

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 09-04)
In the Matter of Audit of)
Worldwide Facilities Inc)
_____)

FINDINGS OF FACT

1. An audit report of Worldwide Facilities Inc, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Worldwide Facilities Inc.
2. The audit report of Worldwide Facilities Inc (TA 09-04) has been transmitted to Davis Moore, Compliance Officer, Worldwide Facilities 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

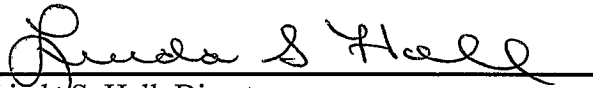
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Worldwide Facilities Inc (TA 09-04) 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 July 9, 2010.

Dated this 9th day of July, 2010 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

**Worldwide Facilities Inc
Los Angeles, California**

TA 09-04

As of December 31, 2008

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



**FINAL REPORT:
July 9, 2010**

TABLE OF CONTENTS

PAGE

1) TABLE OF CONTENTS.....2

2) SALUTATION3

3) SCOPE OF AUDIT.....3

4) METHODOLOGY4

5) PREMIUM TAX AUDIT5

6) SUMMARY AND SUBSEQUENT EVENTS.....10

7) AFFIDAVIT11



DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Sean Parnell, Governor
Emil Notti, Commissioner
Linda S. Hall, Director

July 9, 2010

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 Worldwide Facilities Inc (the broker) on November 16, 2009 through November 19, 2009, in the broker's Los Angeles, CA office. The audit was conducted by Rebecca Nesheim, tax-auditor for the Alaska Division of Insurance.

Worldwide Facilities 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 second premium tax audit of the broker conducted by the Alaska Division of Insurance. The first premium tax audit was completed September 28, 2006.

Subject Matters Audited

The broker is an Alaska licensed surplus lines broker based in Los Angeles, CA. 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 two years of January 1, 2007 through December 31, 2008.

P.O. Box 110805, Juneau, Alaska 99811-0805
Telephone: (907) 465-2515 Fax: (907) 465-3422 Text Telephone: (907) 465-5437
Email: insurance@alaska.gov Website: <http://www.commerce.state.ak.us/insurance/>

METHODOLOGY

The tax auditor sent the call letter and initial data requests to Worldwide Facilities Inc's office in Los Angeles, CA. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Worldwide Facilities Inc complied on a timely basis with all data requests. The number of policies written during the audit period was 715, 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 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 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) Verified the multi-state allocation form was filed when appropriate.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology to allocate.
 - i) Audit steps taken:
 - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
- 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 mailed 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 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 tax 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 received prior to binding 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 evidence of insurance to ensure the broker's name, license number, 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 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 on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: All 24 of the monthly reports were filed on time.

Result: Passed (error rate 0%)

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: One policy had a company policy fee of \$75 that was reported to the Alaska Division of Insurance (Division) as \$100. The tax and fees calculated on the difference is diminimis. The file included a corrected Report of Surplus Lines Transaction but according to the CFO, there was no correction filed with the Division. The insured did get their money back. The premium was correct for all other audit files.

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

Recommendation: It is recommended the broker file necessary corrections to the monthly reports or tax reports with the Division.

3. Verify the accuracy of all monthly reports filed

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

Comments: The monthly reports filed were accurate other than the one month with the premium difference from accuracy of the premium calculation test. Had the premium been accurate, the monthly filing would have been accurate.

Result: Passed (error rate 0%)

Observation: There is definite improvement in the accuracy of the monthly reports from the prior audit.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: One policy clearly had some non-Alaska risk so only a portion should have been filed as Alaska risk but there was not enough information in the file to make an appropriate allocation. The broker puts all the responsibility on the producer to inform the broker if there is out of state risk yet the broker doesn't specify what they want from the producer. A statement included on the binder is ambiguous to the Division as to the intent of the broker.

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

Recommendation: It is recommended the broker create written procedures to incorporate guidelines when a policy appears to have risk in multiple states. The broker should initiate communications with the producers describing exactly what they want to know about multi-state risk on a policy when there is an indication of non-Alaska risk. If they want to still use language on the binder then it needs to be re-worded to be very clear of the intent. It cannot be presumed that the producer understands the current statement is just a means to gather information. The broker should follow up with the producer on the specific policy containing the non-Alaska risk and amend their monthly report with the Division to reflect only the Alaska risk and include the Alaska Multi-State Allocation form. The remaining risk should be filed with the appropriate state.

Worldwide Facilities, Inc response: All of the recommendations under item #4 have been initiated.

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

AS 21.34.180, 3 AAC 21

Comments: The eight premium tax reports were filed on time.

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: When reconciling the three monthly reports (July, August, September) to the 3rd quarter 2007 tax report prior to the audit, the tax report did not include all premiums from the three monthly reports. Therefore the tax report was not accurate when filed. Additionally, one premium amount was incorrect as found in the audit. This error flows through to the tax reports both quarterly and annual as it was on the July 2007 monthly report. The flow through error will not be counted as an error here as it is reflected in the accuracy of the premium calculation test.

Result: Failed (7 reports passed & 1 failed, error rate 13%)

Recommendation: It is recommended the broker have a second person review the tax reports before they are filed with the Division to ensure all transactions are appropriately captured on the tax reports.

Worldwide Facilities, Inc response: Worldwide will have a second person review the tax reports before they are filed with the Division to ensure all transactions are appropriately captured on the tax reports.

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

AS 21.34.180, 3 AAC 21

Comments: The inaccurate third quarter 2007 tax report lead to a late partial tax payment. The late payment penalty was assessed and collected prior to the audit. This error originated with the accuracy of the tax report. As such, the error will not be included here as it is a flow through from the inaccurate tax report.

Results: Passed (error rate 0%)

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: All payments were made by ACH as required by statute and regulations and they were made accurately based upon the tax reports as originally filed. The inaccurate third quarter 2007 tax report lead to the payment not being accurate. This error originated with the accuracy

of the tax report. As such, the error will not be included here as it is a flow through from the inaccurate tax report.

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: Fifteen files showed the Affidavit of Due Diligence (the documentation of choice of the broker) was received after binding. Receiving an email saying the due diligence will be provided later is not sufficient evidence to meet the documentation requirements of regulation. Also, the risk being on the placement list is acceptable but it must be still communicated to the broker that the documentation of choice must be received prior to binding. Not releasing a completed binder to the producer until the Affidavit is received is not considered prior to binding.

Results: Failed (35 files passed & 15 failed, error rate 30%)

Recommendations: It is recommended that the broker create written procedures to ensure everyone understands the Affidavit of Due Diligence must be received prior to binding. The procedures should include requiring a notation on quotations or indications that affidavits must be received before a surplus lines policy can be bound. Then missing affidavits must be provided before binding.

Worldwide Facilities, Inc response: Written procedure has been created to ensure that we receive Affidavit of Due Diligence prior to binding. Please note: of the 15 failed tests, 13 tests were received shortly after binding. One file did not require due diligence since it is government. On another file, the bind order was sent and the agent advised the due diligence would be sent the next day, which confirms to us that they did the due diligence. The auditor emphasized the requirement of receiving this information prior to binding and we have incorporated this into our procedures.

Alaska Division of Insurance response: The diligent search requirements must be completed for all surplus lines policies including those for exempt risks. The exemption is only from tax and fees not from all the other surplus lines requirements in AS 21.34.

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

AS 21.34.100(e)

Comments: Two policies had problems with the disclosure requirements. One did not have the required stamp or the broker name on the declaration page and the other one did not have the broker name on the declaration page. These are required for the benefit of the insured.

Result: Passed (48 files passed & 2 failed, error rate 4%)

Recommendations: It is recommended that the broker ensure their written procedures are followed regarding the stamp placement. The broker acquired a new stamp toward the end of the

audit period that includes the broker name and number as part of the required stamp. This could be added to a checklist for convenience.

Worldwide Facilities, Inc response: Worldwide now has a new electronic stamp that contains the broker name and numbers as part of the required stamp.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: All policy files included the disclosure of the three points necessary to meet statute requirements. The broker correctly provides the information to the insured at the time of quoting the policy.

Results: Passed (error rate 0%)

Observation: There is definite improvement in the notification to the insured from the prior audit.

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 companies.

Results: Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Two policy files did not have the Alaska Policyholder Notice. Although the broker indicates that one company (Arch Specialty) used their own form, this form was actually admitted company language and was not ever filed with the Division for approval to use for surplus lines policies. Twenty policy files included the notice but all of them were very outdated wording from prior to 2006. These should have been identified when the policy was received and they should have contacted the companies to change the form.

Results: Failed (28 files passed & 22 failed, error rate 44%)

Recommendations: It is recommended that the broker create written procedures to ensure all policies include the correct Alaska Policyholder Notice. A checklist is a useful tool to provide a guide for the broker to confirm the accurate Notice is part of the policy. If the company states they received approval from the Division to use a different Notice than in the latest Bulletin, the broker can contact the Division for confirmation.

Worldwide Facilities, Inc response: Worldwide has contacted those insurers who were using outdated notifications and requested they update their forms on all future policies. In addition, Worldwide will monitor and require all insurers to issue proper notification to the insured, in accordance with Alaska regulation 3 AAC 25.050

File Documentation:

Comments: One policy file included another insured's information. The broker confirmed this information is also located in the correct insured's file.

Recommendation: It is recommended the broker ensure insured's information is not misplaced. The broker now has a paperless environment and quality control should be set up to review what is scanned or imported into policy files to ensure the correct insured information is intact.

Worldwide Facilities, Inc response: Worldwide now has quality control system in place to ensure that scanned documents are correctly imported to the corresponding insured files.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a follow-up to the premium tax audit of Worldwide Facilities Inc completed on September 28, 2006. 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.

The compliance officer and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Worldwide Facilities Inc's management and staff.

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

- 1) The documentation of the diligent search of the admitted market prior to binding was considerably worse in this re-audit than the initial audit of Worldwide Facilities Inc. The broker's response to the prior audit was "Worldwide will continue to enforce due diligence requirements for all surplus line transactions."
- 2) The required Alaska Policyholder Notice of nonrenewal and premium increase in the policy files was significantly worse than in the initial audit of Worldwide Facilities Inc. Although more files contained the Notice, it was not the correct wording as required by Bulletin's from the Division.

Re-Audit

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

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Worldwide Facilities Inc
As of December 31, 2008
TA 09-04

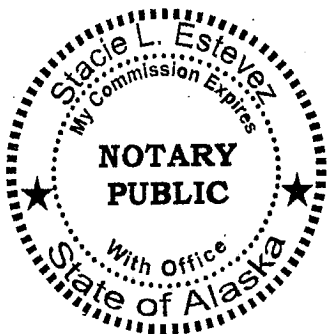
Juneau, Alaska)
July 9, 2010)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2008 of Worldwide Facilities Inc is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 13th day of July, 2010



Stacie Estevez
Notary Public in and for Alaska

My Commission Expires with office