

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
PO BOX 110805
JUNEAU, AK 99811-0805

Order # TA 05-01)
In the Matter of Audit of)
M.J. Hall & Company of Alaska, Inc)
_____)

FINDINGS OF FACT

1. An audit report of M.J. Hall & Company of Alaska, Inc, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to M.J. Hall & Company of Alaska, Inc.
2. The audit report of M.J. Hall & Company of Alaska, Inc (TA 05-01) has been transmitted to Suzy Baird, Compliance Officer, M.J. Hall & Company of Alaska, Inc (Auditee), and Auditee has been accorded at least 30 days' opportunity to review and comment on this audit report.
3. The director of the Division of Insurance has fully considered and reviewed the report and any relevant portions of the auditor's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written audit report referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).
2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).
3. The director of the Division of Insurance has reviewed the audit report and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

ORDER

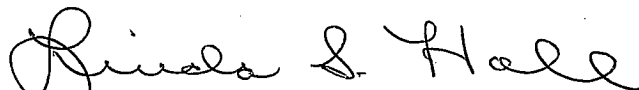
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of M.J. Hall & Company of Alaska, Inc (TA 05-01) is approved as filed.

2. Pursuant to AS 21.06.060, the audit report shall be kept in the office of the director of the Division of Insurance and be open to public inspection.

This order is effective May 18, 2006.

Dated this 18th day of May, 2006 at Anchorage, Alaska.



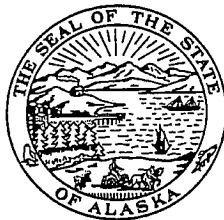
Linda S. Hall, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF
M.J. Hall & Company of Alaska, Inc.
Anchorage, Alaska

TA 05-01

as of December 31, 2004

Issued by
DIVISION OF INSURANCE
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC
DEVELOPMENT
STATE OF ALASKA



FINAL REPORT:
May 18, 2006

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Frank H. Murkowski, Governor
William C. Noll, Commissioner
Linda S. Hall, Director

March 23, 2006

Linda S. Hall, CPCU, CIC
Director, Division of Insurance
Department of Commerce, Community and Economic Development
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Pursuant to Alaska Statute (AS) 21.06.130, the Alaska Division of Insurance performed a limited and targeted premium tax audit of M.J. Hall & Company of Alaska, Inc. (the broker) on September 26 through September 28, 2005, in the broker's Anchorage, Alaska office. The audit was conducted by Rebecca Nesheim, revenue auditor for the Alaska Division of Insurance.

M.J. Hall & Company of Alaska, Inc.

SCOPE OF AUDIT

This premium tax audit was called to review compliance with the surplus lines statutes AS 21.34 and regulations 3 AAC 25 and the premium tax regulations 3 AAC 21.550 – 570. This is the first premium tax audit of M.J. Hall & Company of Alaska, Inc. conducted by the Alaska Division of Insurance.

Subject Matters Audited

M.J. Hall & Company of Alaska, Inc. is a licensed surplus lines broker in Anchorage, Alaska. As this agency ranked number two among all Anchorage surplus lines brokers in 2004 for premium tax and filing fees paid, the division elected to review their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness.

Time Frame

The audit covered the Broker's surplus lines business for the two years of January 1, 2003 through December 31, 2004.

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METHODOLOGY

The revenue auditor sent the call letter and initial data requests to M.J. Hall & Company of Alaska, Inc.'s office in Anchorage, Alaska. A list of all Alaska surplus lines business was requested for the period to be audited. M.J. Hall & Company of Alaska, Inc. complied timely with all data requests. The number of policies and endorsements written during the audit period was 1,400, from which a sample size of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly premium report summaries and report of surplus lines transactions were filed in a timely manner.
 - i) Audit steps taken:
 - (1) Reviewed the policy & declaration pages in each file.
 - (2) Reviewed the monthly files sent to the Alaska Division of Insurance and verified the policy was included in the monthly filing based upon the effective date of the policy.
 - (3) If the effective date did not match the monthly filing, reviewed the correspondence to ensure the documentation in the file matched when the policy was booked. Most of these occurred with endorsements that often require additional information and sometimes company approval before it can be added to the policy.
 - (4) The effective date may be a month or more prior to the actual book date or invoice date. In this case, the invoice date usually determined in which month the endorsement is required to be filed.
- 2) Verify the accuracy of all reports filed.
 - i) Audit steps taken:
 - (1) Verified the monthly & annual reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees.
- 3) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology to allocate.
 - i) The broker placed no business that was multi-state within the sample; thus, the standard is not applicable.
- 4) Verify due diligence reports were filed in a timely manner.
 - i) Audit steps taken:
 - (1) Based upon the effective date of the initial or renewal policy, verified the affidavit of due diligence was filed with the Alaska Division of Insurance as required by statute for those policies effective prior to July 1, 2004.
 - (2) Reviewed each file to ensure all files have an affidavit from the producer
- 5) Verify the accuracy of the premium calculation
 - i) Audit steps taken:
 - (1) Reviewed policy, declaration page, and invoices to determine how they calculated the premium. Then verified on the monthly reports as filed, the correct premium was reported.

- 6) Verify if annual and quarterly tax payments were made timely and by ACH.
 - i) Audit steps taken:
 - (1) Determined when the quarterly or annual tax payments were made to the Alaska Division of Insurance and the method of payment.
- 7) Verify if annual filing fees were made timely.
 - i) Audit steps taken:
 - (1) Determined when the fee payments were made to the Alaska Division of Insurance.
- 8) Verify tax and filing fees payments were made accurately
 - i) Audit steps taken:
 - (1) Determined if the quarterly tax payments matched the monthly reports as filed or 25% of the prior year tax.
 - (2) Determined if the annual filing fee payments matched the annual premium tax reports as filed.
- 9) Verify annual premium tax reports were filed in a timely manner.
 - i) Audit steps taken:
 - (1) Determined when the annual premium tax reports were mailed by the Alaska Division of Insurance.

Acceptable Error Rate:

The Broker's acceptable error rate for the above referenced standards and tests must be less than 10%.

PREMIUM TAX AUDIT

- | |
|---|
| <ol style="list-style-type: none">1. Verify monthly premium report summaries and report of surplus lines transactions were filed in a timely manner |
|---|

AS 21.34.080, 21.34.170, 3 AAC 25.100

Comments: The broker uses the software Jetfile to create the report of surplus lines transaction automatically. The policy type code does not automatically come up so it must be input manually in the proper location on the screen otherwise the report won't properly print. The report is set up so that once it is on the screen; they can make additions or changes to it before printing. The program also prints a monthly premium report summary. The Alaska office took over the preparation of the monthly filings beginning in January 2003. The January 2003 monthly report was due February 28, 2003 to the Alaska Division of Insurance but was received on March 10, 2003. The division uses the postmarked date to verify that the reports were timely filed; thus, verified that it was sent March 5, 2003. No other monthly reports during the audit period were received late. One file in the sample was affected by this late filing.

Result: Pass (49 files passed & 1 failed, error rate 2%)

Observations: The process set up by M.J. Hall & Company of Alaska, Inc. is working well for them. All subsequent filings were made timely.

Recommendation: M.J. Hall & Company of Alaska, Inc. should continue to follow their written procedures for preparation and remittance of the monthly reports to ensure timely receipt by the Alaska Division of Insurance.

M.J. Hall & Company of Alaska, Inc. Response to initial exception report: 09/28/05: In reviewing our records, the January 2003 report was the first report filed by the Alaska Office since opening the office on 1/15/03. We were working with Stanley Zhang on the proper procedures and paperwork to be filed. After the procedure was confirmed as accurate, it was implemented for all future reports. Since then there have been some enhancement to our agency management system, which allow for greater convenience in making the monthly filings.

2. Verify the accuracy of all reports filed

AS 21.34.080, 21.34.170, 3 AAC 25.090, 3 AAC 25.100

Comments: JetFile is set up to capture most of the information from the policies. There is very little manual input on the forms, which reduces human error. Most of the reports were filled out correctly. However, two policies' declaration pages show a policy effective date different from the policy effective date on the report of surplus lines transaction but the dates were only a few days off. It did not affect the month in which the policies were to be filed.

Result: Passed (50 files passed & 0 failed, error rate 0%)

3. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker wrote two multi-state placements during the year but these were not part of the sample.

Result: Therefore, the test is not applicable for any of the files in the sample

4. Verify due diligence reports were filed in a timely manner

AS 21.34.020, 3 AAC 25.030

Comments: The January 2003 monthly report was due February 28, 2003 to the Alaska Division of Insurance but was received on March 10, 2003. Since the division uses the postmarked date to verify that the reports were timely filed it was determined that it was sent on March 5, 2003. No other monthly reports during the audit period were received late. One file in the sample was affected by this late filing.

As of July 1, 2004, the affidavit is no longer required to be filed with the Alaska Division of Insurance. However, the affidavit must still be provided to the broker as proof of the due diligence review.

Result: Pass (49 files passed & 1 failed, error rate 2%)

Recommendation: M.J. Hall & Company of Alaska, Inc. should continue to follow their written procedures for maintaining the due diligence in each case file since the requirement to file them with the division was eliminated in statute.

5. Verify the Accuracy of the Premium Calculation

AS 21.34.180

Comments: The brokers fee was included in premium for the 2003 policies due to a prior requirement by the Alaska Division of Insurance. Late 2003, it was determined by the division that the brokers fees charged by M.J. Hall & Company of Alaska, Inc. should not be considered premium so they discontinued including the fee as premium as of 1/1/04. The only amounts included in premium in 2004 are the policy premium plus fees charged by the company, such as policy fee and inspection fee.

Result: Pass (50 files passed & 0 failed, Error Rate 0%)

Observations: M.J. Hall & Company of Alaska, Inc. is very consistent in how they calculate premium.

6. Verify if annual and quarterly tax were made timely and by ACH

7. Verify if annual filing fees were made timely

AS 21.34.180, 3 AAC 21

Comments: The monthly premium report summaries are sent to the head office in Stockton, CA at the same time the report is sent to the Alaska Division of Insurance. The Stockton office then pays the taxes and fees off the summaries. Although, starting in 2004, they decided to pay estimated tax instead of actual tax, which works really well for them. Then, they will calculate the total tax on the annual premium tax report and pay any balance due or request a refund.

All payments for 2003 - 2004 were made timely except for one additional payment of \$101.40, when the actual premium written and associated tax did not match the payment received for the 3rd quarter. No files in the sample were part of the late payment; therefore all files passed. All filing fee payments for 2003 - 2004 were made timely on an annual basis.

Results: Pass (50 files passed & 0 failed, Error Rate 0%)

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: All payments for 2003 and 2004 were made accurately based upon the monthly reports as filed except for the 3rd quarter 2003 payment when the actual premium written and associated tax did not match the payment received. No files in the sample were part of this payment; therefore, all files passed. All filing fee payments for 2003 and 2004 were made accurately. One file was actually exempt from taxes and fees but M.J. Hall & Company of Alaska, Inc. charged taxes & fees on this policy. The broker can request a refund of taxes and

fees paid within three years after the date the tax and fees were due. Then the taxes and fees must be passed on to the insured.

Results: Pass (50 files passed & 0 failed, error rate 0%)

9. Verify annual premium tax reports were filed in a timely manner

AS 21.34.180, 3 AAC 25.110

Comments: The 2003 and 2004 annual premium tax reports were filed on March 1, 2004 and February 28, 2005 respectively. All files passed this standard.

Results: Pass (50 files passed & 0 failed, error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of M.J. Hall & Company of Alaska, Inc. The auditor tested nine standards focusing on the broker's filing of monthly and annual tax reports and the subsequent payment of premium taxes and filing fees.

The compliance officer and staff were very cooperative during the audit. The revenue auditor appreciated this attitude and enjoyed working with M.J. Hall & Company of Alaska, Inc.'s management and staff.

No significant issues arose during the audit. M.J. Hall & Company of Alaska, Inc. is very consistent in following their procedures to file accurate and timely monthly and annual reports.

Re-Audit

In closing, while the auditor found a minor problem with a late filed monthly report, she found that the broker wants to do things right, which is evident in the response to the exception report. The auditors' recommended actions, including those already taken by the broker, should correct the problem encountered and it is recommended that M.J. Hall & Company of Alaska, Inc be put into the premium tax audit cycle with all other brokers.

Submitted by:
Rebecca Nesheim
Revenue Auditor

M.J. Hall & Company of Alaska

As of December 31, 2004
TA 05-01

AFFIDAVIT

Juneau, Alaska)
March 23, 2006)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2004 of
M.J. Hall & Company of Alaska is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Revenue Auditor

SUBSCRIBED and SWORN to before me this 23 day of March, 2006



Catherine A. Watson
Notary Public in and for Alaska
My Commission Expires 1/24/2009