

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 17-05)
In the Matter of Audit of)
Citadel Ins Services LC)
_____)

FINDINGS OF FACT

1. An audit report of Citadel Ins Services LC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Citadel Ins Services LC.
2. The audit report of Citadel Ins Services LC (TA 17-05) has been transmitted to Anthony Eardley, Compliance Officer, Citadel Ins Services LC (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 Citadel Ins Services LC (TA 17-05) 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 18, 2018.

Dated this 18th day of January, 2018 at Juneau, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

**Citadel Ins Services LC
American Fork, UT
Alaska License #76645**

TA 17-05

As of December 31, 2016

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



**FINAL REPORT:
January 18, 2018**

TABLE OF CONTENTS

	PAGE
1) TABLE OF CONTENTS.....	2
2) SALUTATION	3
3) SCOPE OF AUDIT.....	3
4) METHODOLOGY	4
5) PREMIUM TAX AUDIT	6
6) SUMMARY AND SUBSEQUENT EVENTS.....	10
7) AFFIDAVIT	11



January 18, 2018

P.O. Box 110805
Juneau, AK 99811-0805
Main: 907.465.2515
Fax: 907.465.3422

Lori K Wing-Heier, CRM
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) 21.06.120, the Alaska Division of Insurance performed a limited and targeted premium tax audit of Citadel Ins Services LC. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Citadel Ins Services LC

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, the premium tax regulations 3 AAC 21.550 – 570 and licensing statutes AS 21.27.350 and 21.27.810. This is the first premium tax audit of Citadel Ins Services LC conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Citadel Ins Services LC (the broker) is an Alaska licensed surplus lines broker based in American Fork, UT. The division elected to audit their quarterly filings, premium taxes and filing fees paid for accuracy and timeliness as well as required diligent search efforts, disclosures, notifications, and prompt delivery of material facts in evidence of insurance to the insured.

Time Frame

The audit covered the broker's surplus lines business for policy effective dates occurring between January 1, 2015 and December 31, 2016.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in American Fork, UT. 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 440, from which a sample of 50 files was selected for audit.

The following are the procedure steps for the audit:

- 1) Verify that quarterly reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the quarterly reports sent to the Alaska Division of Insurance and verified they were filed by the due date.
- 2) Verify the accuracy of the premium calculation.
 - i) Audit steps taken:
 - (1) Reviewed policy, binders, 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 quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, binder, and endorsement pages in each file.
 - (2) If the effective date did not match the 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 invoice date determines in which quarter the endorsement is required to be filed.
 - (3) Verified the 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 quarterly filing based upon the effective date of the policy.
 - (6) Verified the insured name, insurance company, policy type codes, producer names and license numbers were accurate on the forms filed.
 - (7) Verified the descriptions of the subject and locations of risk were identified on the reports.
- 4) Confirm Alaska is the home state of the insured.
 - i) Audit steps taken:
 - (1) Verified where the principal place of business or residence of the insured is located.
 - (2) Verified at least partial risk is located in Alaska or the highest % of premium in Alaska if headquarters not in Alaska with no risk in the headquarters state.
- 5) 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.
- 6) Verify tax and filing fee payments were made accurately.
 - i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the quarterly reports as filed.
- 7) 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 received within 15 days from binding. If there were 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
- 8) Review prompt delivery of evidence of insurance AS 21.34.100(a) and 3 AAC 25.060.
 - i) Audit steps taken:
 - (1) Reviewed dates of binding and forwarding evidence of insurance to insured.
- 9) Review required material facts are located on evidence of insurance AS 21.34.100(a).
 - i) Audit steps taken:
 - (1) Reviewed documents to confirm required material facts were located on the evidence of insurance when policy not available within 30 days of binding.
- 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 language 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 Alaska published white lists and NAIC Quarterly Listings of Alien Insurers 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 there was an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy in the format approved by the Director of the Alaska Division of Insurance.
- 14) Other issues not previously identified as a procedure step were included when not in compliance with Alaska laws.
 - i) Audit steps taken:
 - (1) Reviewed documents to ensure other surplus lines statutes and regulations requirements were met.

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

Comments: The eight original quarterly reports with accompanying forms were filed on time.

Results: Passed (error rate 0%)

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

Comments: The premium was calculated incorrectly for one policy in the audit files when a policy fee of \$200 was not included in premium on the reports to the division. The insured was charged and subsequently paid the tax and fees on the policy fee. The broker amended the quarterly report and transaction form and paid the additional tax and fees on the policy fee on December 11, 2017.

This error affects two additional audit tests:

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

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

Recommendations: It is recommended the broker revised 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.

The broker response: The premium was calculated incorrectly for one policy in the audit, excluding the policy fee of \$200.00. Revision to the internal system to ensure all policy fees are included in the premium calculation for policies has been completed. Bulletin 04-14 was reviewed, and is clearly understood.

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

Comments: Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Producing broker was not correct as they listed Citadel as the producing broker – 43
- Insurance company incorrect – 2
- Policy number incorrect – 1
- Policy term incorrect – 2
- Missing description of subject – 1

Total accuracy errors: 49 within 46 distinct files

Results: Failed (4 files passed & 46 failed, error rate 92%)

Recommendations: It is recommended that the broker revise written procedures to include instructions on how to fill out the transaction report. A second individual reviewing documents before submission could reduce the number of errors received by the Division.

The broker response: Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports: It is now clearly understood that the producing broker should not be listed as Citadel if there is an additional producer between Citadel and the customer. This error will not be an ongoing issue. For the other mistakes noted on the report forms, these all came from a system glitch wherein a number was dropped from the entry causing the wrong insurer number to be entered, the wrong policy number to be entered, and the wrong policy term to be entered. The missing description was due to a field entry that was missing in the system records. The internal procedures have been updated to ensure that the transaction forms are more closely monitored for any unusual system problem that could cause a typo or a dropped field.

4. Verify the home state for insured is Alaska

AS 21.34.180

Comments: The home state was Alaska for all policies in the audit

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 - .570

Comments: All payments were made on or before the required due date for the quarterly payments and made by ACH.

Results: Passed (error rate 0%)

6. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21.550 - .570

Comments: All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed. The error found during the audit in the premium calculation affects the accuracy of the tax and fee payments. This flow-through finding is addressed in the respective audit test.

Due to the company fees not included in premium, the broker owed additional tax and fees of \$5.40 and \$2.00 respectively, which was paid December 11, 2017.

Results: Passed (error rate 0%)

7. Review diligent search effort made to place insured with an admitted insurer

AS 21.34.020, 3 AAC 25.010 and .035

Comments: Forty-nine files did not have any diligent search efforts documented. The federal law does not exempt states from requiring diligent search efforts for placements to be made in the surplus lines market where the risk purchasing group is the insured on the master policy.

Results: Failed (1 file passed & 49 failed, error rate 98%)

Recommendations: It is recommended the broker revise written procedures to ensure all diligent search documentation is created prior to binding of the master policy each year. For those policies not tied to a master policy, the documentation must be received within 15 days of binding and show the diligent search completed prior to binding.

The broker response: The diligent search efforts made to place insured with an admitted insurer were not to the satisfaction of AK. Internal procedures have been updated to ensure that all RPG master policies have a proper diligent search form in place prior to the onset of the policy period.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: One files has documentation showing the evidence of insurance was not provided to the insured within the 30 days of the bind date. The insurance company does not issue binders and provided the policy after the 30 days required by statute.

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

Recommendations: It is recommended the broker revise their written procedures to include contacting any company they do not have bind authority for and requesting evidence of insurance to provide to the insured within the required 30 days from binding if the policy will not be available.

The broker response: The prompt delivery of evidence of insurance for one policy didn't meet the 30 day requirement. Internal procedures have been updated to address this issue - In the event of an insurer who doesn't provide or allow Citadel to provide a binder for coverage before the 30 day required limit, continuous efforts will be made to contact the insurer and notify them of the 30 day requirement to provide evidence of insurance.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: The majority of evidence of insurance provided to the insured was missing one or more of the required material facts. If the binder was missing material facts, the policy was reviewed if sent within 30 days from binding. The name of the surplus lines broker should be the firm name and not the individual in the firm.

Here are the different issues that the broker is not compliant with regarding this statute:

- No broker name or license # on policy – 43
- No broker license # on policy – 1
- No broker license # on binder – 5

Total errors: 49

Results: Failed (1 file passed & 49 failed, error rate 98%)

Recommendations: It is recommended the broker revise their written procedures to include what material facts regarding the coverage, insured, insurer, and broker must be on evidence of insurance. Review statute for details.

The broker response: Required material facts located on the evidence of insurance was missing on several policies and / or binders. Procedures have been revised to ensure inclusion of the broker name and license number on all EOI documents.

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

AS 21.34.100(e)

Comments: Forty-eight files demonstrated a problem with the required disclosure statement on the evidence of insurance. Here are all the different problems found in the files:

- No disclosure on binder – 5
- No disclosure on endorsement – 1
- No disclosure on certificate – 1
- Broker name not on policy – 43
- Broker name not on endorsement – 1

Total disclosure errors: 51 within 48 distinct files

Results: Failed (2 files passed & 48 failed, error rate 96%)

Recommendations: It is recommended the broker revise written procedures to include all evidence of insurance must have the required disclosure statement. The stamp should be located on the first page of the declaration or as close as possible so the insured will not miss it. It is further recommended to revise the written procedures to include the disclosure on all premium bearing and non-premium bearing endorsements as they are also evidence of insurance. One last recommendation is to ensure the broker's name is included on all evidence of insurance.

The broker response: Disclosures on evidence of insurance for use of a non-admitted insurer were missing from several files. System changes have been made to ensure inclusion of the disclosure on all EOI documents going forward.

11. Review notification for use of non-admitted insurer
--

AS 21.34.110

Comments: The broker does not provide the written notification to the insured.

Results: Failed (error rate 100%)

Recommendations: It is recommended the broker revise their written procedures to include Alaska notification language with the quote to the insured, for those where quotes are provided, describing the surplus lines insurance company as required by statute. 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. As some programs administered by the broker are completely automated, the broker will need to find a solution to providing the notification to the insured before or simultaneously with when the transaction is complete.

The broker response: Notification for use of a non-admitted insurer was not found on any of the submitted audit files. It was not clearly understood what this requirement was prior to audit. The system has been updated to automatically include the three points of notification on all policies that have a quote issued prior to binding.

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: Seven policies do not have the Alaska Policyholder Notice.

Results: Failed (43 files passed & 7 failed, error rate 14%)

Recommendations: It is recommended the broker revise their written procedures to include a step in the processing of the policy to ensure the notice is included from the insurance company. For those programs the broker has binding authority, the broker should include the notice in the master policy.

The broker response: Review of the Notice regarding nonrenewal and premium increase – policyholder notice revealed that there were several policies issued without the notice. After discussing the issue with Rebecca, the internal procedures have been updated to include this notice in the master policy, as well as ensuring that all non-RPG policies issued will have the notice included with the policy documents provided to the agent / insured.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Citadel Ins Services LC. The auditor tested 13 standards focusing on the broker's filing of quarterly reports and the subsequent payment of premium taxes and filing fees as well as diligent search efforts, disclosure and notification requirements for using a non-admitted insurer, and prompt delivery of material facts to insured.

The audit was conducted in the auditor's office as she received electronic versions of the broker's files under audit. The broker responded quickly to all requests for additional information. The auditor appreciated this behavior.

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

- 1) The quarterly reports are consistently not accurate when filed.
- 2) The diligent search in the admitted market was not documented in the majority of files.
- 3) Material facts required on evidence of insurance were not complete on the majority of documents
- 4) There were many problems with the disclosure statement on 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.

The auditor has reviewed the revised procedures provided by the broker and they appear to have accurately captured the problems identified in the audit.

Re-Audit

In closing, the auditor's recommended actions and the revised procedures should help the broker correct the problems encountered. It is recommended that Citadel Ins Services LC be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Citadel Ins Services LC
As of December 31, 2016
TA 17-05

Juneau, Alaska)
January 18, 2018)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2016 of Citadel Ins Services LC is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 18th day of January, 2018



Notary Public in and for Alaska

My Commission Expires With Office

