

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 05-02 )  
In the Matter of Audit of )  
Alaskan General Insurance Agency, LLC )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of Alaskan General Insurance Agency, LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Alaskan General Insurance Agency, LLC.

2. The audit report of Alaskan General Insurance Agency, LLC (TA 05-02) has been transmitted to George Chamblee, Compliance Officer, Alaskan General Insurance Agency, LLC (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

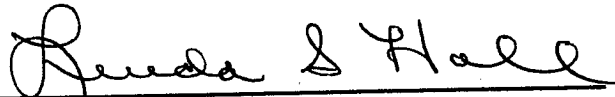
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Audit Report of Alaskan General Insurance Agency, LLC (TA 05-02) 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 June 20, 2006.

Dated this 20<sup>th</sup> day of June, 2006 at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF**  
**Alaskan General Insurance Agency, LLC**  
**Anchorage, Alaska**

**TA 05-02**

**As of December 31, 2004**

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



**FINAL REPORT:**  
**June 15, 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*

April 19, 2006

Linda S. Hall, CPCU, CIC  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
550 West 7<sup>th</sup> 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 Alaskan General Insurance Agency (the broker) on September 21 through September 23, 2005, in the broker's Anchorage, Alaska office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

**Alaskan General Insurance Agency**

**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 Alaskan General Insurance Agency conducted by the Alaska Division of Insurance.

**Subject Matters Audited**

Alaskan General Insurance Agency is a licensed surplus lines broker in Anchorage, Alaska. As this agency ranked number three in premium volume among all Anchorage surplus lines brokers in 2004 for premium tax and filing fees paid, the division elected to audit their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness.

**Time Frame**

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

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## METHODOLOGY

The tax auditor sent the call letter and initial data requests to Alaskan General Insurance Agency's office in Anchorage, Alaska. A list of all Alaska surplus lines business transactions was requested for the period to be audited. Alaskan General Insurance Agency complied timely with all data requests. The number of policies and endorsements written during the audit period was 696, from which a sample 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. 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 The NAIC "Allocation of Surplus Lines and Independently Procured Premium Tax on Multi-State Risks Model Regulation" provides examples of criteria for tax allocation of multi-state risks.
    - i) The broker placed no business that was multi-state; 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 were made timely and by ACH.

- i) Audit steps taken:
  - (1) Determined when the payments were made to the Alaska Division of Insurance and method of payment.
- 7) Verify if annual filing fees were made timely.
  - i) Audit steps taken:
    - (1) Determined effective date of policy/endorsement and verified 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 tax and fee payments matched the monthly reports.
- 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 to 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**

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 runs a monthly report from their software JetFile capturing the book date for a given month. The policies and endorsements written during that month are manually transferred from this report to the report of surplus lines transaction forms and monthly premium report summaries then sent to the Alaska Division of Insurance. One file shows an endorsement was not on the monthly report from JetFile and therefore was not reported on a monthly report.

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

*Observations:* The manual process created by Alaskan General Insurance Agency is prone to errors.

*Recommendations:* Alaskan General Insurance Agency should create and implement written procedures to ensure all policies and endorsements are timely processed and correctly reported to the Alaska Division of Insurance. A double check may be necessary to ensure all the correct parameters in running the report were used.

*Alaskan General Insurance Agency Response to initial exception report:* 10/5/05: We have established written procedures to make sure all endorsements are processed within 30 days of receiving the request. If the delay in processing the endorsement is due to the failure of the broker to provide necessary information needed to issue the endorsement the file will be properly documented indicating such. This recommendation is currently in place.

2. Verify the accuracy of all reports filed

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

*Comments:* The 2003 annual premium tax report had two months with incorrect premiums per the previously filed monthly reports for March and October. Additionally, this report contained incorrect taxes & fees calculated per the previously filed reports for October and November. These errors were identified in a September 30, 2004 letter to the compliance officer resulting in a possible refund. However, no response was received at that time. The current compliance officer mentioned they were transitioning accountants around that time and it apparently was missed.

*Result:* Passed (46 files passed & 4 failed, error rate 8%)

*Observations:* The manual process created by Alaskan General Insurance Agency for report completion is prone to errors.

*Recommendations:* Alaskan General Insurance Agency should implement written procedures to ensure the reports are accurate when filed with the Alaska Division of Insurance. A double check may be necessary to ensure all the correct parameters in running the report were used.

*Alaskan General Insurance Agency Response to initial exception report:* 10/5/05: This is human error caused by typing the incorrect premium, taxes or fees on the report. The information supplied for the report will have already been double checked and will be correct. To solve the human error problem another employee will check the calculations generated in the accountant's final reports to make sure all premiums, taxes & fees are correctly entered before the report is delivered to the Alaska Division of Insurance. This procedure will be in writing and is effective immediately.

3. Verify the multi-state placements are filed correctly

AS 21.34.180

*Comments:* The broker does not write any multi-state placements.

*Result:* 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 broker filed all affidavits of due diligence timely. When an incorrectly completed affidavit was found, the auditor informed the broker but did not treat it as an exception as that test was not part of this premium tax audit. 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 (error rate 0%)



*Observations:* Alaskan General Insurance Agency consistently ensured that the required affidavits were filed with the monthly reports prior to statute change.

**5. Verify the Accuracy of the Premium Calculation**

**AS 21.34.180**

*Comments:* The broker has a broker fee agreement that is signed by the insured in each file. The following is in the agreement: "This fee is for services involving one or more of the following: placing insurance coverages, processing of insurance policies, handling of claims as necessary, inspections, motor vehicle reports and other related serves as required. It is understood that this fee is not a part of the premium charged by the company and is made with the written consent of the insured. This fee is fully earned and is in addition to the earned commission of \_\_\_ received from the insurance company."

The broker considered this broker fee as part of premium for all of 2003 and 2004. The interpretation of the division in past bulletins was all fees were considered part of premium and the broker was compliant with that interpretation. In Bulletin B 04-14, signed September 15, 2004, the division clarified its position on how the broker fees should be treated. If the fee is an insurance company required fee on the declaration page, then the fee is part of premium and subject to taxes and fees; otherwise, if the fee is kept by the broker then the fee is not part of premium. After Bulletin B 04-14, the division allowed all brokers to make a decision on when they were going to implement the new calculation; it could be immediately after receiving the bulletin or in 2005. Alaskan General chose to make the change in 2005. Thus, all the 2003 and 2004 policies were calculated correctly.

Further discussed making a change to the broker fee agreement above to take out the words "inspections and motor vehicle reports" as these are required by the companies and the fees associated are considered part of premium. They will make the change effective 1/23/06.

*Result:* Passed (error rate 0%)

*Observations:* Alaskan General Insurance Agency 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 2003 premium tax and filing fee payments were made timely and by ACH. However, the 2004 annual premium tax and filing fee payment was late received on March 2, 2005, one day late. All payments were made by ACH.

*Results:* Passed (46 files passed & 4 failed, error rate 8%)

*Recommendations:* Alaskan General Insurance Agency should implement written procedures to ensure the tax payment is initiated no later than 4:00 PM Eastern Standard Time the business day

prior to the due date. A best practice would be to not wait until the last minute to initiate a payment as connections to the Internet to access the ACH Debit program may not be available and there are times when the Alaska Division of Insurance servers are temporarily down. The ACH Debit program allows a payment to be warehoused or initiated up to 30 days prior to an effective date.

*Alaskan General Insurance Agency Response to initial exception report: 10/5/05:* Written procedures will be put in place to ensure all premium tax payments are received by the Alaska Department of Insurance on time and not wait until the last minute to make the payment. The procedures will be implemented and managed by the office manager, George Chamblee.

**8. Verify tax and filing fees payments were made accurately**

**AS 21.34.180, 3 AAC 21**

*Comments:* The payment for 2003 did not match the annual report due to the miscalculation of the annual premium tax report premiums, taxes and fees as noted in #2. There is an overall potential refund of \$30.59 tax and \$11.33 filing fees even after adding in the endorsement not previously included in the monthly and annual reports. The errors to the four files in which this standard applies were addressed earlier in another standard of the report.

*Results:* Passed (error rate 0%)

*Recommendations:* Alaskan General Insurance Agency should implement written procedures to ensure the taxes and fees are accurate when paid to the Alaska Division of Insurance.

*Alaskan General Insurance Agency Response to initial exception report: 10/5/05:* Unfortunately we changed accountants in September of 2004 so most likely the 9/30/2004 letter from the Alaska Division of Insurance was lost in the transfer. Our accountants have strict instructions to give top priority to all requests from the Division of Insurance so our new accountant must not have seen the letter. I believe the procedures we have implemented for (EX.3. Endorsement not filed with Alaska Division of Insurance) and (EX4- Inaccurate 2003 Annual Premium Tax Report) will result in accurate payment being made to the Alaska Division of Insurance.

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

**AS 21.34.180, 3 AAC 25.110**

*Comments:* The 2003 annual premium tax report was received on April 9, 2004. The accountant in the broker's office did not realize that the quarterly tax report was not the same as an annual report, as she filed a quarterly tax report typing in the March 1, 2004 date showing the remaining taxes & fees required to be paid. The intent of the broker to file timely was met

The 2004 annual premium tax report was received March 7, 2005, but postmarked March 1, 2005; thus, it was timely filed.

*Results:* Passed (error rate 0%)

*Observation:* Alaskan General Insurance Agency does not have written procedures to ensure all required reports are filed timely.

*Recommendations:* It is recommended that Alaskan General Insurance Agency write and implement procedures to ensure all reports are and timely filed. The procedures should include the due dates for filing with the Alaska Division of Insurance.

*Alaskan General Insurance Agency Response to initial exception report: 10/5/05:* We will establish procedures for reporting our premium tax reports. The procedures will include where to locate the forms, how the forms should be filled out, and what the due dates are to the Alaska Division of Insurance. We have hired an outside consultant to establish the procedures. The procedures will be completed within the next 30 days.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of Alaska General Insurance Agency. 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 officer stated on more than one occasion, a desire to learn from the audit and use it to improve operations. The tax auditor appreciated this attitude and enjoyed working with Alaska General Insurance Agency's management and staff.

Several significant issues did arise during the audit.

- 1) Several of the required monthly reports were not accurately filled out which leads to inaccurate annual reports and inaccurate premium tax and filing fees payments. Several reports were also not timely filed. A late payment penalty was assessed on the late premium tax and filing fees for the 2004 tax year at the time of the late payment, prior to the audit.
- 2) The manual system in use by the broker is prone to errors. Based on the compliance officer's response, they will have written procedures in place and will conduct an initial double check by other staff to verify accuracy. An optimum solution would be to contract with JetFile to have the software create a report of surplus lines transaction form when a surplus lines placement is made. This would reduce or eliminate the manual process required to transfer information from the JetFile report to the report of surplus lines transaction form.

Several minor issues were noted during the audit and addressed with the compliance officer during the audit but were not part of the audit.

1. A stamped received date was not on some important documents, such as due diligence forms

2. Most of the affidavits of due diligence in the files were received after binding. Alerted compliance officer of up coming regulations to change rules such as the due diligence must be received before binding.

### **Re-Audit**

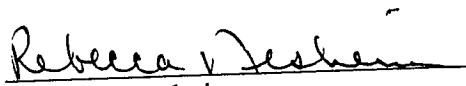
In closing, while the auditor found problems with the reports and payments, she also found that the broker wants to do things right. This is evident in the response to the exception report. The auditor's recommended actions, including those already implemented by the broker, should correct the problems encountered and it is recommended that Alaskan General Insurance Agency be re-audited within the next three years to ascertain compliance with them.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Alaskan General Insurance Agency LLC  
As of December 31, 2004  
TA 05-02


Juneau, Alaska )  
April 19, 2006 )  
State of Alaska ) ss.  
Third Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2004 of Alaskan General Insurance Agency LLC is true to the best of my knowledge and belief.

  
Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 19<sup>th</sup> day of April, 2006



  
Notary Public in and for Alaska

My Commission Expires 1/24/2009