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# BULLETIN

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**NUMBER 09-B- 02**  
**(Supersedes 08-B-05)**

TO: All Licensed Domestic Insurance Companies  
All Licensed Domestic Health Maintenance Organizations  
All Licensed Domestic Health, Medical and Dental Service Companies  
All Authorized Self-Insurers for Workers' Compensation

SUBJECT: Reporting Requirements Under 11 NCAC 11A.0500 ("CPA Audits")

DATE: August 18, 2009

**ATTN: PRESIDENT OR CHIEF FINANCIAL OFFICER**

Bulletin Number 09-B-02, which is effective immediately, has been issued to replace Bulletin Number 08-B-05. This Bulletin is intended to communicate certain reporting requirements of Title 11 of the North Carolina Administrative Code ("NCAC") Chapter 11 Sub-Chapter A .0500 ("CPA Audit Rule"). It is critical that the Company retain independent Certified Public Accountants ("CPAs") that are knowledgeable of the provisions of Chapter 58 of the North Carolina General Statutes ("GS") and the applicable provisions of the NCAC in order to render appropriate professional services.

The CPA Audit Rule requires an annual audit by independent CPA's of the financial statements reporting the financial condition and the results of operations (collectively "AFS") of a regulated entity.

Additionally, there are other reporting requirements throughout the year, as outlined below:

**Due October 1, 2009:**

1. Accountant's Appointment Letter
2. Designation of CPAs
3. Notification of Exemption from the CPA Audit Rule
4. Request for Exemption from the CPA Audit Rule

**Due "No Later Than" April 25, 2010:**

1. Request for Extension for Filing AFS

**Due May 10, 2010:**

1. AFS (2 originals)
2. CPA Internal Control Letter (2 originals)

**Due dates that fall on weekends or holidays will be due the next business day.**

*These dates are based upon 11 NCAC 11A.0500 referenced above. The above items **must** be received by the North Carolina Department of Insurance (at the address specified below) no later than the due dates specified. Items not received on a timely basis will be considered delinquent and may result in the initiation of adverse administrative proceedings against the company.*

**Notifications and requests to the North Carolina Department of Insurance ("Department") as specified in this Bulletin are to be addressed to the Assistant Chief Financial Examiner (contact information is provided at the end of this Bulletin). It is imperative that the address provided at the end of this Bulletin be used for notification to the Department. Failure to do so, may result in a delay of the receipt of your filing(s).**

**Designation of CPAs and Accountant's Appointment Letter ("AAL") - October 1, 2009**

Reference: 11 NCAC 11A.0505(b) .0506,.0514

The CPA firm will provide the AAL to its regulated entity. The regulated entity will complete the CPA Designation Letter, attach the AAL, and mail both to the Assistant Chief Financial Examiner no later than October 1, 2009.

11 NCAC 11A.0507

The Department's responsibility regarding the appointment of a CPA is only to disapprove those not qualified. The Department does not approve the appointment of a CPA firm.

### **Change in CPAs**

Reference: 11 NCAC 11A.0505(c)

The Department must be notified of a change of CPAs within thirty (30) days of the date the CPA is engaged.

**The above referenced Administrative Code should be consulted for additional information that is required to be submitted to the Department when changing CPAs.**

### **Exemptions - October 1, 2009**

Reference: 11 NCAC 11A.0501(b)

**Exempt Status:** Regulated entities having direct written premiums of less than \$250,000 and less than 500 policyholders in North Carolina at the end of the year are exempt from the CPA Audit Rule unless the Department makes a specific finding that compliance is necessary to carry out its statutory responsibilities. **However, the Regulated entities must notify the Department on or before October 1 of their exempt status.**

Reference: 11 NCAC 11A.0512

**Exemption Request:** Regulated entities required to comply with the CPA Audit Rule may request an exemption from these requirements. The Commissioner may grant such a request if compliance with this section would constitute a financial or organizational hardship upon the regulated entity. **An exemption may be granted at any time and from time to time for a specified period or periods.**

### **Extensions - April 25, 2010**

Reference 11 NCAC 11A.0503(b)

A regulated entity may request one extension for one period of up to 45 days. Requests may be approved after determination of "good cause." **The Department must receive requests for extensions on or prior to April 25, 2010.**

### **Audited Financial Statements and Other Required Filings-May 10, 2010**

Reference: 11 NCAC 11A.0504, .0508, .0510, .0515

Regulated entities are required to file with the Department on or before May 10, **two original** sets of its AFS and two copies of a Report of Matters Noted in an Audit Related to Internal Control Structure.

The above referenced Administrative Codes should be consulted to determine the required information that must be included in the AFS.

The CPA must prepare a report which evaluates the regulated entity's accounting procedures and systems of internal control, including any remedial action taken or proposed by the CPA, which shall be filed annually by the insurer with the Department at the time of filing of the AFS. Such report shall follow the "Form for Reports on Internal Control Structure Related Matters Noted in an Audit" described in Volume 1, Section AU 325, of the *Professional Standards of the American Institute of Certified Accountants*.

### **Other Filings- Adverse Financial Condition**

Reference 11 NCAC 11A.0509

Regulated entities must file with the Department any notification received from their CPA that an adverse financial condition is present. Notification of Adverse Financial Condition must be filed within five (5) days of receipt from the CPA.

### **Useful Hyperlinks**

For examples of the AAL and CPA Designation Letter, examples have been placed on the NCDOI Website. In order to access these,

1. Go to [www.ncdoi.com](http://www.ncdoi.com)
2. Click on NCDOI Divisions
3. Click on Financial Evaluation
4. Click on Financial Examinations
5. Click on CPA Audit Rule
6. Click on Examples of Correspondence Required

In order to access the North Carolina Administrative Code (referenced within this Bulletin):

1. Go to [www.ncdoi.com](http://www.ncdoi.com)
2. Click on About NCDOI
3. Click on LINKS
4. Click on Administrative Rules (T.11)
5. Click on Title 11 INSURANCE
6. Click on Chapter 11 FINANCIAL EVALUATION DIVISION
7. Click on Sub-Chapter A GENERAL PROVISIONS

**Contact Information**

Any questions concerning this Bulletin and all filings required by the CPA Audit Rule should be addressed to **Steve Johnson, Assistant Chief Financial Examiner**, via the following:

**E-mail Address:**

[Steve.Johnson@ncdoi.gov](mailto:Steve.Johnson@ncdoi.gov)

**Telephone #:**

(919) 807-6614

**Mailing Address: (Please disregard all previous mailing addresses)**

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