

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 07-01)
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 07-01) has been transmitted to James Campbell, Compliance Officer, 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

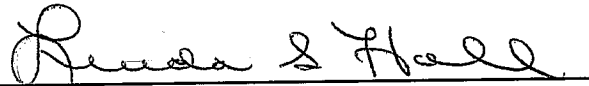
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Denali Alaskan Insurance LLC (TA 07-01) 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 October 5, 2007.

Dated this 5th day of October, 2007 at Juneau, Alaska.



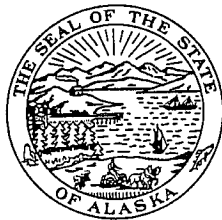
Linda S. Hall, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF
Denali Alaskan Insurance LLC
Anchorage, Alaska

TA 07-01

As of December 31, 2006

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



FINAL REPORT:
October 5, 2007

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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

September 4, 2007

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 Denali Alaskan Insurance LLC (the broker) on May 21, 2007 through May 23, 2007, in the broker's Anchorage 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 first premium tax audit of Denali Alaskan Insurance LLC conducted by the Alaska Division of Insurance.

Subject Matters Audited

Denali Alaskan Insurance LLC is an Alaska licensed surplus lines broker based in Anchorage, Alaska. The division elected to audit their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness as well as required due diligence and disclosures to the insured.

Time Frame

The audit covered this broker's surplus lines business for the two years of January 1, 2005 through December 31, 2006.

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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, Alaska. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Denali Alaskan Insurance LLC complied timely with all data requests. The number of policies and endorsements written during the audit period was 34; therefore, all 34 were included in the audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly premium reports and accompanying forms were filed in a timely manner.
 - i) Audit steps taken:
 - (1) 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.
 - (2) Verified a statement of exempt premiums was filed when appropriate.
- 2) 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.
 - (2) Verified the correct premium was reported on the monthly reports as filed.
- 3) Verify the accuracy of all monthly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy & declaration 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 usually 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) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology to allocate.
 - i) Audit steps to take:
 - (1) Verify the allocation of premium for each state is reasonable and the calculation is accurate.
- 5) Verify quarterly, if required, and annual premium tax reports were filed in a timely manner.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly and annual premium tax reports were mailed to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly, if required, 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 timely and by ACH
 - i) Audit steps taken:
 - (1) Confirmed when the payments were made to 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 monthly reports as filed.
- 9) Review effort made to place insured with an admitted insurer
 - i) Audit steps taken:
 - (1) Verified an affidavit of due diligence was in the file and the declinations filled out. If it was marked as using 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 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
 - (2) Reviewed the evidence of insurance for compliance with AS 21.34.100(e).
- ~~11) 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
- 12) Review notice regarding nonrenewal and premium increase
 - i) Audit steps taken:
 - (1) Verified in each file there was a 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 in a timely manner.
AS 21.34.080 and .170, 3 AAC 25.100 and 25.090

Comments: The January 2005 monthly premium report and accompanying forms was filed late with all subsequent monthly filings made timely. Each monthly filing had the correct forms attached: monthly premium report summary, report of surplus lines transaction, affidavit of due diligence (up until the statute change) and statement of exempt premiums (when necessary).

Result: Passed (23 monthly passed & 1 failed, error rate 4%)

Recommendation: It is recommended that Denali Alaskan Insurance continue to mail the reports timely.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: Denali Alaskan Insurance understands the importance of filing the Surplus Lines Reports in a timely manner. The lateness of the January 2005 report was an isolated incident. As mentioned in the Exception Report, all subsequent filings were made on time, and will be in the future to the best of our ability.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: Five policy premiums were calculated incorrectly. Four included broker fees that should not have been included and resulted in refunds to the insured via the broker. One included a broker fee but did not include a policy fee, which results in additional tax and fees to the State. The overall refund for the five policies to the broker is \$5.55.

The incorrect premium error affects three others tested in the audit, the accuracy of: the monthly report, tax report and tax and filing fee payments.

Result: Failed (29 files passed & 5 failed, error rate 15%)

Observations: The broker has a manual system set up for ensuring the accuracy of the premium calculation that is prone to errors.

Recommendations: It is recommended that Denali Alaskan Insurance update the written procedure manual to ensure all broker fees and wholesaler access fees are not included in the calculation of premium and that all company fees are included. This may include reminder training for office staff.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: Denali Alaskan Insurance has updated the Surplus Lines section of the Bookkeeping Manual to include corrected instructions regarding the calculation of the taxes and fees. We will also correct the billing errors on the five accounts listed under EX.4, refund the insured's over payments accordingly, and pay the State where applicable. The office staff will receive an outline of the exact steps involved in the entire Surplus Lines process which includes calculating the taxes correctly.

3. Verify the accuracy of all monthly reports filed

AS 21.34.080 and .170, 3 AAC 25.100 and 25.090

Comments: The bookkeeper runs a report from The Agency Management System (TAM) to compare with the affidavits of due diligence received from the office staff. The production report is pulled by insurance company and shows a transaction type, such as CFE, that helps her identify it as a surplus lines transaction. She creates a spreadsheet for the year broken down by month and then insured. Six files contributed to inaccurate monthly filings primarily due to the report not including the policies on the initial report run and were not caught until subsequent months. Each of these six policies was filed in the correct monthly filing as an amended report. Five of these policies did not affect any other audit test; however, one affected the accuracy of

the annual tax report and tax and filing fee payments due to the timing of the amended report after the annual tax report and payments were made.

Three policies were not coded as surplus lines in the computer and were not reported to the State at all and were found during the audit. This error affects three other audit tests, the accuracy of the tax reports, the accuracy of the tax and filing fee payments and the timeliness of the tax and filing fee payments.

Result: Failed (25 files passed & 9 failed, error rate 26%)

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

Recommendations: It is recommended that Denali Alaskan Insurance update their written procedures to ensure all policies are coded correctly as surplus lines. If the computer system has the ability to flag which insurance companies are surplus lines, that would be one way to ensure all policies written with those carriers are properly coded. Another method would be to flag the insured when a policy is written with a surplus lines carrier so that when that insured is reviewed subsequently, it will continue to be flagged each time it is opened, which could be beneficial when endorsements are received.

It is further recommended to implement a new procedure to file the monthly reports with the Division of Insurance later in the month due so that policies that are invoiced in the subsequent month may be identified earlier to be reported timely.

Once the needed procedures are in place to correct errors on the monthly reports, the tax reports and payments will be automatically corrected.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: Denali Alaskan Insurance has implemented new procedures both in our computer system and with our files to ensure that no Surplus Lines policies are overlooked for the reporting process. Also, in addition to reporting later in the month, the office staff are consulted on their specific renewals prior to running the monthly reports. Each member of the staff working with the files now has the same Surplus Lines Summary sheet detailing the procedures. Noted on this form is the need to bill renewals in the month in which they are effective, and endorsements in the month they are received.

Division of Insurance Response: Denali Alaskan Insurance should include on the Surplus Lines Summary sheet that the requirement for when to report endorsements is the earliest date of: quote accepted by insured, endorsement received or endorsement invoiced.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: This test is not applicable as no policies were multi-state placements

Result: N/A

5. Verify quarterly and annual premium tax reports were filed in a timely manner
AS 21.34.180, 3 AAC 21

Comments: The two annual tax reports were filed timely with the division. The broker is not required to file quarterly.

Result: 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 tax reports as filed matched the monthly reports as filed. During the audit, several monthly filings were found to be inaccurate and premium calculations were inaccurate. Had the monthly reports been accurate, the tax reports would also have been accurate as the tax reports as filed matched the monthly reports as filed. The only reason the tax reports were not accurate is the audit findings. Therefore, the tax reports are considered accurate.

Result: Passed (error rate 0%)

7. Verify if tax and filing fee payments were made timely and by ACH
AS 21.34.180, 3 AAC 21

Comments: The two required annual payments were made by the due dates and by ACH. However, due to three policies not reported at all as found during the audit, the tax and fees were not paid timely. The tax is \$325.43 and filing fee is \$120.53 for a total of \$445.96 due to the Alaska Division of Insurance.

Results: Passed (error rate 0%)

Recommendations: It is requested that Denali Alaskan Insurance pay the additional tax and filing fees after the final report is issued.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: Denali Alaskan Insurance will correct all billing errors in our system, file all the necessary amended reports, and pay all outstanding taxes and fees pertaining to each year accordingly.

8. Verify tax and filing fees payments were made accurately
AS 21.34.180, 3 AAC 21

Comments: The payments were made accurately based upon the tax reports as filed. During the audit, several monthly filings were found to be inaccurate and premium calculations were inaccurate. Had the monthly reports been accurate, the tax reports would have been accurate and the corresponding tax and fee payments would have been accurate. The only reason the payments were not accurate is the audit findings. Therefore, the tax and filing fee payments are considered accurate.

Results: Passed (error rate 0%)

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

AS 21.34.020, 3 AAC 25.030

Comments: Four files did not have evidence of a diligent search done prior to placing the insured with a surplus lines insurer in the files. They were not identified as surplus lines in the computer; however, at the time they couldn't find an admitted carrier to take the business, it should have been obvious the policy was placed in the surplus lines market and as such the admitted market check should have been documented.

Results: Failed (30 files passed & 4 failed, error rate 12%)

Recommendations: It is recommended that Denali Alaskan Insurance ensure current procedures for documenting compliance with the due diligence requirement in surplus lines files are followed.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: A process to ensure that compliance with statutes has been implemented. Prior to binding coverage and completing an affidavit of due diligence, the producer will consult with a licensed surplus lines broker in the office to make sure that all avenues of placing coverage with an admitted insurer have been exhausted (if applicable) and noted on the affidavit.

10. Review disclosures for use of non-admitted insurer

AS 21.34.110, AS 21.34.100(e)

Comments: Out of 34 files, only one file contained the notification as required by Alaska Statute (AS) 21.34.110 to the insured prior to binding and that was made by the wholesaler to the insured.

Results: Failed (1 file passed & 33 failed, error rate 97%)

Comments: The evidence of insurance in each of the files does not contain the surplus lines broker name as required by AS 21.34.100(e). One policy did not have a copy of the policy in the file to show the required stamp per AS 21.34.100(e). Three policies were not coded as surplus lines thus the required stamp was not on the copies in the files.

Results: Failed (30 files passed & 4 failed, error rate 12%)

Recommendations: It is recommended that Denali Alaskan Insurance include in their insurance proposal to the client the required information per Alaska Statute 21.34.110 as premium cannot be collected until the insured has this notice. If an insurance proposal will not be used, then another method of written notification is required prior to binding to alert the client of the non-admitted status of the insurer. It is also recommended that the stamp required by statute 21.34.100(e) be modified to include the name of the surplus lines broker or include the name by

another means. The identification of surplus lines policies is critical for ensuring all required notifications are provided to the insured per statute.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: The recommendation above has already been implemented in our Agency. Each quote/proposal that goes to a client will have the required notice attached and stamps affixed to the quote/proposal. If a verbal quote is provided on a Surplus Lines Policy, written notification will be mailed to the client the same day. Our Agency Surplus Lines Stamp has been modified to include the name of the broker.

11. Confirm coverage is placed with an eligible non-admitted insurer	AS 21.34.050
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Comments: All transactions within the files show approved companies.

Results: Passed (error rate 0%)

Observations: Denali Alaskan Insurance appears to be careful about placing business with only those insurers on the white list.

12. Review notice regarding nonrenewal and premium increase	3 AAC 25.050
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Comments: Eight files did not have evidence of the required notice of nonrenewal and premium increase being sent to the insured. When the broker noticed the required policyholder notice was not attached to the policy, the broker sent the notice along with the policy to the insured based upon bulletin 06-10.

Results: Failed (26 files passed & 8 failed, error rate 24%)

Recommendations: It is recommended that Denali Alaskan Insurance update the written procedure manual to ensure all required notifications are part of the policy. The insurer must be contacted when the notification is missing as this is a required notification to the insured.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: The procedure manual has been updated to address this issue. All policies will be double checked to ensure compliance with reporting procedures and nonrenewal/premium increase notification.

Best Practices: Missing Documentation

Comments: One policy file did not contain all the relevant documents for a transaction so that it was difficult to trace the increased premium that was reported to the Alaska Division of Insurance to the originating documents.

Recommendations: It is recommended that Denali Alaskan Insurance maintain all relevant documents to a transaction in the policy file as required by Alaska Statute 21.27.350. When

Denali Alaskan Insurance fully converts to paperless files, the maintenance of the documents may take another format as long as it meets statute with the ability to see all transactions for a particular insured.

Denali Alaskan Insurance Response to Exception Report received 7/13/07: It is and has been the policy of Denali Alaskan Insurance to maintain complete and accurate policy files per Alaska Statute. This is an isolated incident and steps have been implemented to see that the situation does not repeat itself.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Denali Alaskan Insurance. The auditor tested 12 standards focusing on the broker's filing of monthly reports 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.

The compliance officer and staff were very cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Denali Alaskan Insurance's management and staff.

Several significant issues did arise during the audit.

- 1) Several files were not coded as surplus lines transactions and thus none of the required notifications to the insured were completed, no filings were made, and no taxes and fees were paid.
- 2) Several of the monthly reports were not accurately filled out which leads to inaccurate tax reports and inaccurate premium tax and filing fee payments. Once the root cause of the inaccuracies is fixed with the recommendations laid out by the auditor, the resulting inaccuracies should be corrected.
- 3) The manual system of ensuring the accuracy of the premium calculation and the monthly reports in use by the broker is prone to errors.
- 4) The required notification to the insured regarding the use of a non admitted insurer that is not regulated by the Alaska Division of Insurance, does not have a certificate of authority and is not covered by the Alaska Guaranty Association in the case of insolvency was not found in any file but one.

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 Denali Alaskan Insurance be re-audited within the next three years to ascertain compliance with them.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Denali Alaskan Insurance LLC
As of December 31, 2006
TA 07-01

Juneau, Alaska)
September 4, 2007)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2006 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 September, 2007



Catherine A. Watson

Notary Public in and for Alaska

My Commission Expires 1/24/2009