



National Council of County Association
Executives Insurance Meeting New Orleans

MONITORING SERVICE PROVIDERS

Presented by:

Bonnie Hunt, Audit Director

David Moore, Audit Director

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About P&N

- CPA Firm Founded in 1949
- Largest firm in the state of Louisiana
- Perform audits, tax and consulting services primarily in the gulf south region
- Ranked in top 100 firms by Inside Public Accounting



About P&N

Large concentration of clients in both the governmental and insurance arena

Insurance Client Base	Governmental Client Base
Public Entity Risk Pools	Retirement Systems
Worker's Compensation	Research Facilities
Health Plans	Health Care Services
General Liability	Human Resources
Life	Program Integrity Analysis

About P&N

- **Memberships:**
 - **AICPA** Governmental Audit Quality Center
 - **IASA** – Insurance Accounting and Systems Association
 - **AGRIP** – Association of Governmental Risk Pools
 - **LASIE** – Louisiana Association of Self Insured Employers



Presentation Objectives

- Monitoring service providers
 - Investment Manager/Advisor
 - Actuary
 - Third-Party Administrators
 - Auditors – Financial statement
- Understanding key processes and internal control related to service providers



Monitoring Service Providers - Investments

- What information should we receive?
 - Conduct regular meetings
 - Asset allocation and Portfolio yields vs. benchmarks
 - Fixed income portfolio distribution by rating
 - Exposure to distressed sectors and securities
 - Overview of market conditions & outlook
 - Monitor compliance with investment policy (ensure regularly reviewed and updated)



Monitoring Service Providers - Investments

Questions that should be asked:

- Does the Investment manager have custody of assets vs. investment management responsibilities?
- Does the service provider accept fiduciary responsibility for investment decisions?
- How do my returns compare to targets, benchmarks, etc.?
- How does this portfolio differ from other similar organizations you serve?
- Are there any hard to value securities and what was the process for valuing these securities?



Monitoring Service Providers – Actuary

Actuarial services

- Verify actuary's understanding of business developments
- Understand reserving methodologies
- Key assumptions, drivers of the IBNR reserve projections
- Retrospective review of prior estimates
- Industry trends



Monitoring Service Providers – Actuary

Questions that should be asked:

- Were there changes in your methodologies?
- Explain favorable/unfavorable development in prior years.
 - How did this impact current year reserving practices?
- Any future concerns in our lines of business?
- Do you have any concerns of the quality and consistency of data you received?
- If reserves are discounted, how does our discount rate compare with our peers and investment portfolio?

Monitoring Service Providers – Claims TPAs

- Claim Third-party Administrators (TPAs)
 - Written reports on key claims metrics
 - Reports on open/closed claims
 - Reports on loss cost trends
 - Large loss review
 - Claims audit results
 - Obtain an overview of key processes and controls – see later SOC discussion

Monitoring Service Providers – Claim TPAs

Questions that should be asked:

- Have there been any significant changes or trends in volume or severity of claims?
- What are the various authority levels in place for reserves and making payments?
- How often are case reserves reviewed and who has authority to change?
- Was a claims audit or a service auditors report (SSAE16) prepared over the TPA?

Service Organization Controls (soc)

SSAE 16

- New guidance for Service Organizations – no longer SAS 70 language
- These reports will explain the processes and controls of the Service Organizations
- Important to read reports along with findings
- Reports include **User Entity Controls** - these are items your organization should have in place in order for reliance on report to be effective

Monitoring Service Providers – Auditors

- What is the purpose of the audit?
 - Financial statement audit
 - Claims audit
 - Special purpose
- What requires the audit? Beware of deadlines.
 - State Department of Insurance
 - State Legislative Auditor
 - Written governance policy

Monitoring Service Providers – Auditors

- Review of audit plan including coordination with other service providers
- Best practice for Board/audit committee to meet separately with the auditor
- Annual review/acceptance of audited financial statements
 - Communication with those Charged with Governance
 - Management Letter or internal control letter

Monitoring Service Providers – Auditors

- Questions that should be asked of **financial statement auditor**:
 - What significant or elevated risks of financial statement misstatement did you identify during your audit?
 - Were there any audit adjustments and what does this mean to me?
 - Were there any audit adjustments that you passed on?
 - What were your testing procedures on significant estimates?
 - Were there any difficulties/disagreements with management?

Questions?

[Bonnie Hunt](#)

[225-408-4407](tel:225-408-4407)

bhunt@pncpa.com

[David Moore](#)

[225-922-4616](tel:225-922-4616)

dmoore@pnapc.com