

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 12-06)
In the Matter of Audit of)
Travis-Pedersen and Associates, Inc)
_____)

FINDINGS OF FACT

1. An audit report of Travis-Pedersen and Associates, Inc, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Travis-Pedersen and Associates, Inc.
2. The audit report of Travis-Pedersen and Associates, Inc (TA 12-06) has been transmitted to Timothy M Pedersen, Compliance Officer, Travis-Pedersen and Associates, 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 he 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 he 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 Travis-Pedersen and Associates, Inc (TA 12-06) 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 January 15, 2013.

Dated this 15th day of January, 2013 at Juneau, Alaska.



Bret S. Kolb, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

Travis-Pedersen and Associates Inc

Chicago, IL

Alaska License # 12169

TA 12-06

As of December 31, 2011

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

January 15, 2013

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

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and Economic Development

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January 15, 2013

Bret S. Kolb
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 Travis-Pedersen and Associates Inc (the broker) on October 23, 2012 through October 25, 2012 in the broker's Chicago, IL office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Travis-Pedersen and Associates Inc

SCOPE OF AUDIT

This premium tax audit was called to review compliance with the surplus lines statutes AS 21.34, and regulations 3 AAC 25 and the premium tax regulations 3 AAC 21.550 – 570. This is the first premium tax audit of Travis-Pedersen and Associates Inc conducted by the Alaska Division of Insurance.

Subject Matters Audited

Travis-Pedersen and Associates Inc is an Alaska licensed surplus lines broker based in Chicago, IL. 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 year January 1, 2010 through December 31, 2011.

METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker's office in Chicago, IL. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied on a timely basis with all data requests. The number of policies written during the audit period was 330, from which a sample of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly reports, quarterly reports, and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly and quarterly files in 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 and quarterly 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 or quarterly 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 determines in which month or quarter the endorsement is required to be filed.
 - (3) Verified the monthly and quarterly 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 or quarterly 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 tax and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly tax and annual premium tax reports were sent to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly tax and annual premium tax reports
 - i) Audit steps taken:

- (1) Verified the quarterly tax 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, binder or cover note.

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 reports, quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|

Comments: Two monthly reports and one quarterly report were filed late:

- April 2010
- October 2011
- 4th Quarter 2011

Results: Failed (23 reports passed & 3 failed, error rate 12%)

Recommendations: It is recommended the broker modify their written procedures to be more specific on the due dates for the monthly reports and quarterly reports to ensure the reports are filed on time in the future.

Broker Response: Monthly & Quarterly reports are generated by invoice and effective date to file transacted business correctly in Alaska. Our written procedures already reflect this information.

- | |
|---------------------------------------------------------------------------|
| 2. Verify the accuracy of the premium calculation
AS 21.34.180 |
|---------------------------------------------------------------------------|

Comments: All premiums were calculated correctly in the files.

Results: Passed (error rate 0%)

- | |
|-----------------------------------------------------------------------------------------------------------------------------------|
| 3. Verify the accuracy of all monthly reports and quarterly reports filed
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|-----------------------------------------------------------------------------------------------------------------------------------|

Comments: Eight files had some accuracy errors when filed on the monthly or quarterly report.

- Five Endorsements filed in wrong reports – several transaction forms filed included the term as effective when the endorsement was effective instead of the original policy. Thus, Alaska division staff was unable to identify the endorsement as a pre-7/21/11 policy in order for the broker to fix the filing.
- Two premiums were originally incorrectly reported but prior to the audit the reports were amended to fix the premium.
- One transaction is an insured exempt from taxes & fees as it is an agency of the State of Alaska yet taxes and fees were charged and reflected as such in the report forms.

These errors affect two additional audit tests:

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

Results: Failed (32 files passed & 8 failed, error rate 16%)

Recommendations: It is recommended that the broker revise written procedures for 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. It is also recommended to ensure the procedures are followed for taxing company fees so the premium is reported accurately the first time. A second individual reviewing documents before submission could reduce the number of errors received by the Division.

Broker Response: We have updated our written procedure to include more detailed information when completing and submitting forms in order to file accurately.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker writes some multi-state policies. One policy initially 100% Alaska risk added North Dakota risk midterm on the policy yet the endorsement was filed with Alaska and not ND. As this policy was effective prior to 7/21/11, the endorsement should have been filed with ND instead of Alaska. Since the policy has now expired, the division will allow the policy and endorsement to remain as Alaska risk plus the amount of tax and fees is so minimal Alaska cannot refund to broker in order to re-file in ND.

All new or renewal policies where Alaska is the home state of the insured are to be filed 100% with Alaska and taxed at Alaska's rate regardless of where else the risk is located.

This error affects three additional audit tests:

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

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

Recommendations: Alaska law changed effective 7/21/2011 and will no longer require multi-state policies to be allocated among other states when the home state of the insured is Alaska. It is recommended the broker revise the written procedures to include how to determine the home state of the insured.

Broker Response: Although we don't normally have multi-state risks in Alaska, our written procedure already includes information with regards to the new law that took effect 7/21/11 concerning multi-state filing.

Alaska Division of Insurance Response: The written procedures do not include how the home state of the insured is determined. It is recommended to add this to the procedures.

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The broker filed three of seven tax reports late.

- 2nd quarter 2010 tax report
- Annual 2010 tax report
- Annual 2011 tax report

Results: Failed (4 reports passed & 3 failed, error rate 43%)

Recommendations: Alaska law changed effective 7/21/2011 and will no longer require tax reports beginning with 2013. It is recommended the procedures continue to be followed for those transactions that still need to be reported on tax reports.

Broker Response: Since the NRRA law took effect in 7/21/11, we have been diligently filing all endorsements and audits according to the new Alaska filing procedure that took effect 7/21/11 and we will continue to do so. We are generating our reports both by invoice and effective date.

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The tax reports were accurate based upon the monthly reports as filed. However, the errors found during the audit in the accuracy of the monthly and quarter reports plus the multi-state premium affects the accuracy of the tax reports. These flow-through findings are addressed in their respective audit tests.

The 2010 Annual Premium Tax Report needs to be amended to delete the tax & fees on the transaction for the agency exempt from taxes and fees and then refund the insured \$108 tax and \$40 fees.

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 21.550 - .570

Comments: Three tax and fee payments were made late and caused penalties to be assessed prior to the audit. All payments were made by ACH.

- 2nd quarter 2010 premium tax
- Annual 2011 premium tax and filing fees
- 4th Quarterly 2011 premium tax and filing fees

Results: Failed (6 payments passed & 3 failed, error rate 33%)

Recommendations: It is recommended the broker ensure the written procedures are followed for when the payment of taxes and fees are due.

Broker Response: We have been making payments via ACH prior to the due date in order to avoid late filing fees. Our written procedures have been updated to specify the timely payment of taxes and fees via ACH in Alaska.

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21.550 - .570

Comments: The tax and fee payments made were accurately based upon original reports filed but there was lots of confusion between old law and new law that changed effective 7/21/11 on what should be included in which reports that then affects the payments made. The errors found during the audit in the accuracy of the monthly and quarter reports plus the multi-state premium affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

Results: Passed (error rate 0%)

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

AS 21.34.020, 3 AAC 25.010 and .035

Comments: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search. Twenty-three files have problems with that documentation:

- No documentation in file – 3
- Affidavit received after binding – 18
- Unsigned and undated copy provided for this audit showing the broker as also the producer, which is not correct as there was a producer involved and whose responsibility it is to provide to the broker. Appears as though it was created for the audit based upon when added to the insured's electronic file - 2

Results: Failed (27 files passed & 23 failed, error rate 46%)

Recommendations: It is recommended that the broker revise written procedures to ensure all Affidavits of Due Diligence are received prior to binding including those with risks located on the placement list as required by Alaska law.

Broker Response: Reiterated to all parties concerned that Affidavit of Due Diligence must be completed and received prior to binding confirming the diligent search of the admitted market was completed prior to binding coverage. Travis-Pedersen and Associates sends out the affidavit along with the quote to the agent ensuring it's returned along with the order to bind. Our written procedures have been updated to specify that this form must be completed and received prior to binding.

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

AS 21.34.100(e)

Comments: Twenty-two files demonstrated a problem with the required disclosure stamp on the evidence of insurance. Many stamps are really faded and several words can barely be made out. Since the insured's copy is unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No stamp on binder – 21
- Broker name not on dec – 8

Total disclosure errors: 29 within 22 distinct files

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

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. The stamp should be located on the first page of the declaration so the insured will not miss it. It is also recommended that the broker ensure their name is included on all evidence of insurance.

Broker Response: Travis-Pedersen and Associates is already using a disclosure stamp label in 10-point font with the required information per Alaska Surplus Lines Law AS 21.34 indicating there is no coverage under the Alaska Guaranty Association Act, AS 21.80. This is easily accessible in our local drive. Our written procedure was also updated to include this information.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker does not currently notify the insured that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance; therefore, there is no required documentation maintained in any file.

Results: Failed (error rate 100%)

Recommendations: It is recommended that the broker revise their written procedures to include Alaska notification language to the insured describing the surplus lines insurance company as required by statute. The premium is not binding on the insured until provided this notification. The information should include the three points of the notification: the company does not have a certificate of authority, they are not regulated by the Alaska Division of Insurance and in the event of insolvency losses will not be covered by the Alaska Insurance Guaranty Association Act.

Broker Response: Our written procedures have been updated to include this information for the Technical Assistants to review.

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: Eight files did not have evidence of the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured a part of the policy. No binder included the notice however some companies did provide it but it was not passed on to the insured. Eleven files included the notice but it was an older version than required.

Results policy: Failed (42 files passed & 8 failed, error rate 16%)

Results binder: Failed (error rate 100%)

Recommendations: It is recommended that the broker revise their written procedures to include a step in the processing of evidence of insurance to ensure the notice is included from the insurance company and then passed on to the insured. If the notice is outdated or missing, the broker should contact the insurance company to include or replace the notice. A step on a checklist is one way to ensure this document is reviewed.

Broker Response: Although, this has been already included in the process for the Technical Assistants when filing an AK business, we have updated our written procedure to make sure that all non-admitted carrier policies will be checked to ensure the form is include and re-checked prior to delivery to the insured. The updated procedure stressed the importance of checking each policy that this notice will be included and current information is provided to the insured. Travis-Pedersen and Associates has always been and will continue to be proactive in learning and adhering to any new state rules.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Travis-Pedersen and Associates Inc. 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 Travis-Pedersen and Associates Inc'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) Several Monthly, Quarterly, and Annual Tax Reports were filed late, generating penalties assessed prior to the audit
- 2) Several payments were made late, generating penalties assessed prior to the audit
- 3) The diligent search in the admitted market was not received prior to binding or documented in many of the files.
- 4) Many of the disclosure stamps and the broker's name were missing from the evidence of insurance.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in any file.
- 6) The Alaska Policyholder Notice was missing from several files.

Re-Audit

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

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Travis-Pedersen and Associates Inc
As of December 31, 2011
TA 12-06

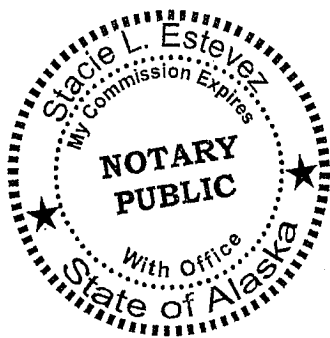
Juneau, Alaska)
January 15, 2013)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2011 of Travis-Pedersen and Associates Inc is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 16th day of January, 2013



Stacie L. Estevez
Notary Public in and for Alaska

My Commission Expires with office