

Auditor of State Bulletin

Date Issued: August 20, 2004

TO: Governmental Insurance Pools
Independent Public Accountants

FROM: Betty Montgomery
Ohio Auditor of State

SUBJECT: Audits of Governmental Insurance Pools

Ohio Rev. Code sections 9.833 (health insurance) and 2744.081 (liability insurance) permit local governments to form or join insurance pools to share the costs of managing risk with other governments. While the Auditor of State's Office (AOS) has been auditing some insurance pools, independent public accountants (IPAs) have been auditing others without audit contracts with AOS. Henceforth, all insurance pools are required to contract for independent audits through AOS, as authorized by Ohio Rev. Code §117.11(C).

The Auditor of State's Authority to Audit Insurance Pools

Ohio Rev. Code §117.10 requires AOS to audit public offices. An insurance pool as defined in both Ohio Rev. Code sections 9.833 and 2744.081 meets the definition of a public office since it is established as a separate legal entity to perform a public purpose or function of government and is exempt from all State and local taxes. Ohio Rev. Code §117.10 also authorizes AOS to audit local governmental insurance pools since they are "receiving public money for their use."

Contracting with Independent Public Accountants

As permitted by Ohio Rev. Code §117.11(C)(1), the Auditor of State has decided to competitively bid these audit contracts with IPAs. The *IPA Registration Process* and *IPA Contracting Process* portions of this Bulletin describe the administrative processes the Auditor of State uses to contract audits. Ohio Admin. Code Chapter 117-3 further describes the statutory IPA contracting requirements.

Transition

AOS is aware that some insurance pools have existing audit contracts with IPAs. These contracts will be honored until the end of their terms. After which, the Auditor of State will competitively bid all audits of insurance pools. Pools should submit a copy of

their current audit contracts¹ immediately to ~~AOS's Chief Auditor of Audit Administration at the following address:~~

~~Auditor of State of Ohio
Attn: Robert Greenwalt,
88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140~~

[http://
www.auditor.state.oh.us/
ipa/contracting.html](http://www.auditor.state.oh.us/ipa/contracting.html)

For those audits under existing contracts, AOS will require the pool to also submit a copy of the audited statements and any accompanying reports (e.g., management letters) to the above address.

IPA Registration Process

IPAs wishing to bid for audits of insurance pools must register with AOS by completing an *Audit Firm Data Sheet*,² available from any regional office and also posted to the AOS website, www.auditor.state.oh.us, under Organization, IPA Resources. The IPA should return the completed sheet to the attention of ~~Robert Greenwalt~~ at the address listed on the form. Firms that have previously filed an *Audit Firm Data Sheet* with the Auditor of State need not register again.

IPA Contracting Process

The Auditor of State has ~~eight~~ regional offices to serve local governments. Chief auditors will contact pools within their respective regions to discuss the IPA contracting process. The AOS website will also include notice that these audits are being bid. See www.auditor.state.oh.us/ipa_bid_list/bid_list.doc which lists basic information about the audit, client contact information, and the contract deadline.

Before the stated contract deadline, IPAs registered and in “good standing” with the Auditor of State may contact the individual identified on the request for proposal (RFP) as the pool’s “RFP Contact,” in the manner listed on the Bid List (e-mail, phone, mail), to express an interest in receiving the RFP.

After the AOS region and the insurance pool have worked together to select a reasonable number of qualified firms, the region will prepare an RFP and mail a copy to each selected IPA firm. However, the RFP must be submitted to at least three IPAs possessing the ability to meet the terms and conditions of the RFP. IPAs must then complete and submit a proposal that is responsive to the RFP requirements.

¹ ~~If the Pool and the IPA use an engagement letter to serve as a binding contract, the pool should submit a signed copy of the engagement letter to Robert Greenwalt.~~

² ~~Since August, 2003, AOS has also required each firm to submit a *Statement of Policy and Procedure Regarding Auditor Independence Under Amendment 3*, documenting compliance with the new Government Auditing Standard's Independence Standard (Amendment No. 3).~~

Both the insurance pool and AOS regional personnel will evaluate and score each proposal. Scoring considers qualifications, price, and other factors. The region will forward a summary of all scoring sheets and copies of all bid proposals for review and approval to the Chief Deputy Auditor and the Chief Auditor of Audit Administration. While pools may participate in preliminarily selecting those IPAs that receive an RFP and in scoring the proposals, the final selection will be made by the Auditor of State. This will be done, of course, with sensitivity to insurance pool scoring. Once the successful bid is formally approved, AOS prepares a Memorandum of Agreement (MOA) with the insurance pool and the IPA. The contract becomes final when all three parties have signed the MOA, and work may begin under the timelines the RFP and proposal provide.

Audit contracts typically cover five fiscal years. These pools' current auditors will be eligible to participate in the bidding process.

Accounting Standards

OAC 117-2-03 now requires pools organized under RC 9.833, 167.01 or 2744.081 to follow GAAP.

While these insurance pools may be subject to the actuarial and other reporting requirements of Ohio Rev. Code sections 9.833 and 2744.081, there is no requirement in Ohio Admin. Code Section 117-2-03(B) for insurance pools to follow generally accepted accounting principles (GAAP). However, considering insurance pools must have accurate information regarding accrued liabilities (such as incurred but not reported claims) to set proper rates, the Auditor of State ~~encourages~~ insurance pools to follow GAAP. Additionally, because insurance pools meet the definition of "public corporations," those following GAAP are subject to accounting standards prescribed by the Governmental Accounting Standards Board (GASB).³ Standards specific to insurance/risk management include GASB Statements Nos. 10 and 30 and GASB Interpretation No. 4. Those who prepare or audit an insurance pool's GAAP financial statements should also refer to other GASB pronouncements for applicability. The recent Government Accounting Standard No. 34 also applies to pools, which adds additional reporting requirements.

Auditing Standards

Pursuant to Ohio Admin. Code Section 117-2-05, IPAs auditing insurance pools must follow *Government Auditing Standards*. Information regarding these standards is accessible at www.gao.gov/govaud/ybk01.htm.

Evaluating Proposals

While IPAs must have an understanding of governmental accounting and auditing standards, a strong background in insurance industry auditing is critical. Therefore,

³ See additional guidance for determining entities subject to GASB standards in Sections 1.01 and 1.02 of the American Institute of Certified Public Accountants publication *Audits of State and Local Governmental Entities* (GASB 34 Edition).

proposals should stress insurance industry audit experience. Similarly, a lack of insurance industry experience will adversely affect a proposal's evaluation.

First Steps

Insurance pools, including those AOS has audited in prior years, should contact their AOS regional office to express their interest in contracting with an IPA. Once their current audit contracts expire, insurance pools that continue to hire IPAs without contracting through the Auditor of State will be subject to a second audit, with the cost charged to the pool.

If you have any questions regarding this Bulletin, please contact ~~Robert Greenwalt, Chief Auditor of Audit Administration, at (800) 282-0370.~~

your regional AOS
office, or
(800)282-0370.

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