

PUBLISHED ARTICLES

Examining Controls and Processes to Prevent The Submission of Inaccurate MCAS Data

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The submission of Market Conduct Annual Statement (MCAS) data has evolved greatly over the past 10 years. In April 2011, the NAIC launched a newly designed collection and processing system for MCAS data which includes a user friendly online form. With the form, submitting the data is simpler than ever and even includes some basic data validation measures for those of us who have an appreciation for controls. These measures are in the form of "edits" and provide a lower level of assurance that the data submitted is, indeed, accurate. This is a good start but makes one wonder how accurate the underlying data is and what controls are in place at the company to ensure data accuracy. The good news is examiners can achieve their data integrity objectives by performing a small amount of work.

Considering it is 2013 and the majority of companies use computer systems for processing, this article assumes that the MCAS data is maintained electronically within an application or database.

The first step to any exam involving the storage and processing of data on systems is an IT general computer controls (ITGC) review. An examiner needs to verify that the ITGCs supporting the application(s) that contain the MCAS data are designed, implemented and

operating effectively. As most companies already have their ITGC controls tested periodically as part of Sarbanes Oxley (SOX), Model Audit Rule (MAR) or Statutory Audits, this work has likely been done for you.

In the event prior testing has been performed, a reliance strategy may be used limiting the actual independent testing that needs to take place. Be sure to check that the testing was performed by a reputable firm with certified IT Security auditors and that the MCAS applications were within the scope of the work performed. Any deficiencies should be reviewed and evaluated as to the impact on the MCAS systems and integrity of data within them.

If testing has not been performed by others, or the testing performed is not satisfactory, utilize an industry standard IT Control framework such as those issued by ISACA's COBIT® or the National Institute of Standards and Technology (NIST) in order to develop an ITGC examination testing plan.

The testing should be focused on the application(s) that processes and stores MCAS data and the system software it resides on.

Just as with the reliance strategy, deficiencies should be evaluated to determine the potential impact to the integrity of MCAS data.

Once the ITGCs are confirmed to be in place and operating effectively, the next step is to determine if the process used to get the data from the MCAS application(s) into the hands of the individual(s) responsible for entering the data is well controlled. This data extraction process can be simple or complex depending on whether the MCAS application(s) contains the actual data elements requested on the MCAS form. Considering that the interrogatories on the online form request very specific data, it is unlikely that the MCAS application(s) stores the exact data element requested.

Additionally, the raw data in its native format is not likely usable by the individual responsible for MCAS data input and will need to first be converted to a usable format by IT. As we know, MCAS data is to be submitted by insurance line of business and by state. The individual responsible for entering the data to the form is not necessarily savvy with regards to developing queries or generating custom reports that would present the data at this level. As such, the generation of the data file needs to include several steps

and the processes supporting these steps:

- * Step 1 – Data Extraction, Import and Format
- * Step 2 – Query and Report Generation
- * Step 3 – Submission and Attestation

Data Extraction, Import and Format Processes

In order to generate a file with the necessary data elements into a format that is usable, the company will utilize some type of process to extract the data from the MCAS application(s). The process by which this data is extracted and subsequently imported is critical to the generation of accurate data. If the process does not include controls for ensuring data integrity, the potential risk for data quality issues is significant.

Considering companies will use the tools at their disposal, it is fair to assume that the source data will be extracted and brought into a tool such as Microsoft Excel (Excel) or Microsoft Access (Access) for further manipulation. This has been the case in my experience.

If the source application is able to generate a file in a format supported by one of these tools such as comma separated values or delimited, you can be fairly confident that the data maintains integrity through the import process.

Where problems can occur is when the source application is on a legacy platform that lacks the ability to generate a file that is cleanly imported by Access or Excel. In this case, the company's IT department needs to perform

some sort of manual process to import the data.

This manual process poses a significant risk to data integrity and should be carefully evaluated by the examiner.

As an example, consider a legacy system that generates a report containing the MCAS source data in only a .PDF report style format. Each page of the .PDF includes report headers and footers, as well as column headings, report totals and counts, etc. Using functionality within Excel and Access, someone savvy with these tools could get the data from the .PDF into a tabular format. However, once the data is within the tabular format, a fairly significant manual cleanup effort must occur to remove the headers, footers, and other unwanted remnants from the source report. Needless to say, a lot could go wrong during this process.

Though possible, it is unlikely that the initial report generated contains all the necessary data elements to complete the MCAS form. So to add to the complexity, additional data may need to be appended to the base level data from the same and/or alternate sources. These additional imports need to be examined just as the original import was.

Lastly, the preparers of the data file may add their own data elements to the file, using a function or calculation, in order to present all the data elements required by the MCAS form. A prime example of this is in Line 13-16 of the Life MCAS form requesting the number of years in the following groupings: Under 2 Years, Between 2 and 5 Years, Between 6 and 10 Years. The source

application probably does not categorize data at this level. However, this is easily accomplished using a function in Excel, although it does represent another avenue for potential data issues. The function and/or calculation used should be reviewed by the examiner.

The end result is a data file that is the basis for the queries and reports used to report the MCAS data elements.

To ensure the data retained integrity through the extraction, import and formatting steps, the examiner should select records within the data file and tie the fields that make up the record back to the source data within the application(s) or their supporting database(s).

Generate Queries and Reports

The final data preparation step is to create a file (or files) that provide data at the level required by the MCAS form. Recall that data is to be reported by line of business and state. Though it is possible to create and utilize individual reports for each line of business by state, if a company must report to many states, several reports would need to be generated and analyzed which is not very practical or efficient. It is more likely that IT will use the data file and create pivot tables in Excel or a custom form in Access, thereby allowing for the ability to select the state and possibly other factors needed for a specific submission. The data can also be presented in a summary format with the actual value requested by MCAS as opposed to the raw data in the data file. If a pivot table or custom form is utilized, the examiner should review the coding to ensure the correct data is being included to reach the MCAS value.

Submission and Attestation

Using the reports developed by IT, the individual(s) responsible accesses the MCAS form and enters the values. An officer of the company then “attests” to the submission by clicking a button on the online form. The examiner should perform a quick independent validation to confirm that the values entered match the reports developed. Additionally, the examiner should evaluate any evidence to show that a detailed review of the data was performed prior to attestation.

Final Thoughts

In summary, submitting MCAS data has come a long way over a decade. The submission of accurate data is of the utmost importance as regulators rely on this data to identify potential market conduct concerns. Submitting accurate data requires a company to implement controls around the processes that support the generation of its MCAS data.

The key processes that need to be controlled are the initial data extraction, import and formatting, generation of final queries and reports, and the submission and attestation.

The extent and complexity of the controls varies greatly depending on whether the process is highly manual or automated. The more manual the process, the more controls that need to be implemented. ■

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