

CERTIFIED MAIL
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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
PO BOX 110805
JUNEAU, AK 99811-0805

Order # TA 20-05)
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 20-05) 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 20-05) 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 21st, 2021.

Dated this 21 day of January, 2021 at Anchorage, 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 20-05

As of June 30, 2020

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



**FINAL REPORT:
January 21, 2021**

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



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Commerce, Community, and Economic Development

DIVISION OF INSURANCE

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

January 21, 2021

Lori K Wing-Heier
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 second 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 July 1, 2018 and June 30, 2020.

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 681, 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 the policy was included in the quarterly filing based upon the effective date of the policy.
 - (5) Verified the insured name, insured address, insurance company, producer names and license numbers were accurate on the forms filed.
 - (6) 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 or in the case of individuals, the residence 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 of 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 and at least 10-point type.
- 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 correctly for all policies in the audit files.

Results: Passed (error rate 0%)

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

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

- Insured name incorrect – 1
- Producer name and license # incorrect – 11
- Producer name and license # missing – 14

Total accuracy errors: 26

Results: Failed (24 files passed & 26 failed, error rate 52%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include instructions on how to fill out the transaction report. Procedures should include what data is entered into each field. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker's response: Prior to the current audit, we had internally detected an issue with the data import to the reports, and a misunderstanding in the training of a new employee to catch these errors. We have updated our processing instructions and training to prevent these errors from happening in the future. As well, we have implemented an additional final review of the reporting that will occur before submission through OPTins of the quarterly reports.

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|--|
| 4. Verify if tax and filing fee payments were made on time and by ACH
AS 21.34.180, AS 21.34.190, 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%)

5. 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.

Results: Passed (error rate 0%)

6. 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%)

7. Review diligent search 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 by the producers. One file did not have any documentation the diligent search was conducted. The broker predominately writes policies for which the kind of insurance is not available in the admitted market and are located on the Alaska Placement List. Every time the Placement List is published, the broker reviews the list to ensure the coverages they write have not dropped off the list. The master policies diligent search are completed prior to binding for the policies and documentation completed.

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

Recommendations: It is recommended the broker ensure written procedures are followed and documentation created and dated prior to binding and to maintain the documentation in the respective files.

The broker's response: The internal procedure for reviewing the AK export list and ensuring that any coverage that becomes available in the admitted market is offered as such, will continue. We updated our internal processes based on the previous audit and have continued to make every effort to ensure that the diligent search requirements are followed. The Affidavit of Due Diligence is used to document our efforts but is only one part of our exhaustive process to review all policies for the appropriate action in regards to whether the risk and coverage is offered in the admitted market, or is an acceptable surplus lines risk.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: All files have documentation showing the evidence of insurance was provided to the insured within the 30 days of binding.

Results: Passed (error rate 0%)

9. Review required material facts located on evidence of insurance**AS 21.34.100(a)**

Comments: All evidence of insurance includes the required material facts.

Results: Passed (error rate 0%)

10. Review disclosures on evidence of insurance for use of non-admitted insurer**AS 21.34.100(e)**

Comments: Two files included problems with the required disclosure statement on the evidence of insurance. Where the insured's copy was unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No disclosure on certificate to third party – 1
- No disclosure on endorsement – 1

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

Recommendations: It is recommended the broker amend written procedures to include all evidence of insurance, including certificates and endorsements, have the required disclosure statement.

The broker's response: The misunderstanding of the disclosure language being required even on third party certificates has been addressed, and the procedures updated. The missing disclosure on one endorsement was just human error. We will continue our efforts to ensure that all disclosure language be included on ALL evidence of insurance documents.

11. Review notification for use of non-admitted insurer**AS 21.34.110**

Comments: The broker missed providing the notification to the insured in eight files. There are three points to 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.

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

Recommendations: It is recommended the broker create Alaska specific written procedures to include Alaska notification language in the quote or at the same time as the quote to the insured describing the surplus lines insurance company as required by statute.

The broker's response: The previous audit revealed that we were missing the notification language on all files. We implemented a new procedure at that time to ensure the inclusion of the notification on all documents going forward. However, during the current audit, we found one specific coverage program that the notification language was not updated on all documents and have since revised the documents to include the notification language.

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

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 affects the service to the insured and compliance with Alaska statutes and regulations.

- 1) Several of the quarterly reports were not accurate when filed.
- 2) The required notification to the insured regarding the use of a nonadmitted insurer was not found in some files

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.

Re-Audit

In closing, the auditor's recommended actions and review of the 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

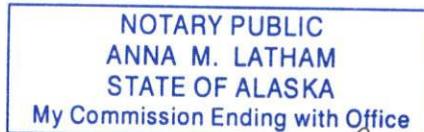
Citadel Ins Services LC
As of June 30, 2020
TA 20-05

Juneau, Alaska)
January 21, 2021)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2020 of Citadel Ins Services LC is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 22 day of January, 2021



Anna Latham
Notary Public in and for Alaska

My Commission Expires W/ office