

Audit & Forensic Accounting

Coverholder Audit

Service Overview

Alan Gray LLC (AG) has extensive experience auditing all aspects of the Coverholder process from financial compliance reviews to claims handling/reporting, underwriting, and systems. Audits are tailored to the clients' needs and can range from reviewing specific areas of concern to comprehensive overviews regarding all relevant management aspects. A number of varied lines of business have been reviewed by AG's experienced staff including commercial general liability, medical malpractice, workers' compensation, transportation, and products liability. Additional program business lines such as school buses, security guards, and emergency services have also been successfully reviewed by the team. Often, law firms are contracted to undertake Coverholder audits, but considering their core competency is practicing law rather than performing audits, the results can vary and in many cases, the audits are considerably more expensive. AG has a proven track record in effectively managing successful audits and providing superior Return on Investment (ROI).

Performed Services

Compliance & Financial Reviews

- Confirm compliance with Program Administrator Agreement for banking, premium recording, insurance coverage, and policy issuance
- Testing of financial condition, segregation of duties, bank reconciliation, premium collection and remittance to the carrier
- Establish and maintain permanent audit files
- Assure compliance with international sanctions and guidelines including anti-money laundering procedures

Claims Review

- Ensure compliance with best practices
- Interview and review the quality of claims staff
- Identify and handle all coverage issues
- Evaluate the reserving practices, including timeliness and adequacy
- Review litigation management, quality control procedures and evaluation, and disposition of claims

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Performed Services (cont.)

Underwriting

- Review underwriting guidelines for comparison to industry standards/best practices
- Confirm compliance with established authority/guidelines including risk acceptance guidelines
- Review policy language and endorsements used relative to individual risks
- Test specifically selected files in order to ensure that certain attributes adhere to the guidelines

Systems Testing

- Determine level(s) of security
- Employ policy rating, policy issuance and statistical reporting
- Conduct billing and financial reporting

Sample Engagements

- AG was retained by a top Excess & Surplus Lines carrier to conduct a comprehensive premium, accounting and financial controls audit of a Managing General Agent (MGA)/Coverholder. The staff audited all aspects of the risk binding and reporting, Trust Account management and premium remittance to verify adherence with the Program Administrator Agreement. Specific activities included segregation of duties and internal controls, Trust Account reconciliation, Completeness Testing of bound and reported risks and timely remittance of premium. The audit uncovered various weaknesses that resulted in recommendations to enhance internal controls, improve the bank reconciliation process and strengthen the segregation of duties.
- For each of the last six years, AG has been retained to perform pre-binding renewal audits of a Third Party Administrator (TPA) managing large hospital malpractice program claims for a leading carrier. Focusing on effective claims handling, adequacy of reserves, and early identification of potentially large exposures, in addition to verifying compliance with the TPA Service Agreement, AG's audit expertise has contributed significantly to the overall successful management and profitability of the program.

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