

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 12-02)
In the Matter of Audit of)
Denali Alaskan Insurance LLC)
_____)

FINDINGS OF FACT

1. An audit report of Denali Alaskan Insurance LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Denali Alaskan Insurance LLC.
2. The audit report of Denali Alaskan Insurance LLC (TA 12-02) has been transmitted to Mike Gordon, General Manager, Denali Alaskan Insurance 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

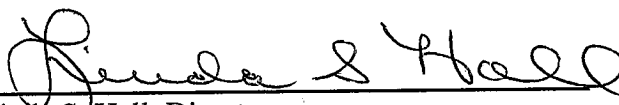
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Denali Alaskan Insurance LLC (TA 12-02) 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 May 4, 2012.

Dated this 4th day of May, 2012 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

**Denali Alaskan Insurance LLC
Anchorage, AK**

TA 12-02

As of December 31, 2010

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



**FINAL REPORT:
May 4, 2012**

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Sean Parnell, Governor
Susan K. Bell, Commissioner
Linda S. Hall, Director

May 4, 2012

Linda S. Hall, CPCU
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 Denali Alaskan Insurance LLC (the broker) on January 11, 2012 through January 13, 2012, in the broker's Anchorage, AK office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Denali Alaskan Insurance LLC

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 second premium tax audit of Denali Alaskan Insurance LLC conducted by the Alaska Division of Insurance. The first premium tax audit was completed October 5, 2007.

Subject Matters Audited

Denali Alaskan Insurance LLC is an Alaska licensed surplus lines broker based in Anchorage, AK. The division included in the current audit a review of the statutory compliance with monthly filings, premium tax and filing fees payments, of accuracy and timeliness as well as required due diligence and disclosures and notifications to the insured.

Time Frame

The audit covered this broker's surplus lines business for the year January 1, 2009 through December 31, 2010.

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METHODOLOGY

The tax auditor sent the call letter and initial data requests to Denali Alaskan Insurance LLC's office in Anchorage, AK. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Denali Alaskan Insurance LLC complied on a timely basis with all data requests. The number of policies and endorsements written during the audit period was 23 so all files were selected for audit. While on-site, three policies were found not on the original list so these were added to the audit and were included in all procedure tests bringing the total of nonadmitted files to 26.

The following are the procedures steps for the audit:

- 1) Verify that monthly premium reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly files sent to the Alaska Division of Insurance and verified the reports were filed by the due date.
- 2) Verify the accuracy of the premium calculation
 - i) Audit steps taken:
 - (1) Reviewed policy, declaration page, and invoices to determine how taxable premium was calculated.
 - (2) Verified the correct premium was reported on the reports as filed.
- 3) Verify the accuracy of all monthly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, declaration, and endorsement pages in each file.
 - (2) 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 determined in which month the endorsement is required to be filed.
 - (3) Verified the monthly reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees based upon the information in the files.
 - (4) Verified a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the monthly filing based upon the effective date of the policy.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology used to allocate.
 - i) Audit steps taken:
 - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
 - (2) Verified the multi-state allocation form was filed when appropriate
- 5) Verify quarterly and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly and annual premium tax reports were sent to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly and annual premium tax reports

- i) Audit steps taken:
 - (1) Verified the quarterly and annual premium tax reports as filed with the division were accurately filled out to reflect the correct premiums, taxes and fees.
- 7) Verify if tax and filing fee payments were made on time and by ACH
 - i) Audit steps taken:
 - (1) Confirmed when the payments were received by the Alaska Division of Insurance and the payment method
- 8) Verify tax and filing fees payments were made accurately
 - i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the tax reports as filed.
- 9) Review effort made to place insured with an admitted insurer
 - i) Audit steps taken:
 - (1) Verified the diligent search was documented prior to binding and the declinations completed. If no declinations due to risk on the placement list, the list effective at the time of placement was reviewed to ensure the risk was on the list
- 10) Review disclosures for use of non-admitted insurer
 - i) Audit steps taken:
 - (1) Reviewed the evidence of insurance to ensure the broker's Name and stamp required by statute AS 21.34.100(e) is present and legible.
- 11) Review notifications for use of non-admitted insurer
 - i) Audit steps taken:
 - (1) Reviewed the correspondence and other documentation in the files to find a copy of the notification sent to the insured that meets the requirement in AS 21.34.110
- 12) Confirm coverage is placed with an eligible non-admitted insurer
 - i) Audit steps taken:
 - (1) Reviewed the white lists to ensure the company was eligible at the time of placement
- 13) Review notice regarding nonrenewal and premium increase
 - i) Audit steps taken:
 - (1) Verified in each file there was an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy or other evidence 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 that monthly premium reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: All 24 original monthly premium reports and accompanying forms were filed on time or not filed correctly when there were no transactions to report.

Results: Passed (error rate 0%)

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: The premium was calculated incorrectly for two policies in the audit files. On one policy, the company policy fee of \$150 was not included in premium. An amended report will be required to bring the broker back into compliance with tax and filing fees due of \$4.05 and \$1.50 respectively. On one policy, the premium was incorrect on the original filing but corrected several months later. For the same policy, an endorsement for additional premium was \$9,403.22 on the dec page but was billed by the broker at \$9,402.60 and that is how it was reported to the Division. The affect on tax and fees are negligible so no amended report necessary.

These errors affect three additional audit tests:

1. Accuracy of the Monthly Reports
2. Accuracy of Tax Reports
3. Accuracy of Tax and Fee Payments

Results: Passed (24 files passed & 2 failed, error rate 8%)

Recommendations: It is recommended the broker revise their written procedures to ensure all company fees are included in the calculation of premium tax and filing fees. The broker should read bulletin 04-14 to reinforce their understanding of what fees are to be included in premium and what are not. A second individual reviewing documents before submission could reduce the errors received by the Division.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which includes instructions that policy premium in addition to company fees are used in the calculation of premium tax and filing fees. This procedure can be found under 6. in the Surplus Lines Procedures. We have also included Bulletin 04-14 as a reference in the procedure and included a copy. We have created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as the second individual reviewing documents as also recommended. The bookkeeper will also review the calculations upon receipt as another check.

Alaska Division of Insurance Response: The amended report was received bringing the broker back into compliance with this procedure test.

3. Verify the accuracy of all monthly reports filed

AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: Nine policy files had errors when reporting on monthly reports to the Division. Here are the different problems:

- Policies not filed – 2:
 - One policy was completely missed when preparing the reports to file with the Division. Premium \$5,500, tax \$148.50, fee \$55.00

- One policy was originally combined with another policy and an endorsement but when the premium was corrected on the report of surplus lines transaction to just one of the policies, then effectively one policy and one endorsement were no longer filed. Premium \$3,000, tax \$81.00, fee \$30.00
- Endorsements not filed – 5:
 - Endorsement for good experience return premium received in 2010 not filed. Premium (\$4,821), tax (\$130.17), fee (\$48.21)
 - A 2009 endorsement to a 2008 policy for good experience return premium was originally filed on the same form with two policies. When the premium was corrected on one of the policies, effectively the endorsement was no longer filed. Premium (\$4,248), tax (\$114.70), fee (\$42.48)
 - Three return premium endorsements for one policy were not filed. Combined premiums (\$9,310.63), taxes (\$251.39), fees (\$93.11)
- Combined policies/endorsements on one form with no tax or fee effect – 16:
 - There were six monthly reports filed that contained combined premiums on one report of surplus lines transaction form instead of each policy/endorsement filed on separate report forms. There should have been 16 separate transaction forms filed between four policies. Effectively all taxes and fees were paid so no amendment will be required.

Total accuracy errors: 23 within 9 distinct files. Tax and fees due to the broker after the amendments are filed are (\$266.76) and (\$98.80).

These errors affect two additional audit tests:

1. Accuracy of Tax Reports
2. Accuracy of Tax and Fee Payments

Results: Failed (17 files passed & 9 failed, error rate 35%)

Recommendations: It is recommended that the broker revise written procedures for how and when initial or renewal policies as well as endorsements are to be reported to the Alaska Division of Insurance. Statute and regulation dates should be included in these procedures. The broker should ensure those who prepare the Report of Surplus Lines Transaction know not to combine multiple transactions on the same form. A second individual reviewing documents before submission could reduce the number of errors received by the Division.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which includes instructions that require a Report of Surplus Lines Transaction Form AS 21.34.080 (a) be completed by the individual processing the transaction for a renewal or endorsement that is premium bearing as required by AS 21.34.170. This report must be completed in full, signed by a surplus lines broker, attached in the system and an activity set to the bookkeeper. This procedure can be found under 9. in the Surplus Lines Procedures. The procedures specify that the report must be filed timely and also that multiple transactions should not be included in the form. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as the second individual reviewing documents as also recommended. The bookkeeper will also review the report upon receipt as another check.

Alaska Division of Insurance Response: Amended reports were received bringing the broker back into compliance with this procedure test.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker does not write multi-state policies.

Results: N/A

5. Verify quarterly and annual premium tax reports were filed on time

AS 21.34.180, 3 AAC 21

Comments: The broker was not required to file quarterly tax reports for the audit years. The two annual premium tax reports were filed on time.

Results: Passed (error rate 0%)

6. Verify the accuracy of the quarterly and annual premium tax reports

AS 21.34.180, 3 AAC 21

Comments: The broker was not required to file quarterly tax reports for the audit years and the two annual premium tax reports were accurate when filed based upon the monthly reports. The errors found during the audit in the premium calculation and accuracy of the monthly reports affects the accuracy of the annual premium tax reports. These flow-through findings are addressed in their respective audit tests.

Results: Passed (error rate 0%)

7. Verify if tax and filing fee payments were made on time and by ACH

AS 21.34.180, 3 AAC 21

Comments: The broker was not required to pay quarterly tax and fees for the audit years. All payments were made on or before the required due date for the annual payments and made by ACH. When an amended report was filed, the broker paid the additional tax and fees due by the next due date.

Results: Passed (error rate 0%)

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: All tax and fee payments made by the broker were accurate based upon the tax reports as filed. The errors found during the audit in the premium calculation and accuracy of the monthly reports affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

Due to the errors found during the audit in the premium calculation and accuracy of the monthly reports the broker will be receiving a refund of tax and fees of (\$262.71) and (\$97.30) respectively after all amendments are filed.

Results: Passed (error rate 0%)

9. Review effort made to place insured with an admitted insurer

AS 21.34.020, 3 AAC 25.035

Comments: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search as they are also the producer in the transactions. Eight files have problems with that documentation:

- No documentation in file – 7
- Affidavits were created and signed after binding – 1

Ten additional files show the coverage was on the placement list but the Affidavit of Due Diligence was created and signed after the bound date. Since the broker is also the producer and would know the coverage was on the placement list, the Division will allow this practice in this audit even though the Affidavit was signed after the bound date. One policy file on the audit list was a two year policy split into two for reporting purposes to the Division. Future multi-year policies should have the diligent search completed after the first year as the market may have changed.

Results: Failed (18 files passed & 8 failed, error rate 31%)

Recommendations: It is recommended that the broker ensure the written procedures are followed to ensure all Affidavits of Due Diligence are received or created prior to binding including those with risks located on the placement list as required by Alaska law. If another form of documentation is maintained, there must be clear indications that the declinations were done before binding or an accurate description of how the risk is qualified on the placement list.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which address strict guidelines regarding the Affidavits of Due Diligence be created and attached prior to binding, including those located on the placement list. This procedure can be found under 4. in the Surplus Lines Procedures. A sample copy of the form has been included in the procedures. The procedures also state that if it is not on the placement list, 3 declinations from admitted insurers are required to be documented in our system with the

appropriate categories and they also must be documented prior to binding. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as a second individual reviewing the documents.

10. Review disclosures on evidence of insurance for use of non-admitted insurer

AS 21.34.100(e)

Comments: Twenty-one files demonstrated a problem with the required disclosure stamp on the evidence of insurance. Since the insured's copy is unavailable in many of the files, auditor relied upon the broker copy. Here are all the different problems found in the files:

- No stamp on dec - 17
- No stamp on binder – 15
- No stamp on endorsement – 5
- Broker name not on dec – 11
- Broker name not on binder – 2

Total disclosure errors: 50 within 21 distinct files

Three insured files did not include either the policy or binder so was unable to determine if the disclosure stamps were applied. These three will not be included in the results calculation.

Results: Failed (2 files passed & 21 failed, error rate 91%)

Recommendations: It is recommended that the broker ensure written procedures are followed that all evidence of insurance have the required disclosure stamp wording and is legible. It is also recommended that the broker ensure its name is included on all evidence of insurance and to add this to the written procedures.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which required that all Evidence of Insurance have the required disclosure stamp wording included and that it must be legible and in 10 pt. font. This procedure can be found under 5. in the Surplus Lines Procedures. It also states that the evidence must bear the name of the surplus lines broker. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as a second individual reviewing the documents.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker has a notification document that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance that their procedures state goes to the insured with the quote. However, there were 21 files with problems regarding the notification to the insured:

- No notification document in file – 16
- Notification after binding – 2
- Unable to determine when notification provided to insured – 3

Results: Failed (5 files passed & 21 failed, error rate 81%)

Recommendations: It is recommended that the broker revise their written procedures to include maintaining a copy of the notification provided at the time the quote is sent to the insured.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which requires documentation that a Notification of Surplus Lines has been sent to the client or prospect at the time the quote was delivered. This procedure can be found under 3. in the Surplus Lines Procedures. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as a second individual reviewing the documents.

12. Confirm coverage is placed with an eligible non-admitted insurer

AS 21.34.050

Comments: All policies in the audit were placed with eligible surplus lines companies.

Results: Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Nine files did not have evidence of the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured. Four files included the notice but it was an older version than required. No binder included the notice.

Six insured files did not include the policy so was unable to determine if the notice was part of the policy to the insured. These six will not be included in the results calculation.

Results: Failed (11 files passed & 9 failed, error rate 45%)

Recommendations: It is recommended that the broker revise their written procedures to include a step in the processing of policies, binders, and cover notes to ensure the Alaska Policyholder Notice is included from the insurance company. If the notice is outdated or missing, the broker should contact the insurance company to replace the notice. A step on a checklist is one way to ensure this document is reviewed.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which requires verification that the Alaska Policyholder Notice has been included from the insurance company with the policy documents. This procedure can be found under 8. in the Surplus Lines Procedures. We have a copy of this form in our system for use if needed. The procedure requires that if the form is missing or outdated that the company be contacted for a copy. We have created categories to document that this form has been provided. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as a second individual reviewing the documents.

14. File Documentation

AS 21.27.350, AS 21.27.810

Comments: Six files were missing the policy and four files were missing the binders. Based upon correspondence, they were sent to the insured but not maintained in the files as required by Alaska statutes 21.27.350 and 21.27.810. All actions are required to be documented.

Recommendations: It is recommended that the broker revise their written procedures to include the requirements of Alaska law to ensure all relevant events are adequately documented.

Denali Alaskan Insurance LLC response: Denali Alaskan Insurance has revised the Surplus Lines Procedures which requires that records must be kept as required by Alaska Statutes 21.27.350 and 21.27.810. There is a reference to the Surplus Lines Statutes which has been provided as a separate document with the Procedures. This procedure can be found under 12. in the Surplus Lines Procedures. We have also created a Surplus Lines Checklist which must be signed off by the Producer and the CSR which would serve as a second individual reviewing the documents.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a follow up to the premium tax audit of Denali Alaskan Insurance LLC completed on October 5, 2007. The auditor tested 13 standards focusing on the broker's filing of monthly and annual tax reports and the subsequent payment of premium taxes and filing fees as well as due diligence and notification requirements for using a non-admitted insurer.

In the interim period between audits, this brokerage firm was drastically changed with new management and employees. The general manager and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Denali Alaskan Insurance LLC's management and staff.

Several significant issues did arise during the audit that affect the service to the insured and compliance with Alaska statutes and regulations.

- 1) The accuracy of the monthly reports continues to be a problem. Numerous transactions were not filed with the division affecting the taxes and fees paid. Numerous transactions were combined on the forms filed with the division.
- 2) The diligent search in the admitted market continues to not be documented in many of the files or the documentation was created after binding.
- 3) The required disclosure stamps continued to not be stamped on evidence of insurance along with the name of the broker.

- 4) The required notification to the insured regarding the use of a nonadmitted insurer continues to not be documented in the majority of the files
- 5) The Alaska Policyholder Notice continues to be missing from several files.
- 6) Documentation of transactions with the insured was not maintained in several files.

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Denali Alaskan Insurance LLC be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Denali Alaskan Insurance LLC
As of December 31, 2010
TA 12-02

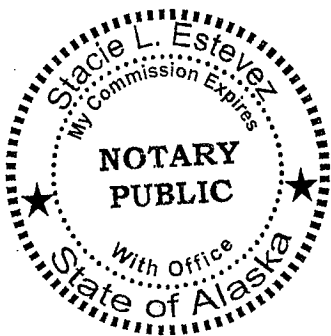
Juneau, Alaska)
May 4, 2012)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2010 of Denali Alaskan Insurance LLC is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 4th day of May, 2012



Stacie Estevez
Notary Public in and for Alaska

My Commission Expires with office