization process and identified the need for new case management software to better prioritize fraud referrals. The Department has implemented this new case management system, which prioritizes referrals based on victim and other information from the fraud referral entered by the Department. In addition, as indicated in the explanation for Recommendation 1c, the Department is developing policies and procedures for its fraud referral review and prioritization process and plans to finalize them by January 2023. The Department also indicated that it plans to continue evaluating its fraud referral review and prioritization process to identify opportunities for further changes and/or improvements.

- 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.

Not implemented—Although the Department has revised its fraud referral prioritization process (see explanation for Recommendation 1c) and has the ability to generate reports on the number and complexity of cases assigned to each investigator, it has not conducted a workload analysis to determine the level of resources it needs to investigate all high-priority fraud referrals it receives.

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

4. The Department should develop and implement a conflict-of-interest policy that (1) requires all employees to complete an annual disclosure form; (2) defines a process for managing any disclosed potential conflicts of interest to ensure the conflict will not interfere with the performance of the employee’s duties; and (3) defines a process for ensuring that completed forms are maintained in the Department’s separate special disclosure file for public inspection.

Implemented at 18 months

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.

Implementation in process—At the time of our initial follow-up report, the Department had developed a conflict-of-interest disclosure form for board members, policies and procedures requiring board members to annually complete this disclosure form, and a process for maintaining completed board member disclosure forms in a special file for public inspection. Additionally, the Arizona Workers’ Compensation Appeals Board had established a process for board members to verbally disclose substantial interests during board meetings. The Department is in the process of updating the Arizona Property and Casualty Insurance Guaranty Fund Board’s and the Arizona Life and Disability Insurance Guaranty Fund Board’s policies and procedures manuals to include a process for board members to fully disclose substantial interests during public meetings. According to the Department, it plans to finalize these policy and procedure updates by December 31, 2022.

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.

Not implemented—As indicated in the 18-month followup, although the Department had updated its conflict-of-interest disclosure forms for employees and public officers to require the disclosure of substantial financial interests, the Department’s form does not explicitly require the disclosure of a substantial interest in a decision of a public agency.

Sunset Factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated

7. The Department should improve its administration of long-term care insurance rate reviews by:
 - a. Researching an appropriate time frame and then providing information to the Legislature regarding the need to revise the statutory time frame in order to allow more time to review long-term care insurance rates.

Implemented at 6 months

- b. Establishing and implementing a formal process for notifying insurance companies to waive the time frame requirement for long-term care insurance rates.

Implemented at 6 months

- 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.

Implementation in process—In late 2021, the NAIC Long-Term Care Task Force developed a draft framework and a checklist to establish a consistent national approach for reviewing long-term care insurance rates. The Department reported that it is using the draft framework as much as possible when reviewing long-term care insurance rate filings and used the NAIC checklist to develop a revised checklist that aligns with State laws and regulations. However, the Department did not provide any long-term care insurance rate reviews it had conducted using the draft framework and its revised checklist for our review. Therefore, we will further assess the Department's implementation of this recommendation during our 48-month followup.

- 8. The Department should determine whether the Insurance Consumer Advisory Board is necessary and provides value to the Department and, based on its determination, take appropriate steps to either form this body to perform its statutory function or provide information to the Legislature regarding the need for a statutory change to sunset this body.

Implemented at 6 months

- 9. The Department should determine whether it is necessary to reconvene the Continuing Education Review Committee. If the Department determines it is not necessary to reconvene this body, it should provide information to the Legislature regarding the need for a statutory change to sunset this body.

Implemented at 6 months

- 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.

Implementation in process—The Department has drafted updated policy and procedure manuals for the Arizona Property and Casualty Insurance Guaranty Fund and the Arizona Life and Disability Insurance Guaranty Fund and plans to finalize the updated manuals by December 31, 2022.

- 11. The Department should ensure that all required reconciliations are completed and that a monthly financial review is being performed and subsequently verified by Department leadership, consistent with SAAM requirements.

Implemented at 18 months

- 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.

Not implemented—The Department underwent a network cybersecurity assessment, conducted by an Arizona Department of Administration's Arizona Strategic Enterprise Technology (ADOA-ASET) third-party contractor, in December 2020. As indicated in our 18-month followup, the Department reported that it planned to update and implement its IT policies and procedures based on the results of this assessment by December 2021. However, as of December 2022, the Department reported that it is still working to address the areas identified by the cybersecurity assessment and does not have an estimated time frame for implementing updated IT policies and procedures because it is focusing on higher priority IT projects.

- 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.

Not implemented—See explanation for recommendation 12.

14. 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.

Implementation in process—As indicated in our 18-month followup, as part of the Department’s consolidation with the Arizona Department of Financial Institutions and the Arizona Automobile Theft Authority, the Department’s new leadership team met with ASET and requested a 6-month accounting of services provided by ASET and associated invoices for these services. However, the Department reported that ASET has yet to provide the requested information. According to the Department, it reached out to ASET again in January 2022.

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

15. The Department should conduct rulemakings to adopt or revise rules it has identified that need to be established, amended, or repealed.

Implemented at 36 months

Sunset Factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

16. The Department should ensure that it makes board meeting minutes or a recording of board public meetings for the boards it supports available for public inspection 3 working days following a meeting as required by statute.

Implemented at 18 months