

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 18-02 )  
In the Matter of Audit of )  
Parker Smith & Feek Inc. )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of Parker Smith & Feek Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Parker Smith & Feek Inc.
2. The audit report of Parker Smith & Feek Inc. (TA 18-02) has been transmitted to Jana Smith, Compliance Officer, Parker Smith & Feek Inc. (Auditee), and Auditee has been accorded 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

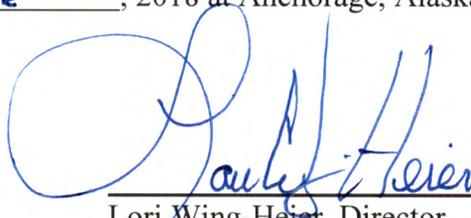
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Parker Smith & Feek Inc. (TA 18-02) is approved as filed.

2. Pursuant to AS 21.06.060, the audit report shall be kept in the office of the director of the Division of Insurance and be open to public inspection.

This order is effective June 29, 2018.

Dated this 29 day of June, 2018 at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF**

**Parker Smith & Feek Inc.**

**Bellevue, WA**

**Alaska License #7868**

**TA 18-02**

**As of December 31, 2017**

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



**FINAL REPORT:  
June 29, 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



June 29, 2018

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Lori K Wing-Heier  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
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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 Parker Smith & Feek Inc. on May 21, 2018 through May 24, 2018, in the broker's Anchorage, AK office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

### **Parker Smith & Feek 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, the premium tax regulations 3 AAC 21.550 – 570 and licensing statutes AS 21.27.350 and 21.27.810. This is the fourth premium tax audit of Parker Smith & Feek Inc. conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

Parker Smith & Feek Inc. (the broker) is an Alaska licensed surplus lines broker based in both Bellevue, WA and Anchorage, AK. 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, 2016 and December 31, 2017.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Bellevue, WA. 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 67, 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) 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.
- 5) 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.
- 6) 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.
- 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**

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| <b>1. Verify quarterly reports and accompanying forms were filed on time</b><br><b style="text-align: right;">AS 21.34.080 and .170, 3 AAC 25.090 and .100</b> |
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*Comments:* The eight original quarterly reports with accompanying forms were filed on time.

*Results:* Passed (error rate 0%)

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| <b>2. Verify the accuracy of the premium calculation</b><br><b style="text-align: right;">AS 21.34.180</b> |
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*Comments:* The premium was calculated correctly for all policies in the audit.

*Results:* Passed (error rate 0%)

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| <b>3. Verify the accuracy of all quarterly reports filed</b><br><b style="text-align: right;">AS 21.34.080 and .170, 3 AAC 25.090 and .100</b> |
|--|

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

- Policy filed on an amended report after the due date of the original report – 1
- Endorsements not filed for exempt insured, no tax and fees required – 2
  - The endorsements were filed in amended quarterly reports on May 23, 2018.

*Results:* Passed (47 files passed & 3 failed, error rate 6%)

*Recommendations:* It is recommended the broker create Alaska specific written procedures to include how reports are run to find all the transactions that must be filed in a Quarterly Report. They should also include a reconciliation between the documents received from broker staff with the reports run to ensure all transactions are accurately identified.

*The broker response:* We are initiating the following action immediately: Filing procedures have been updated to identify quarterly transactions to our AK Quarterly Audit process.

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|---|
| <b>4. Verify if tax and filing fee payments were made on time and by ACH</b><br><b style="text-align: right;">AS 21.34.180, 3 AAC 21.550 - .570</b> |
|---|

*Comments:* Out of ten quarterly payments due during the audit period, the third quarter 2017, was paid late and a penalty was assessed and paid prior to the audit. There were 10 required payments due to two amended reports. All payments were made by ACH.

*Results:* Failed (9 payments on time, 1 payment late, error rate 10%)

*Recommendation:* It is recommended the broker create Alaska specific written procedures to include due dates for the payment of premium tax and filings fees and how those payments must

be made. Beginning with the first quarter 2018, the Online Premium Tax for Insurance (OPTins) through the National Association of Insurance Commissioners (NAIC) must be used.

*The broker response:* We are initiating the following action immediately: Filing procedures have been updated to include due dates for the payment of premium tax and filings fees and how those payments must be made for our AK quarterly surplus lines reports.

<b>5. Verify tax and filing fees payments were made accurately</b> <b>AS 21.34.180, 3 AAC 21.550 - .570</b>
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*Comments:* All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed. The errors found during the audit in the accuracy of the quarterly reports affects the accuracy of the tax and fee payments. This flow-through finding is addressed in its respective audit test.

*Results:* Passed (error rate 0%)

<b>6. Verify the home state for insured is Alaska</b> <b>AS 21.34.180</b>
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*Comments:* The broker writes some multi-state policies but all policies were confirmed with Alaska being the home state of the insured.

*Results:* Passed (error rate 0%)

<b>7. Review diligent search effort made to place insured with an admitted insurer</b> <b>AS 21.34.020, 3 AAC 25.010 and .035</b>
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*Comments:* The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search by the producers. All diligent search was completed prior to binding and all documentation was created prior to binding or within 15 days of binding.

*Results:* Passed (error rate 0%)

<b>8. Review prompt delivery of evidence of insurance</b> <b>AS 21.34.100(a) and 3 AAC 25.060</b>
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*Comments:* Two files had problems with the prompt delivery of evidence of insurance.

- No binder or policy sent within 30 days of binding – 1
- No binder provided and no documentation available showing when the policy was sent to the insured so unable to determine if the 30 day delivery was met – 1

The bound date is when the insurance company provides confirmation of a binder or policy even if the effective date is in the future.

*Results:* Passed (48 files passed, 2 failed, error rate 4%)

*Recommendation:* It is recommended the broker revise their written procedures to include a step for providing the policy or, if the policy is not available yet, evidence of insurance to the insured within 30 days from binding.

*The broker response:* We are implementing the following action immediately: Current procedures for Alaska include delivery of evidences of insurance to the Insured within 30 days of binding, via electronic or hard copy. We have reiterated this with staff to maintain compliance with this requirement.

**9. Review required material facts located on evidence of insurance**

**AS 21.34.100(a)**

*Comments:* One binder was missing the insured address. The remaining evidence of insurance including policies included all required material facts.

One binder referenced the quote for the material facts. If this were to continue, the broker should include on the binder: Quote Number \_\_\_\_\_, dated \_\_\_\_\_ is incorporated by reference and is part of this binder as though fully set forth herein.

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

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

*The broker response:* We are implementing the following action immediately: Current procedures include review of evidence of insurance documents for material facts, such as insured address. We have reiterated this with staff to maintain compliance with this requirement.

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

**AS 21.34.100(e)**

*Comments:* All evidence of insurance included the required disclosure statement in statute.

*Results:* Passed (error rate 0%)

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

**AS 21.34.110**

*Comments:* Two files included part of the notification but not all of the required three points: 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.

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

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed for the notification to be on the carrier specific proposal page and contain all three points a required.

*The broker response:* We are implementing the following action immediately: Current procedures to notify insured's of use of non-admitted insurers have been reiterated with staff to maintain compliance with this requirement.

**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:* All policies included the Alaska Policyholder Notice of premium increase and nonrenewal.

*Results:* Passed (error rate 0%)

## **SUMMARY AND SUBSEQUENT EVENTS**

This was a premium tax audit of Parker Smith & Feek Inc. 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 compliance officer and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Parker Smith & Feek Inc.'s management and staff.

One significant issue did arise during the audit that affects compliance with Alaska statutes and regulations.

- 1) The quarterly premium tax and filing fees were paid late for one quarter, subjecting the broker to a penalty.

The auditor would like to review any new or revised procedures to help the broker ensure all problems identified in the audit were captured accurately.

The auditor's recommended actions along with the implementation of new or revised procedures should help the broker ensure all issues identified in the audit are improved.

The auditor recommends Parker Smith & Feek Inc. be put into the premium tax audit cycle with all other brokers.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

Parker Smith & Feek Inc.  
As of December 31, 2017  
TA 18-02

Juneau, Alaska )  
June 29, 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, 2017 of Parker Smith & Feek Inc. is true to the best of my knowledge and belief.

  
Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 29<sup>th</sup> day of June, 2017



  
Notary Public in and for Alaska  
My Commission Expires With office.