

**LIFE INSURANCE COMPANY
OF ALABAMA**

INTERNAL AUDIT REPORT
AS OF JUNE 30, 2018



WILLIS BOATNER PUGH
CERTIFIED PUBLIC ACCOUNTANTS

**Internal Audit Report
Life Insurance Company of Alabama**

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**Internal Audit Report
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Listed below are the internal audit recommendations that were examined in the months of January through June 2018. A summary of suggestions for improvement by control is included for your information. Management may wish to develop a letter of response to this report to detail how items are going to be implemented or that a change will not be placed into operation for a specific suggestion.

Controls tested	Observations by Risk		
	High	Medium	Low
1. Fixed assets			X
2. Accounts payable		X	
3. Investments		X	
4. Payroll		X	
5. Agent file testing			X
6. Travel and Entertainment Testing		X	
7. Cash receipts		X	

The report includes our findings, suggestions for improvement and assessed level of risk. Below is the criteria used for the assessment of risk.

Assessment of Risk:

High (H) – Significant impact to the Company. Individually or aggregately material in terms of financial impact, external compliance violation, adverse publicity, significant or pervasive weakness in control environment, significant inefficiencies, etc.

Medium (M) – Moderate in terms of impact to the Company. Individual instance or an aggregate of low risk items considered moderate terms of financial impact, compliance violation, adverse publicity, weakness in control environment, efficiency, etc.

Low (L) – Low in terms of impact to the Company. Relatively immaterial in terms of financial impact, no external compliance violation, little adverse publicity, minor inefficiencies, etc.

**Internal Audit Report
Life Insurance Company of Alabama**

**Internal Audit Summary Report
Fixed Assets**

Observations by Risk		
H	M	L
		X

Background:

This test was an assessment of the internal controls related to fixed asset. It was included in the internal audit plan due to the importance of having proper capitalization or expensing procedures.

Scope and Approach:

Our evaluation included the following procedures related to fixed assets of the Company:

- Developed an understanding of the processes and controls in place for fixed assets by obtaining the Company's capitalization policy.
- Evaluated the accuracy and completeness of expenses incurred during the first and second quarters of 2018 as they related to fixed assets or repairs and maintenance and verified they were in compliance with the Company's policy. Evaluate the assets added to the fixed asset detail as being properly capitalized and that asset lives were in compliance with the Company's capitalization policy.
- Verified that the subsidiary ledger of fixed assets agreed to the general ledger.

Key Highlights:

- For the first and second quarter of 2018 expenditures described above, no observations were noted.
- For the verification of the subsidiary ledger to the fixed asset schedule for the first and second quarter, no observations were noted.

Suggestions for Improvement or Observations Noted:

- During the first and second quarters of 2018 testing, we noted no additional suggestions for improvements or observations.

**Internal Audit Report
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**Internal Audit Summary Report
Accounts Payable**

Observations by Risk		
H	M	L
	X	

Background:

Accounts payable is a critical portion of the Company’s financial records and can be subject to fraud without careful reconciliation and oversight. This test was an assessment of the internal controls related to accounts payable. It was included in the internal audit plan due to the importance of having proper controls over expenses incurred by the Company and proper payment and review procedures.

Scope and Approach:

Our evaluation included the following procedures related to the accounts payable of the Company:

- Developed an understanding of the processes and controls in place for accounts payable by obtaining the Company’s cash disbursement policy. Develop an understanding of each key control the Company has over cash disbursements.
- Obtain a detail of all disbursements from account 112200 for the first six months of the 2018 year and sorted the detail by check type. Randomly selected 30 checks from each type of disbursement: general accounts payable expenses, LSP and HCP expenses to test for proper key control compliance.
- From the sample selected, each significant control area for general accounts payable was tested for proper compliance with the policy. Controls tested were as follows:
 - Two staff members approved the invoice.
 - Checks were filed in the electronic system with all required documentation to support the expense.
 - Checks were properly posted to the general ledger and general ledger account selected appeared to be appropriate.
 - Check amount posted to the general ledger agreed to the electronic system scanned file.
- From the sample selected, each significant control area for LSP disbursements was tested for proper compliance with the policy. Controls tested were as follows:
 - Approval of payment was noted.
 - Checks were filed in the electronic system with all required documentation to support the expense.
 - Checks were properly posted to the general ledger and general ledger account selected appeared to be appropriate.
 - Check amount posted to the general ledger agreed to the electronic system scanned file.

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**Internal Audit Summary Report
Accounts Payable - Continued**

- From the sample selected, each significant control area for HCP disbursements was tested for proper compliance with the policy. Controls tested were as follows:
 - Check copy was located in the electronic system.
 - Documentation was in the electronic policy folder stating why there was a reimbursement and medical reports, if necessary, were included.
 - Payment was approved and agreed to policy application

Key Highlights:

- For the sample of general expenditures, LSP expenditures and HCP expenditures selected for the first six months of the 2018 year, no observations were noted.

Suggestions for Improvement or Observations Noted:

- During the first six months of the 2018 year testing, we noted no additional suggestions for improvements or observations.

Suggestions for Improvement or Observations Noted in Previous reports:

- During the first and second quarters of 2018 testing, we noted no additional suggestions for improvements or observations.

**Internal Audit Report
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**Internal Audit Summary Report
Investments**

Observations by Risk		
H	M	L
	X	

Background:

This test was an assessment of the internal controls related to investments. It was included in the internal audit plan due to the importance of having proper investment policies and procedures due to the value of the Company's balances.

Scope and Approach:

Our evaluation included the following procedures related to investments of the Company:

- Developed an understanding of the processes and controls in place for investments by obtaining the Company's investment policy.
- Agreed each month's postings from the brokerage statement activity to the general ledger from January 2018 to June 2018 and suggested any journal entries as necessary.

Key Highlights:

- There were no significant differences between the investment statements and the posting in the general ledger for the period from January 2018 until June 2018. Any monthly differences were timing differences that cleared the next month.

Suggestions for Improvement or Observations Noted:

- During the first and second quarters of 2018 testing, we noted no additional suggestions for improvements or observations.

**Internal Audit Report
Life Insurance Company of Alabama**

**Internal Audit Summary Report
Payroll**

Observations by Risk		
H	M	L
	X	

Background:

This test was an assessment of the internal controls related to payroll. It was included in the internal audit plan due to the importance of having proper payroll policies and procedures. This is an area that can be subject to external audits from federal, state or local agencies.

Scope and Approach:

Our evaluation included the following procedures related to payroll of the Company:

- Developed an understanding of the processes and controls in place for payroll.
- Received a list of all employees employed as of March 2018 and selected 30 employees for testing (not selecting employees from previous reports testing).
- The following items were tested in the employee files for the 30 employees selected:
 - Salary was approved in the employee file or minutes
 - Employee evaluations were in the file, if required
 - An I-9 form was completed if the employee was hired after the date required
 - A copy of the employee's driver's license was in the file, if required
 - A copy of the employee's social security card was in the file, if required
 - A signed confidentiality agreement was in the file.
 - An application was in the file
 - E-verify was completed if the employee was hired after the requirement date
 - A new hire form was completed if hired after the requirement date
 - A form A-4 and W-4 was completed
- The following items were tested for the month of March 2018 payroll for the 30 employees selected:
 - The gross amount paid agreed to the approved payroll amount in the employee file
 - A time sheet was completed, signed by the employee, approved and hours agreed to the gross amount paid, if required
 - Any sick time or vacation time included in the payroll was approved
 - The total amount paid for the month of March 2018 agreed to the amount posted in the general ledger for March 2018
- The total amount paid, net of withholdings, in March was traced to the March bank statements as properly clearing the bank account.
- For the payroll dated March 31, 2018, the following items were recalculated for the 30 employees selected:
 - FICA
 - City of Gadsden withholding
 - 401(k) withholding amount

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**Internal Audit Summary Report
Payroll – Continued**

- Obtained a detail of the accrued sick leave hours as well as the hourly rates of the corresponding employees.
- Attempted to obtain a detail of the sick leave taken by company executives over the last three years.

Key Highlights:

- There were no exceptions noted during the testing of the employee files.
- There were no exceptions noted while testing the month of March 2018 payroll.
- There were no exceptions noted while recalculating the tax returns examined.
- There were no exceptions noted while agreeing the net amount paid for March to the bank statements.
- There were no exceptions noted during the recalculation of the FICA amounts withheld.
- There were no exceptions noted during the recalculation of the City of Gadsden withholding.
- There were no exceptions noted during the recalculation of the 401(k) withholding amounts.

Suggestions for Improvement or Observations Noted:

- During the March 2018 testing, we noted no additional suggestions for improvements or observations.

**Internal Audit Report
Life Insurance Company of Alabama**

**Internal Audit Summary Report
Agent File Testing**

Observations by Risk		
H	M	L
		X

Background:

This procedure was tested to verify all required agent documentation is included in the agent's file.

Scope and Approach:

Our evaluation included the following procedures related to new agent file documentation:

- Received a listing of all new agents from the period of January 2018 to June 2018.
- Received a list of all required documents to be included in the agents file.
- Randomly selected 25 agents to test from the period provided.

Key Highlights:

- Verified the following items were in the agent's file for Individual Agents:
 - Application
 - E&O application or declination
 - Agents agreement
 - Signed schedule of commission
 - Copy of agent's license
 - State appointment fee
 - Copy of check or direct deposit information
- Verified the following items were in the agents file for Corporation or Partnership Agents
 - Application
 - E&O application or declination
 - Agents agreement
 - Signed schedule of commission
 - Copy of agent's license
 - State appointment fee
 - Copy of check or direct deposit information
 - W-9, or correct information on application (Partnership only)

Suggestions for Improvement or Observations Noted:

- There were no exceptions noted during this testing.

**Internal Audit Report
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Travel and Entertainment Policy

Observations by Risk		
H	M	L
	X	

Background:

This test was an assessment of the internal controls related to travel and entertainment. It was included in the internal audit plan due to the importance of having proper controls over the Company’s travel and entertainment expenses. This risk for this control is considered high because of the external compliance violations that could occur with the IRS and adverse publicity if the policy is not followed properly.

Scope and Approach:

Our evaluation included the following procedures related to the travel and entertainment policy of the Company:

- Developed an understanding of the processes and controls in place for travel and entertainment by obtaining the Company’s Travel & Business Expense Reimbursement Policy.
- Obtained a detail of all disbursements from accounts 185-Travel, 818-Entertainment, 817-Meals and 816-Lodging for January 2018 to June 2018. All expenses posted to these accounts were tested for the following:
 - The expense was submitted for reimbursement no later than 30 days following the completion of a trip.
 - Overall documentation of the expense included names and identity of the individuals present, the business purpose, name and location of where the expense took place, exact amount and date of the expense and receipts for all expenditures
 - Mileage or gas reimbursement should include date and purpose of trip, location traveled to and from, mileage and receipts.
 - Meal reimbursement should include name and identity of individuals present, business purpose, name and location of where the meal took place, receipt and date of the expense.
 - Miscellaneous expense reimbursement should include a copy of the receipt, names and identity of individuals present, business purpose and type of expense.
 - An expense report should be submitted by each employee requesting reimbursement and the report should be reviewed and approved.
 - The expense was reviewed for the correct account charged and the expense appeared appropriate.

**Internal Audit Report
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Travel and Entertainment Policy (Continued)

Observations by Risk		
H	M	L
	X	

Key Highlights:

- Some expenses listed under meals or entertainment upon closer inspection were actually personal items. These are personal expenses and should be reimbursed by the employee.

Suggestions for Improvement or Observations Noted:

- The exceptions noted are not considered material.

Additional Notes:

- Some items that were not valid business expenses which were not reimbursed have been accounted for by issuing the employee a 1099-MISC. This process is being reviewed further to verify it fulfills its purpose.

**Internal Audit Report
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**Internal Audit Summary Report
Cash Receipts**

Observations by Risk		
H	M	L
	X	

Background:

This test was an assessment of the internal controls related to accounts receivable/cash collections. It was included in the internal audit plan due to the importance of having proper controls over receipts that are deposited or mailed to the Company.

Scope and Approach:

Our evaluation included the following procedures related to cash receipts of the Company:

- Developed an understanding of the processes and controls in place for cash receipt by obtaining the Company's cash receipt policy. Develop an understanding of each key control the Company has over cash receipts.
- Obtain a detail of all receipts in account 112100 for January 2018 to June 2018. Randomly selected 30 receipts to test for proper key control compliance. The sample included both ACH and check deposits.
- From the sample selected, each significant control area for cash receipts was tested for proper compliance with the policy. Controls tested were as follows:
 - Deposit amount was agreed to supporting documentation and checks deposited were footed with a control tape.
 - Summary control slips were scanned for electronic filing, deposited into the bank account and recorded in the general ledger.
 - ACH and check deposit amounts were traced to clearing the bank statement.
 - For deposits that were only checks, checks were footed to the deposit total.
- Reviewed two months bank reconciliations for proper reconciliation and review.
- One day's deposit detail was received each six months that listed each policy holders account number and amount paid. This detail was footed and agreed back to the deposited amount. Each policy holder's payment was traced to being properly applied to their account balance in the general ledger system.

Key Highlights:

- For the sample of cash receipts selected for January 2018 to June 2018, no observations were noted.
- During the review of the bank reconciliations there were no observations noted.
- During the testing of one day's deposit detail there were no observations noted.

Suggestions for Improvement or Observations Noted:

- During first and second quarters of 2018 testing, we noted no additional suggestions for improvements or observations.

**Internal Audit Report
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Summary of Suggestions for Improvements

Fixed Assets

- No exceptions or suggestions noted.

Accounts Payable

- No exceptions or suggestions noted.

Investments

- There were no significant differences between the investment statements and the posting in the general ledger for the period from January 2018 until June 2018. Any monthly differences were timing differences that cleared the next month.

Payroll

- No exceptions or suggestions noted.

Agent File Testing

- No exceptions or suggestions noted.

Travel and Entertainment

- The exceptions noted are not considered material.

Cash Receipts

- No exceptions or suggestions noted.