

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 06-01)
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 06-01) 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

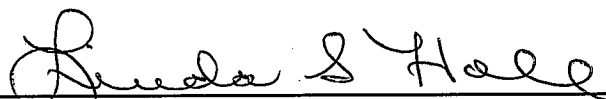
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Worldwide Facilities Inc, (TA 06-01) 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 Sept. 28, 2006.

Dated this 28th day of Sept, 2006 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

**Worldwide Facilities, Inc
Los Angeles, California**

TA 06-01

As of December 31, 2005

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



**FINAL REPORT:
September 28, 2006**

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Frank H. Murkowski, Governor
William C. Noll, Commissioner
Linda S. Hall, Director

August 18, 2006

Linda S. Hall, CPCU, CIC
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 May 8 through May 11, 2006, 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 first premium tax audit of Worldwide Facilities, Inc conducted by the Alaska Division of Insurance.

Subject Matters Audited

Worldwide Facilities, Inc is an Alaska licensed surplus lines broker based in Los Angeles, CA. As this agency ranked number one in premium volume among all Alaska licensed surplus lines brokers in 2005, 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 two years of January 1, 2004 through December 31, 2005.

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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 timely with all data requests. The number of policies and endorsements written during the audit period was 731, 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 in a timely manner.
 - 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 the affidavit of due diligence was filed with the Alaska Division of Insurance as required by statute for those policies effective prior to July 1, 2004.
 - (3) 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) 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 in a timely manner.
 - 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 timely 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 monthly 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 in the file 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 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
- 11) 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
- 12) Review timing of authorization to bind
 - i) Audit steps taken:
 - (1) Verified the authorization to bind was provided before the binder was extended to the insured.
- 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 in a timely manner.
AS 21.34.080 and .170, 3 AAC 25.100 and 25.090

Comments: The 24 monthly premium reports and accompanying forms were all filed timely. Each monthly filing had the correct forms attached: monthly premium report summary, report of surplus lines transaction, affidavit of due diligence (up until the statute change) and statement of exempt premiums (when necessary).

Result: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc consistently filed all necessary forms by the due date.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: The broker has a manual system set up for ensuring the accuracy of the premium calculation that is prone to errors. The accountant makes numerous manual premium corrections on the report of surplus lines transaction reports prior to being sent to the division because their software, JetFile, doesn't always include the appropriate fees as part of premium. The premium for one policy did not include company fees when reported to the division. There was not tax or fee effect as the insured is tax exempt.

This incorrect premium error affects one other test in the audit. The monthly report for this policy is also inaccurate as the incorrect amount of premium was included on the report.

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

Observations: The manual process created by Worldwide Facilities, Inc for report completion is prone to errors.

Recommendations: It is recommended that Worldwide Facilities Inc create written procedures to ensure no company fees are missed through JetFile when compiling the monthly premium reports.

Once the needed procedures are in place to correct the premium calculation, the monthly reports will be automatically corrected.

Worldwide Facilities, Inc response to initial exception report 6/29/06: The inspection fee was not included in the taxable premium base by the system, although inspection and company fees are treated as taxable in general for Alaska. Because the system distinguishes between inspection fee taxable and non taxable, it ignored the inspection fee altogether, since there was no taxable premium at all. We will update current written procedures to ensure company and inspection fees are included in the tax base calculation.

3. Verify the accuracy of all monthly reports filed

AS 21.34.080 and .170, 3 AAC 25.100 and 25.090

Comments: The broker has a manual system set up for ensuring the accuracy of the monthly reports that is prone to errors. A Jetfile report is run for the current month plus the prior month and then those already filed will be manually deleted from the excel spreadsheet. Six files contributed to inaccurate monthly filings for various reasons. One file included a subscription policy which was not apparent in the monthly filing as not all insurance companies involved in the transaction were identified on required forms. Three files included policies not filed in the

correct month due to a cut off point used by the broker of two weeks prior to the filing due date, which means invoices for prior month policies created in the last two weeks prior to the due date are not included in the report. One file included an endorsement reversing an original transaction reported in 2003 but the reversal endorsement was not reported on any monthly report. One file included a month by month policy where one endorsement added to a master policy was filed once each in two consecutive months, thus duplicating the endorsement.

Several of the incorrect monthly reports also affected two other tests, the accuracy of the quarterly and annual tax reports and the premium tax and filing fee payments.

Result: Failed (44 files passed & 6 failed, error rate 12%)

Observations: The manual process created by Worldwide Facilities, Inc for report completion is prone to errors.

Recommendations: It is recommended that Worldwide Facilities correctly identify subscription policies on the Report of Surplus Lines Transaction forms including all insurance companies and their percentage of risk on a single form. Also include a Monthly Premium Report Summary for each insurance company that makes up the subscription policy. If necessary, modify the JetFile programming to allow for multiple insurance companies to be part of a single policy.

It is also recommended to confirm effective dates of policies or receipt dates for endorsements to determine the correct month in which the policy/endorsement should be reported. The report as compiled from JetFile should account for all transactions in a given month, including endorsements. By using the JetFile report, no endorsements should fall through the cracks and it should eliminate duplicate filings that occur due to reversals of binders, invoices, corrections, etc.

Once the needed procedures are in place to correct errors on the monthly reports, the tax reports and payments will be automatically corrected.

Worldwide Facilities, Inc response to initial exception report 6/29/06: As far as subscription policies are concerned, they are so infrequent; it would not warrant a change in Jetfile. The multiple insurance company issue has been looked at previously, and the technical hurdles for Jetfile are too great. We will place increased emphasis on monitoring subscription policies on an item by item basis, and report accordingly.

Going forward, we will extend the cutoff to complete the report, since we now know that the determining factor for timeliness in filing is postmark date, not date received in Dept. of Insurance office. This will allow us added time to make sure items are reported in the appropriate month. We will also make use of an existing Jetfile monitoring tool to eliminate duplicate filings.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: Five policies within the sample had potential multi-state transactions. When discussed with compliance officer/president, he said they take the most conservative approach and file 100% premium in Alaska unless the producer tells them a portion of the premium must be filed in another state. The broker's conservative approach of reporting 100% premium in Alaska, unless the producer notifies them that other state's require a partial tax payment, is acceptable to meet statute requirements as being the reasonable allocation method of choice. The files in the sample were reported 100% in Alaska.

Result: Passed (error rate 0%)

5. Verify quarterly and annual premium tax reports were filed in a timely manner

AS 21.34.180, 3 AAC 21

Comments: All 10 tax reports were filed timely with the division.

Result: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc consistently filed all necessary forms by the due date.

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

AS 21.34.180, 3 AAC 21

Comments: The tax reports as filed matched the monthly reports as filed. During the audit, several monthly filings were found to be inaccurate. Several of the findings did not affect the tax reports because either the premium is exempt and therefore does not belong on the tax reports anyway or the inaccurate monthly reports were within the same quarter (i.e. policy was effective May 2005 but was filed on June 2005 - same quarter). Had the monthly reports been accurate, the tax reports would also have been accurate as the tax reports as filed matched the monthly reports as filed. The only reason the tax reports were not accurate is the audit findings. Therefore, the tax reports are considered accurate.

Result: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc consistently ensures all their monthly filings match with the quarterly and annual premium tax reports.

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

AS 21.34.180, 3 AAC 21

Comments: The 10 payments were all made by the due dates and by ACH as required.

Results: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc consistently ensures payments are received by the due date.

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: The payments were made accurately based upon the tax reports as filed. During the audit, several filings were found to be inaccurate. Several of the findings do not affect the tax & fee payments because either the premium is exempt and therefore there is no payment due or the inaccurate monthly reports were within the same quarter (i.e. policy was effective May 2005 but was filed on June 2005 - same quarter), thus not affecting the accuracy of the payments. Had the monthly reports been accurate, the tax reports would have been accurate and the corresponding tax and fee payments would have been accurate. The only reason the payments were not accurate is the audit findings. Therefore, the tax and filing fee payments are considered accurate.

Results: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc consistently ensures all their tax and filing fee payments match the quarterly and annual premium tax reports as filed.

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

AS 21.34.020, 3 AAC 25.030

Comments: Four files did not have evidence of due diligence in the files. Two policies, the insured is exempt. Two policies for which the master policy is based out of California did not have evidence of due diligence because CA does not require it and the broker was under the misunderstanding that having the master policy in CA is the overriding factor in the due diligence checks.

Results: Passed (46 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended that Worldwide Facilities continue to enforce the due diligence requirement for all surplus lines insurance transactions. Starting 6/11/06, the requirement will be to receive due diligence from producers before binding.

If the insured is in Alaska, then the Alaska statutes and regulations override the California laws.

Worldwide Facilities, Inc response to initial exception report 6/29/06: Worldwide will continue to enforce due diligence requirements for all surplus line transactions.

10. Review disclosures for use of non-admitted insurer

AS 21.34.110

Comments: There was no documentation in the files showing Worldwide Facilities met the requirements in Alaska statute 21.34.110 that requires notification by either the producer or the surplus lines broker to the insured in writing, a copy of which shall be maintained by the surplus lines broker with the records of the contract, available for examination, that the insurer with whom the surplus lines broker places the insurance does not hold a certificate of authority issued by this state and is not subject to its supervision. A contract of insurance placed by the surplus

lines broker under chapter 34 is not binding upon the insured and a premium charged is not due and payable until such notification is provided to the insured. Seventeen of the files in the sample were endorsements and do not have this requirement, just the original policy.

Results: Failed (17 files passed & 33 failed, error rate 66%)

Recommendations: It is recommended that Worldwide Facilities create a notification or obtain this notification from the producer with the required language per statute to provide to the insured.

Worldwide Facilities, Inc response to initial exception report 6/29/06: Worldwide Facilities stamps the following on each binder, policy or other evidence of coverage placed with a non admitted carrier in Alaska: "This is evidence of insurance procured and developed under the Alaska Surplus Lines law 21.34. It is not covered by the Alaska Insurance Guaranty Association Act of AS 21.80. Worldwide Facilities, Inc". Worldwide is revising this wording to meet the necessary statutory requirements. The revised disclosure will add the following to the existing language: "This insurer does not hold a certificate of authority with Alaska, and is not subject to supervision by the Alaska Division of Insurance".

Division of Insurance Response: The latest this notice must be provided to the insured is with the invoice. A best practice might be to send a letter with the quote as this is another opportunity to inform the insured of the surplus lines coverage. A stamp will not meet statute requirements.

11. Confirm coverage is placed with an eligible non-admitted insurer

AS 21.34.050

Comments: All transactions within the files show approved companies.

Results: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc appears to be careful about placing business with only those insurers on the white list.

12. Review timing of authorization to bind

AS 21.34

Comments: Documentation was in every file showing the authorization to bind from the producers was received prior to actually binding coverage.

Results: Passed (error rate 0%)

Observations: Worldwide Facilities, Inc maintains the necessary documentation, whether it is in the form of a fax, email, or phone call.

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Nine files did not have evidence of the required notice of nonrenewal and premium increase being sent to the insured.

Results: Failed (41 files passed & 9 failed, error rate 18%)

Recommendations: It is recommended that Worldwide Facilities enforce the notice requirement to meet Alaska regulations.

Worldwide Facilities, Inc response to initial exception report 6/29/06: In the future, Worldwide will require all insurers to issue proper notification to the insured, in accordance with Alaska regulation 3 AAC 25.050, regardless of whether there is a premium increase or not.

Division of Insurance Response: This notice is required by 3 AAC 25.050 because the surplus lines market operates differently from the admitted market. Statute requires that each policy be placed in the admitted market if possible, which means it must be marketed each year. Also, each surplus lines policy is negotiated as a new contract. Insurers with unregulated rates and forms are free to create the policy terms and price they need each year. In order that they not be constrained by notice requirements of Chapter 36, they are required to notify the policyholder at time of policy issue with the wording in Bulletin 06-10, or other wording approved by the director.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Worldwide Facilities 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 very 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.

- 1) One file could not be located when tax auditor was in the broker's office. They are recreating the file since they still could not locate the file. Copies of the pertinent documents for the audit were received from the producer to the broker. All indications in the documents showed there was a file at one point in the Worldwide Facilities office. This is a serious problem that must be rectified per Alaska Statute 21.27.350. It is recommended that Worldwide Facilities institute procedures to ensure the statute requirements for maintaining records of transactions be available for examination and inspection at any business time during the five years immediately after the date of the completion of the transaction are met.

- 2) Several of the monthly reports were not accurately filled out which leads to inaccurate tax reports and inaccurate premium tax and filing fee payments. Once the root cause of the inaccuracies is fixed with the recommendations laid out by the auditor, the resulting inaccuracies should be corrected.
- 3) The manual system of ensuring the accuracy of the premium calculation and the monthly reports in use by the broker is prone to errors.
- 4) The required notification to the insured regarding the use of a non admitted insurer that is not regulated by the Alaska Division of Insurance, does not have a certificate of authority and is not covered by the Alaska Guaranty Association in the case of insolvency was not found in any file.

Re-Audit

In closing, while the auditor found problems with the reports and payments, she also found that the broker wants to do things right. This is evident in the response to the exception report. The auditor's recommended actions, including those already implemented by the broker, should correct the problems encountered and it is recommended that Worldwide Facilities, Inc be re-audited within the next three years to ascertain compliance with them.


Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Worldwide Facilities, Inc
As of December 31, 2005
TA 06-01

Juneau, Alaska)
August 18, 2006)
State of Alaska) ss.
First Judicial District)


I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2005 of Worldwide Facilities, Inc is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 18th day of August, 2006





Notary Public in and for Alaska
My Commission Expires 1/24/2009