

August 7, 1997

Members of the Legislative Audit Committee:

The Texas Department of Insurance (Department) continues to improve its operations related to the liquidation of insolvent insurance companies and its monitoring of the insurance guaranty associations. The Commissioner of Insurance serves as the Liquidator of insolvent insurance companies and carries out these responsibilities through Liquidation Oversight, a part of the Department.

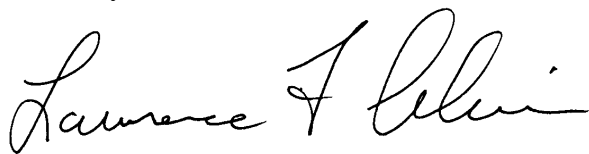
Liquidation Oversight's procedures are effective in adequately communicating the status of the Department's oversight responsibilities to senior management and the Commissioner. These procedures help ensure continued effective performance. All audit recommendations relating to liquidation oversight, including those made in December 1996, are now substantially implemented.

We recommend that the Department, through Liquidation Oversight, continue to make positive changes where necessary and provide effective oversight of the insurance guaranty associations and the liquidation of insolvent insurance companies.

Our review of the Department and other entities involved in the liquidation of insolvent insurance companies will continue through our Office's normal, ongoing risk assessment process. Due to statutory changes in legislation enacted in the 75th Legislature, our audit responsibilities over Liquidation Oversight are changing from mandatory to discretionary.

This letter satisfies our reporting obligations within Article 21.28, Section 12 (d) of the Insurance Code. This Article requires the State Auditor to report on the Commissioner of Insurance in his capacity as the Liquidator of insolvent insurance companies. We commend the Department for its continuing efforts to improve and meet its responsibilities, and thank its employees for their assistance in conducting this audit.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

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cc: Mr. Elton Bomer, Commissioner of Insurance