

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 07-03)
In the Matter of Audit of)
Brown & Brown of Washington, Inc)
_____)

FINDINGS OF FACT

1. An audit report of Brown & Brown of Washington, Inc, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Brown & Brown of Washington, Inc.

2. The audit report of Brown & Brown of Washington, Inc (TA 07-03) has been transmitted to Sharon Edmondson, Compliance Officer, Brown & Brown of Washington, 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

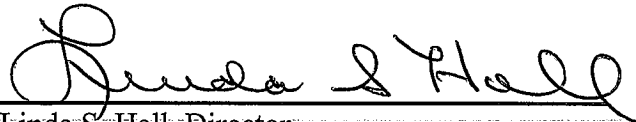
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Brown & Brown of Washington, Inc (TA 07-03) 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 Feb. 27, 2008.

Dated this 27th day of Feb, 2008 at Juneau, Alaska.



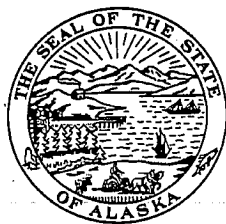
Linda S. Hall, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF
Brown & Brown of Washington, Inc
Seattle, WA

TA 07-03

As of December 31, 2006

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



FINAL REPORT:
February 26, 2008

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STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sarah Palin, Governor
Emil Notti, Commissioner
Linda S. Hall, Director

Division of Insurance

February 26, 2008

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 Brown & Brown of Washington, Inc (the broker) on August 20, 2007 through August 25, 2007, in the broker's Seattle, WA office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

SCOPE OF AUDIT

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

Subject Matters Audited

Brown & Brown of Washington, Inc is an Alaska licensed surplus lines broker based in Seattle, WA. 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, 2005 through December 31, 2006.

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Telephone: (907) 465-2515 Fax: (907) 465-3422 Text Telephone: (907) 465-5437
Email: insurance@commerce.state.ak.us Website: <http://www.commerce.state.ak.us/insurance/>

METHODOLOGY

The tax auditor sent the call letter and initial data requests to Brown & Brown of Washington, Inc's office in Seattle. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Brown & Brown of Washington, Inc complied timely with all data requests. The number of policies and endorsements written during the audit period was 51 on the initial list provided so all 51 were selected for audit. While on-site, an additional seven were added as they were filed with the Division but were not included on the initial list provided. Additionally, one policy was not filed with the Division and was not included on the list but found during the audit. Thus, there were a total of 59 policy files included in the 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 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 based upon the monthly reports filed.
- 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 tax 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 per AS 21.34.100(e)
 - i) Audit steps taken:
 - (1) Reviewed the evidence of insurance to ensure the required broker information and stamp were visible.
- 11) Review disclosures for use of non-admitted insurer per AS 21.34.110
 - 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 a policyholder notice regarding nonrenewal and premium increase included with the policy.

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, and statement of exempt premiums (when necessary).

Result: Passed (error rate 0%)

Observations: Brown & Brown of Washington, Inc consistently filed all necessary monthly forms by the due date.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: Eleven policy premiums were calculated incorrectly. Eight included broker fees that should not have been included and resulted in refunds to the insured via the broker. One did not include a policy fee, which results in additional tax and fees to the State. Two included amounts that were not identified.

The incorrect premium error affects three others tests: the accuracy of the monthly reports, the tax reports and the tax and filing fee payments.

Result: Failed (49 files passed & 11 failed, error rate 19%)

Recommendations: It is recommended that Brown & Brown of Washington Inc re-read bulletin B 04-14 for what fees are included in premium and what fees are not. This information needs to be conveyed to all staff who work with surplus lines policies so they can correctly determine the premium amount when creating the invoice. When Brown & Brown of Washington acts as the producer in the transaction, it is important to know if the calculation invoiced by the surplus lines broker is accurate in order to better serve the client.

It is further recommended that all documentation to support the calculation of premium is maintained in the file. If an invoice comes in from another broker or MGA that appears to be incorrect, follow up on the calculation and document any correspondence in the file.

Brown & Brown of Washington Inc response:

1. A copy of Bulletin B 04-14 has been distributed to all personnel involved in potential surplus lines filing and stored permanently on the network for reference.
 - a. A reminder has been added to the surplus lines' checklist indicating only premiums are subject to tax and fees in the State of Alaska.
2. Effective September 11, 2007, Brown & Brown of Washington, Inc., Seattle office, ceased the practice of providing courtesy filings and no longer accepts or places on behalf of any broker, whether a Brown & Brown entity or not. Notification was sent to all Brown & Brown offices where courtesy filings might be anticipated. Any and all surplus lines transactions are now placed only for those clients of Brown & Brown of Washington, Inc., Seattle office.

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. Using copies of the policies and the computer system, the monthly report is created. A list is generated from the computer system using the invoice date to track all

surplus lines transactions for a given month. The parameters set for the list is limited to a given month and not past the month to account for transactions invoiced in the subsequent month.

1. Twenty-eight policies were not reported in the correct monthly report. Many of them were off by just one month but some of them much longer.
2. One policy for an exempt insured was not filed as they didn't realize the paperwork was still required since there was no tax or fees on the policy.
3. Two policies for a single insured were included on the same report of surplus lines transaction report for two different insurance companies. These two were part of the 28 above as they were also filed in the wrong month.
4. Two policies were subscription policies with unauthorized insurers. Both policies meet the definition of wet marine and transportation, which means they should not have been reported as a surplus lines transaction.

The inaccurate monthly reports affects two other tests: the accuracy of the tax reports and the tax and filing fee payments.

Result: Failed (28 files passed & 31 failed, error rate 53%)

Observations: The manual process created by Brown & Brown of Washington Inc for report completion is prone to errors.

Recommendations: It is recommended that Brown & Brown of Washington Inc revise their written procedures to ensure that all policies are filed in the monthly filing in which the policy is effective. In the case of endorsements, the earliest date of when the insured approves the additional quote, the endorsement is received or the endorsement is invoiced will determine in which monthly filing to report the endorsement. Staff who prepare the monthly reports should run the current month's invoice report to determine if any policies effective in the reporting month but invoiced in the current month should be reported on the reporting month's report. For example, when preparing the July monthly report, the August invoices should be queried to find any policies effective in July but invoiced in August that must be reported on the July report. This should eliminate the majority of the late filings found in the audit.

Brown & Brown needs to file an amended July 2005 report to include the exempt policy.

Brown & Brown of Washington Inc response:

1. Amended July 2005 for exempt policy received
2. Written procedures amended to include reporting requirements on all surplus lines transactions
3. Written procedures have been amended to require that policies are consistently filed in the effective month.
 - a. Report of Alaska surplus lines filings will be run at each month end and check against surplus lines report to ensure all filings have been completed in the effective month
4. Written procedures have been altered to require one transaction report for each transaction completed
5. Written procedures amended to show all carriers, including all subscription carriers are checked against the white list and reported accurately on the reporting form.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: One policy was a multi-state risk for which only the Alaska portion of the risk was filed in Alaska. However, there was no discernable way to tell in the file how the allocation was made. Since the policy was a courtesy filing, the presumption is the producer had all the necessary information in which to make a determination but it was not conveyed to Brown & Brown of Washington who was making the filing on their behalf.

Result: Passed (error rate 0%)

Recommendations: It is recommended that Brown & Brown of Washington revise their written procedures to ensure that when they are acting as the surplus lines broker on a multi-state risk that they have a policy on how to allocate the premium between states.

Brown & Brown of Washington Inc response: We have revised our written procedures to require a premium breakdown by state from the carrier on all multi-state policies subject to surplus lines filings in cases where Brown is acting as the surplus lines broker.

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

AS 21.34.180, 3 AAC 21

Comments: Eight tax reports were filed timely with the division; however, two policies were found in the audit to meet the definition of wet marine and transportation per Alaska Statute (AS) 21.34.900(9). As such they should not be filed on the monthly reports but on a separate Unauthorized Insurer's Premium Tax Report, which was not filed. The error was accounted for previously as part of the inaccurate monthly reports.

This error affected four other audit tests:

1. Accuracy of quarterly and annual tax reports
2. Accuracy of payments (the tax rate for wet marine & transportation is 3/4 of 1%)
3. Timeliness of filing tax reports
4. Timeliness of paying tax

Result: Passed (error rate 0%)

Recommendations: It is recommended that Brown & Brown of Washington create written procedures to account for those policies that meet the definition of wet marine and transportation. The procedure should include what tax report to file, how much tax to charge and the due dates for the tax and reports. It also could include detailed information regarding the definition such as gross tonnage and all the specific items in AS 21.34.900(9).

Brown & Brown of Washington Inc response: We have amended our procedures to include a separate accounting in those instances that meet the definition(s) of wet marine and transportation and supplied by AS 21.34.900(9). Future filings per the definitions will be provided separately, taxed accordingly and submitted pursuant to AS 21.34 and AS 21.33.055.

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

AS 21.34.180, 3 AAC 21

Comments: Three of the quarterly tax reports and both annual tax reports were not accurately filled out and did not match the monthly reports as filed.

- 2nd quarter 2005: Did not match the monthly reports as originally filed
- 3rd quarter 2005: Did not match the monthly reports as originally filed
- Annual 2005: The original report as filed was incorrect based upon monthly reports and found prior to the audit. An amended report filed prior to the audit was accurate
- 3rd quarter 2006: The tax amount as reported was more than required as tax for an exempt policy was included
- Annual 2006: The amount reported as previously paid to the State of Alaska during the 2006 year was not accurate due to a re-allocation of the third quarter tax payment to a late payment penalty. In addition, the monthly reports as filed did not match the annual report as filed due to a spreadsheet glitch that did not correctly add up the columns.

All the errors to the premium calculation and the monthly reports accuracy found during the audit also affects how accurate the tax reports are.

~~This error affects the accuracy of the taxes and fees payment.~~

Result: Failed (5 reports passed out of 10, error rate 50%)

Recommendations: It is recommended that Brown & Brown of Washington revise their written procedures to ensure the tax reports match the monthly reports as filed and correctly calculate the amount of quarterly taxes paid. Double check the calculations on Excel spreadsheets to ensure all amounts are added into the total calculation.

Brown & Brown of Washington Inc response: We have revised our written procedures to include a due diligence test of accuracy between the filed report. The due diligence requires that the monthly reporting be reviewed by the accounting department to ensure accuracy. An Excel spreadsheet has been created to automatically calculate the tax and fees associated with each surplus lines filing and to ensure correct reporting and to be checked against those charged to the insured.

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

AS 21.34.180, 3 AAC 21

Comments: Five payments were paid late resulting in penalties to Brown & Brown of Washington. All penalties were assessed and paid prior to the audit.

Results: Failed (5 payments passed out of 10, error rate 50%)

Recommendations: It is recommended that Brown & Brown of Washington revise their written procedures for processing payments. The critical issues to address are the due dates and how to make the payments via ACH.

Brown & Brown of Washington Inc response: We have revised our written procedures to include prompt payment of annual and quarterly payments as due 5 working days prior to the due date to ensure prompt payment via ACH.

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: The accuracy of the tax and fee payments is based entirely on the accuracy of the monthly reports and the tax reports. Two quarterly payments did not match the tax reports as filed. In addition, during the audit, numerous inaccuracies were found in how the reports were created which in turn affected the accuracy of the tax and fee payments.

The correct tax and fees due after including the audit adjustments and reduced by payments received for each year are:

2005:

Surplus Lines Tax: \$28,501.12
Annual Filing Fees: \$10,555.97
Late Payment Penalties: \$1,266.74
Wet Marine & Transportation Tax: \$68.63
Payments made: \$41,077.67
Difference (\$685.21)

2006:

Surplus Lines Tax: \$27,289.07
Annual Filing Fees: \$10,107.06
Late Payment Penalties: \$1,447.50
Wet Marine & Transportation Tax: \$46.31
Payments made: \$36,294.20
Difference \$2,595.74

Total tax and fees due \$1,910.53

Recommendation: It is recommended that Brown & Brown of Washington revise their written procedures to ensure all monthly reports and tax reports are accurate as filed so that the tax and fee payments will be accurate. It is the request of the Division for Brown & Brown to make the tax and fee payment due now.

Brown & Brown of Washington Inc response:

1. We have revised our written procedures to include a due diligence test of accuracy between the filed reports. The due diligence requires that the monthly reporting be reviewed by a third party to ensure accuracy, as indicated in a prior response.
2. We have revised our written procedures to include prompt payment of annual and quarterly payments as due 45 working days prior to the due date to ensure prompt payment via ACH as indicated in a prior response.

Alaska Division of Insurance response: Payment of the additional tax and fees due of \$1,910.53 was received on January 30, 2008.

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

AS 21.34.020, 3 AAC 25.030

Comments: Twelve files did not have any documentation to show the admitted market was evaluated prior to contacting the surplus lines market to place the business.

Results: Failed (47 files passed & 12 failed, error rate 20%)

Recommendations: It is recommended that Brown & Brown of Washington revise their written procedures to ensure all surplus lines policy files have the required documentation to show a diligent search was conducted of the admitted market -- both those in which they are acting as the surplus lines broker and those where they are the producer in the transaction. If the broker wants to continue to use the affidavit of due diligence as created by the division of insurance that is totally their prerogative.

Brown & Brown of Washington Inc response: The written procedures have been revised to require a completed due diligence affidavit, including verification of each carrier, which will accompany the binder to the surplus lines reporting liaison, as indicated on the checklist.

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

AS 21.34.100(e)

Comments: Four policies had the required stamp per AS 21.34.100(e) but it was placed in a location that obscured both the words in the stamp as well as the words on the evidence of insurance. The stamp is not proper notification when it cannot be read. The stamp is also much larger than the minimum size in the statute, which could account for why some words were covered up. Two files did not have a copy of the policy but there was a copy of the binder, which did not have the stamp.

Results: Failed (53 files passed & 6 failed, error rate 10%)

Recommendations: It is recommended that Brown & Brown of Washington ensure their written procedures are followed for stamping all evidence of insurance. Many of the stamps required by AS 21.34.100(e) covered up crucial information on the dec pages - such as the premium amounts. The stamp used is large and appears to be bigger type than the at least 10 point type required by statute. The signature of the surplus lines broker is not required as part of the stamp and since it is so big and obscures words, they may want to consider re-doing their stamp to fit better on the page.

Brown & Brown of Washington Inc response: The Alaska surplus lines' stamp has been reordered to comply with the requirements of AS 21.34.100(e) to better fit the page and to prevent obscuring the policy as well as ensure ease of reading.

11. Review disclosures prior to binding for use of non-admitted insurer

AS 21.34.110

Comments: There was no documentation in the files showing Brown & Brown of Washington, Inc 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.

Results: Failed (error rate 100%)

Recommendations: It is recommended that Brown & Brown of Washington revise their written procedures to include a written notification to meet the statute requirements at the time the quote or proposal is sent to the insured. The insured is not liable for any premium payments on the policy until they are provided this notification prior to binding.

Brown & Brown of Washington Inc response: Our proposals have been altered to include the notification that the insurer with whom the surplus lines is placed does not hold a certificate of authority issued by this state and is not subject to this state's supervision and in the event of the insolvency of the surplus lines insurer, losses will not be covered under AS 21.80 (Alaska Insurance Guaranty Association Act). All proposals are system generated and the form requires the signature(s) of the insured.

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

AS 21.34.050

Comments: Two policies for the same insured were subscription policies for which a portion of the risk was written with companies that are not authorized or white listed to do business in the State of Alaska. The requirements in AS 21.34.060 and regulation 3 AAC 25.010(b) were also not followed; however, it turns out these two policies are for wet marine and transportation and fall under chapter 33.

Results: Passed (57 files passed & 2 failed, error rate 0%)

Recommendations: It is recommended that Brown & Brown of Washington create a routine check of all quotes, binders, and policies to ensure the insurance company is an eligible surplus lines insurance company. This check can also be beneficial if the policy comes in expected to be written with an admitted company and it turns out to be a surplus lines company. If an unauthorized company is identified, additional communication with the company or wholesaler is required to see if the policy can be written with an eligible surplus lines company. If Brown & Brown wants to continue writing with the unauthorized company, they must follow the requirements in Alaska Statute 21.34.060 and regulation 3 AAC 25.010(b).

Brown & Brown of Washington Inc response: We have altered our written procedures to include a check of all companies and wholesalers against the State of Alaska white list, located at:

<http://www.commerce.state.ak.us/ins/apps/companysearch/InsCompanyStart.cfm> and to document that the company/wholesaler appears as a licensed surplus lines carrier/MGA.

Alaska Division of Insurance response: The MGA/wholesaler look up is located at:
<http://www.commerce.state.ak.us/insurance/apps/producersearch/InsLicStart.cfm>

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Every file has a copy of the Alaska Policyholder Notice as required by statute. When they receive the original policy for stamping (on those courtesy files when asked to file on behalf of another firm), they included this notification every time when they sent back the original policy, even if this meant duplicating the notification if the insurer had included it with the policy already. On policies for which they are the broker, they also include the notice when sending the policy to the insured/producer. It is the responsibility of the broker to ensure the notice is part of the policy and to notify the insurance company if it is missing.

Results: Passed (error rate 0%)

Courtesy Filings

Comments: The broker accepted many transactions from producers that did not have an Alaska surplus lines broker license but had made the placement already with a surplus lines company. Alaska Statute does not allow a broker who was not involved in the transaction to file on behalf of another. All but five insureds in the audit were courtesy filings.

Recommendation: It is recommended that Brown & Brown of Washington discontinue accepting surplus lines transactions from producers to file on their behalf immediately. For those firms affiliated with Brown & Brown, a filing is acceptable to be made by Brown & Brown. A list of all affiliated firms that Brown & Brown might make a filing for must be provided and updated every year to the Alaska Division of Insurance or when there are major changes. Brown & Brown can continue to work with these producers but must act as the surplus lines broker in the transaction and make the placement with the insurance company themselves, which would no longer make the transaction a courtesy filing.

Brown & Brown of Washington Inc response: Effective September 11, 2007, Brown & Brown of Washington, Inc., Seattle Office, ceased the practice of providing courtesy filings and no longer accepts or places on behalf of any broker, whether a Brown & Brown entity or not. Notification was sent to all Brown & Brown offices where courtesy filings might be anticipated. Any and all surplus lines transactions are now placed only for those clients of Brown & Brown of Washington, Inc., Seattle office.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Brown & Brown of Washington, 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 Brown & Brown of Washington, Inc's management and staff.

Several significant issues did arise during the audit.

- 1) Accepting courtesy filings on behalf of producers who were not licensed to access the surplus lines market is the first significant issue.
- 2) Many 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 nonadmitted insurer prior to binding 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 proposed report. The auditor's recommended actions, including those already implemented by the broker, should correct the problems encountered and it is recommended that Brown & Brown of Washington, Inc be re-audited within the next three years to ascertain compliance with them.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Brown & Brown of Washington, Inc
As of December 31, 2006
TA 07-03

Juneau, Alaska)
February 26, 2008)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2006 of Brown & Brown of Washington, Inc is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 27th day of February, 2008



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