

NCHE Workers' Compensation Fund, Inc.

Cary, North Carolina

Report on Limited-Scope Examination

As of December 31, 2013

NCHE Workers' Compensation Fund, Inc.

Table of Contents

Report on Limited-Scope Examination	2
Notary	3
Fund Background and Appointed Actuary	4
Scope of the Examination	4
Examination Procedures	5
Summary of Examination Objectives and Findings	5
Appendix A – Report Distribution	8

NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

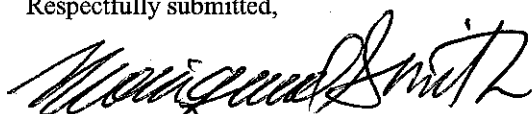
Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted a limited-scope examination of **NCHE Workers' Compensation Fund, Inc.** (“Fund”) as of December 31, 2013. The Department’s last full-scope examination was as of December 31, 2008. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Fund’s December 31, 2013 Annual Statement (“AS”).

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Fund’s 2013 AS as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Fund’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2013. This report is not intended to communicate all matters of importance for an understanding of the Fund’s financial condition as of December 31, 2013. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

July 25, 2014

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Ke Xu, Assistant Chief Financial Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature:

Ke Xu
Ke Xu

Date:

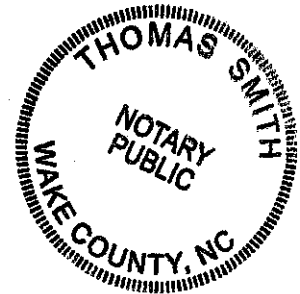
8/28/2014

Sworn and subscribed before me this 28 day of August, 2014.

Notary Public Signature:

Thomas Smith

Notary Public Seal:



NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

As of December 31, 2013

1. Fund Background

The Fund was incorporated on September 9, 1993, and commenced business on October 1, 1993. The Fund is licensed as a self-insured group fund to provide workers' compensation insurance coverage for its member hospitals or healthcare networks in the state of North Carolina ("NC").

The Fund is sponsored by the North Carolina Healthcare Enterprises, Inc., a wholly-owned subsidiary of NCHA, Inc. ("NCHA"), also known as North Carolina Hospital Association. NCHA is a statewide trade association representing over 100 hospitals and healthcare networks. Pursuant to GS § 58-47-65(c), all of the Fund's participants are members of NCHA. North Carolina Healthcare Enterprises, Inc. operates under the trade name of North Carolina Hospital Association Strategic Partners ("Strategic Partners").

The Fund is managed by McNeary, Inc. ("McNeary"), a Managing General Agent ("MGA"), which provides administrative services including, marketing, underwriting, loss control services, management, accounting and placement of excess insurance coverage. Allied Claims Administration, Inc. ("Allied"), a service company owned equally by McNeary and Healthcare Insurance Resources, Inc., a wholly owned subsidiary of Georgia Hospital Association, provides claims administration services to the Fund.

2. Appointed Actuary

Workers' compensation self insurance companies are required to file annual statements in accordance with the appropriate NAIC Annual Statement Instructions Handbook, pursuant to GS § 58-47-60(3) and § 58-2-165(c). The Annual Statement Instructions require the statement of the appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items included on or attached to the annual statement. Actuarial opinions regarding the Fund's reserves for loss and loss adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the data of the loss and loss adjustment expense reserve provided by the Fund for reasonableness and consistency. According to the actuarial opinion, the Fund's reserves for losses and loss adjustment expenses met the requirements of the insurance laws of NC; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Fund.

3. Scope of the Examination

The scope of this examination was limited to a review of the following areas relative to the 2013 AS:

- a) Cash and Investments
- b) Claims and Reserves
- c) Premiums and Underwriting
- d) Reinsurance
- e) Operations

NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

As of December 31, 2013

4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Substantive testing of underlying data and transactions;
- 3) Review of the Fund's underwriting;
- 4) Review of reinsurance contracts;
- 5) An actuarial review of the Fund's reserves by the Department's Actuarial Services Division ("ASD");
- 6) Confirmation of reported balances with third parties; and
- 7) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a) Cash and Investments

- 1) Examination Objective: To verify existence, valuation and ownership of the bonds, common stocks, cash, and short-term investments as reported in the Fund's 2013 AS.

Findings

We noted no adverse findings with the reported balance of bonds, common stocks, cash and short-term investments totaling \$10,097,892, \$4,034,991 and \$1,770,622, respectively, as of December 31, 2013.

- 2) Examination Objective: To determine whether the Board of Directors ("Board") reviewed investment transactions, in accordance with GS § 58-7-168.

Findings

Based on our review of the meeting minutes, the Board appears to review and approve the Fund's investment transactions in accordance with GS § 58-7-168.

b) Claims and Reserves

- 1) Examination Objective: To verify the accuracy and completeness of paid claims derived from direct business.

Findings

We noted no adverse findings in relation to paid claims totaling \$3,325,623, as reported in the Fund's 2013 AS, Underwriting and Investment Exhibit.

- 2) Examination Objective: To review the Fund's reserving assumptions and methodologies for appropriateness and the estimates of losses and loss adjustment expense for reasonableness.

Findings

We noted no adverse findings regarding the assumptions and methodologies used by the Fund for its reserves for losses and loss adjustment expense totaling \$7,806,846 and \$824,082, respectively, as of December 31, 2013. Based on our review, the reserve amounts appear reasonable.

NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

As of December 31, 2013

c) Premiums and Underwriting

- 1) Examination Objective: To verify policies are being written in accordance with the Fund's established underwriting guidelines.

Findings

We tested a sample of policies for compliance with the Fund's established underwriting guidelines noting no adverse findings.

- 2) Examination Objective: To determine whether the Board reviews the annual report of the Underwriting Committee.

Findings

Based on our review, the Board appears to review the Underwriting Committee's annual report.

- 3) Examination Objective: To verify the accuracy and completeness of the total premium written from direct business.

Findings

We noted no adverse findings with the accuracy and completeness of the total premium written from direct business totaling \$7,563,802 included in the Fund's 2013 AS, Underwriting and Investment Exhibit.

- 4) Examination Objective: To verify proper valuation of the unearned premiums at December 31, 2013.

Findings

We noted no adverse findings with the reported balance of unearned premiums totaling \$198,217, as of December 31, 2013.

d) Reinsurance

Examination Objective: To verify that the Fund maintains continuous reinsurance coverage throughout the year and to determine whether reinsurance agreements contain appropriate contract terms and provisions to ensure transfer of risk.

Findings

Based on our review, the Fund maintained continuous reinsurance coverage throughout the year and the reinsurance agreements appear to appropriately transfer risk.

e) Operations

- 1) Examination Objective: To determine the Board's oversight of the Fund's operations.

Findings

GS § 58-47-120(h) and the Fund's bylaws require that the Board annually review the performance evaluation of the fund's Third Party Administrator ("TPA") or service company. In addition, It was noted that an independent underwriting and risk management consulting firm performed two separate reviews of the Fund's underwriting and claims files in 2013 and submitted their reviews to McNeary, Allied, and the Chairman of the Board. No documentation of the Board's review and findings was noted in the minutes of the Board meetings. The Fund is directed to comply with GS § 58-47-120(h) and its bylaws and ensure documentation of the Board's review is maintained annually.

NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

As of December 31, 2013

- 2) Examination Objective: To review Board's proper approval of payment of fees to McNeary and Allied.

Findings

We sampled a number of payments of fee transactions and noted no adverse findings. The Board appears to properly approve the payment of fees to McNeary and Allied.

- 3) Examination Objective: To review minutes of the Audit Committee for compliance with the Audit Committee Charter.

Findings

The Audit Committee Charter requires that the Audit Committee consist of no fewer than four members from the Board. During 2013, there were three board members serving the Audit Committee. The Fund is directed to comply with its Audit Committee Charter.

NCHE Workers' Compensation Fund, Inc.

Report on Limited-Scope Examination

Appendix A – Report Distribution

J. Michael Stevenson, Chairman of Board
4130 US Highway 64 East
Murphy, NC 28906

William Yaeger, President
McNeary, Inc
6525 Morrison Blvd, Suite 200
Charlotte, NC 28211