



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Sean Dilweg, Commissioner

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Office of the Commissioner of Insurance Model Audit Rule Workgroup

Minutes
March 12, 2008
1:30 p.m. – 4:00 p.m.
125 South Webster Street
Room 227
Madison, WI 53707

Workgroup Members Attended: Steve Bablitch, Chair, Quarles and Brady; Bruce Roberts, Edgewood College; Amy Grinnell, Dean Health Systems; Brian Hogan, National Guardian Life Insurance Company; Mike Zimmer, Sentry Insurance; Tracy Massey, WEA Insurance Corporation; Jeff Kargus, SECURA Insurance; Terry Warfield, UW Madison; Karla Johnstone, UW Madison; Dan Vander Heiden, Church Mutual Insurance; Gwen Canady, Northwestern Mutual Life; Gail Hanson, State of Wisconsin Investment Board; Joseph Ziino, Mortgage Guaranty Insurance Corporation; Barb Johnson, Security Health Plan; Paul Zastrow, Thrivent Financial for Lutherans; Sharon Hartung, WPS Health Insurance.

OCI Representatives Attended: Commissioner Sean Dilweg, Deputy Commissioner Kimberly Shaul, Jennifer Stegall, and Roger Peterson.

Others Present: Susan Callanan, NML; Mike Jackson, Dean Health Systems; Gary Strohm, Strohm Ballweg; Chad Zuleger, WAHU/ WPPD; and Jeff Kargus, SECURA Insurance.

I. Opening Remarks

Sean Dilweg, Commissioner

Commissioner Dilweg welcomed the committee. It is important for the agency to know what the issues and concerns are on the model audit rule before a rule is submitted. The focus is narrow and we look to have 2 or 3 meetings. Commissioner Dilweg thanked the committee for their participation.

II. Introductions

Steve Bablitch, Chair

Chairman Bablitch led the introductions. Each committee member shared their background.

Chairman Bablitch shared background on the model audit rule. The model audit rule comes out of the NAIC. It is likely to become an accreditation standard. While OCI has not officially adopted this, it will likely do so in 2010. His goal is to understand what might create some problems for companies with this rule and modify processes as needed as we move forward. As a model rule for accreditation, there are some inherent limitations on modifications.

III. Overview of the NAIC Model Audit Rule

Roger Peterson, OCI

Roger gave a presentation on the model audit rule.

The presentation focused on:

- Comparison to SOX.
- Copies of letters of different trade associations.
- Status of where the rule is in other states.

Roger noted that the model rule was adopted in June in 2006. This was developed quickly after SOX felt it was appropriate that large non-public insurers be subject to audits. The goal was to get something that fit better for the mutual and non-public insurers.

The proposed effective date is 1/1/2010. This gives companies sufficient time to develop and transition and fund these changes for their internal documentation. WI. is relatively early in the process. Only Virginia and Alabama have fully adopted this rule. The NAIC is doing a quarterly survey on the progress of this rule. There are at least 18 other states that will be working with this in 2008.

There were questions from committee members:

When the rules are adopted by the state of WI., does this protect just impact WI. domiciled insurers or all?

Any consideration that WI. would extend the audit from 5 years to 7 years? This would be difficult because WI. has the 5 year rotation currently to be in accreditation nationally.

IV. Risk Assessment Standards Summary

Gary Strohm, Strohm Ballweg LLC.

Mr. Strohm shared his background. His firm primarily performs audits for insurance companies. He works primarily with non-public companies.

Mr. Strohm's presentation highlighted 8 new audit standards.

V. Break

VI. NAIC Model Audit Rule: Project Approach & Lessons Learned

Marty Chiaro, American Family Insurance

Mr. Chiaro shared his background. He gave a presentation on the project he led to implement the requirements of the model audit rule at American Family Insurance Group.

VII. Discussion and Feedback from Members

Steve Bablitch, Chair

There was discussion by the committee on the following:

- The timetable for the committee's work
- Effective date of the rule
- Definition of independent auditor
- Audit committee – charter and composition
- Standards for internal controls

VIII. Next Meeting

April 16, 2008 at 9:00 a.m.

Chairman Bablitch closed the meeting after noting the following:

- Future agenda items
- Questions can be emailed to Jennifer or Roger
- Start thinking about how you would want to approach your company boards
- Any agenda items should be in week of the next meeting
- The next meeting will be about two hours