

North Carolina Operators Self-Insurers Fund

Tampa, Florida

Report on Limited-Scope Examination

As of December 31, 2013

North Carolina Operators Self-Insurers Fund

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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 North Carolina Operators Self-Insurers Fund (“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

February 27, 2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Herb Maltba, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: March 27, 2015
Herb Maltba

Sworn and subscribed before me this 27 day of March, 2015.

Notary Public Signature:  Notary Public Seal:



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1. Fund Background

The Fund commenced business on February 1, 1995, as a self-insured workers compensation group fund. The Fund is domiciled in North Carolina and organized pursuant to GS § 58-47. It was established to provide worker's compensation insurance at a low cost to McDonald's franchisees in the state of North Carolina. The Fund is owned by its members, that is, the McDonald's franchisees in North Carolina, and is managed by a board of trustees ("Board"). As a general rule, each trustee must be a member of the Fund. The Fund is subject to the rules and regulations of the North Carolina Industrial Commission.

The Fund has been managed by a third party administrator, Arthur J. Gallagher & Co. ("AJG"), since 1995. AJG provides administrative services including writing and administering worker's compensation policies for the Fund. The fees incurred for these services totaled \$120,000 in 2013.

The Fund has an agreement with Key Risk Management Services, Inc., ("Key Risk") in Greensboro, NC, for the administration of its claims servicing. The fees incurred for this service totaled \$204,415 in 2013.

The Fund has an investment management agreement with Wells Fargo Advisors, LLC. The investment management agreement allows the advisor to make sales & purchases of various investment securities, with Board approval, on behalf of the Fund. The fees incurred for this service totaled \$19,159 in 2013.

The Fund is not part of a holding company group and does not have a parent, subsidiaries, or affiliated companies.

2. Appointed Actuary

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

Actuarial opinions regarding the Fund's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in 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 Funds' reserves of loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; 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.

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.

3. Scope of the Examination

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

- a) Investments
- b) Reserves for Losses
- c) Premiums and Underwriting
- d) Surplus and Financial Reporting

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4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Analytical procedures and recalculation of account balances;
- 3) Substantive testing of underlying data and transactions;
- 4) Review of the Fund's underwriting;
- 5) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a) Investments

- 1) Examination Objective: To verify that the Board is approving the Fund's investment transactions in accordance with GS §58-7-168.

Findings

Examiners reviewed the Board minutes and noted no specific language regarding the approval of investment transactions for any specific period. The Fund is directed to record the Board's approval in the meeting minutes pursuant to GS §58-7-168.

- 2) Examination Objective: To determine whether the Fund is reviewing its banks for financial stability.

Findings

Examiners verified through inquiry with the Fund's administrator, that the Fund's Board made inquiries, at least on an annual basis, concerning the bank's overall financial standing and reviewed the bank's financial reporting to the Federal Deposit Insurance Corporation.

b) Reserves for Losses

- 1) Examination Objective: To verify the validity of the underlying claims data including policy number, name of insured, date claim was reported, amount paid and date paid.

Findings

We noted no adverse findings during our review of the Fund's direct losses paid totaling \$1,349,551 as reported in the Fund's 2013 AS.

- 2) Examination Objective: To verify the accuracy, completeness, and validity of the underlying data for unpaid claims reported on the Underwriting and Investment Exhibit, Part 2A of the Fund's 2013 AS.

Findings

We noted no adverse findings during our review of the Fund's direct losses totaling \$1,704,956 as reported in the Fund's 2013 AS.

- 3) Examination Objective: To determine if the actuarial methods and loss reserves reported by the Fund are accurate and appropriate.

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Findings

Examiners noted no adverse findings regarding the assumptions and methodologies used by the Fund to calculate its reserves for losses and loss adjustment expenses totaling \$1,985,169 and \$603,401, respectively, as reported in the 2013 AS. The reserves appear to be adequate as of December 31, 2013.

- 4) Examination Objective: To verify compliance with terms of the Fund's agreement with Key Risk.

Findings

Examiners identified no issues regarding compliance with the terms of the agreements with Key Risk.

- 5) Examination Objective: To verify the Fund's Board monitors and approves checks written by AJG and Key Risk for adherence with approved guidelines.

Findings

Examiners identified no adverse findings regarding the Board's monitoring and approval of checks written by AJG and Key Risk.

c) Premiums and Underwriting

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

Findings

There were no adverse findings in relation to premiums written totaling \$3,168,464 as reported in the Fund's 2013 AS Underwriting and Investment Exhibit.

- 2) Examination Objective: To ensure the Board monitors AJG for compliance with the Fund's underwriting policy and agreement.

Findings

Examiners identified no adverse findings.

d) Surplus and Financial Reporting

- 1) Examination Objective: To determine whether policyholder dividends declared and unpaid have been approved by the Board.

Findings

Examiners identified no adverse findings.

- 2) Examination Objective: To determine whether a liability was recorded when dividends were declared.

Findings

Examiners noted that when a policyholder dividend was declared and unpaid from 2010 through 2013, documentation was included in the Board minutes which stated "such policyholder distribution shall constitute a fixed liability of the Fund"... as of a specific date. Examiners verified that a liability was properly established and reported in the Fund's AS for the period.

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- 3) Examination Objective: Obtain a list of agreements and ensure payments made and received under the agreements align with the terms of the agreements.

Findings

Examiners reviewed all agreements with third parties who provide services for the Fund. We reviewed the terms of the agreements and verified the fees paid for the services provided under the agreements.

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Appendix A – Report Distribution

Mr. William Purcell, Chairman
Arthur J. Gallagher & Co.
North Carolina Operators Self-Insurers Fund
4904 Eisenhower Blvd, Suite 250
Tampa, FL 33634

Mr. Dennis Anderson, Secretary/Treasurer
Arthur J. Gallagher & Co.
North Carolina Operators Self-Insurers Fund
4904 Eisenhower Blvd, Suite 250
Tampa, FL 33634

Mr. Randall Squires, Administrator
Arthur J. Gallagher & Co.
North Carolina Operators Self-Insurers Fund
4904 Eisenhower Blvd, Suite 250
Tampa, FL 33634