

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 08-03)
In the Matter of Audit of)
Alexander Morford & Woo Inc)
_____)

FINDINGS OF FACT

1. An audit report of Alexander Morford & Woo Inc, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Alexander Morford & Woo Inc.
2. The audit report of Alexander Morford & Woo Inc (TA 08-03) has been transmitted to Larry Woo, Compliance Officer, Alexander Morford & Woo 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

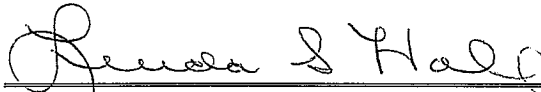
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Alexander Morford & Woo Inc (TA 08-03) 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 December 16, 2008.

Dated this 16th day of December, 2008 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

**Alexander Morford & Woo Inc
Seattle, WA**

TA 08-03

As of December 31, 2007

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



**FINAL REPORT:
December 16, 2008**

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

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

December 16, 2008

Linda S. Hall, CPCU
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 Alexander Morford & Woo Inc (the broker) on July 7, 2008 through July 10, 2008, in the broker's Seattle, WA office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Alexander Morford & Woo 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 the broker conducted by the Alaska Division of Insurance.

Subject Matters Audited

Alexander Morford & Woo 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 non-admitted business for the two years of January 1, 2006 through December 31, 2007.

P.O. Box 110805, Juneau, Alaska 99811-0805
Telephone: (907) 465-2515 Fax: (907) 465-3422 Text Telephone: (907) 465-5437
Email: insurance@alaska.gov Website: <http://www.commerce.state.ak.us/insurance/>

METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker's office in Seattle, WA. A list of all Alaska business transactions with non-admitted insurers was requested for the period to be audited. The broker complied timely with all data requests. The initial number of policies and endorsements written during the audit period was 470, from which a sample of 50 files was selected for audit. However, the initial list provided included admitted policies in addition to non-admitted policies. Out of the initial 50 sampled policies, there were 28 non-admitted policies. A list of non-admitted companies was received while on-site containing a total of 256 policies. A sample of 22 policies was selected for audit from this second list to bring the total back to 50 files.

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.
- 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 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 25.090 and .100

Comments: Three of the 24 monthly premium reports and accompanying forms were filed late. Each monthly filing had the correct forms attached: monthly premium report summary and report of surplus lines transaction. One of the late filed reports was prior to 6/11/06 when new regulations instituted a penalty for late filings. Two reports were filed late in 2006 for which the broker was assessed a late fee of \$100 each that were paid timely.

Result: Failed (21 reports passed & 3 failed, error rate 13%)

Recommendation: It is recommended that the broker ensure they are following their written procedures to file reports timely. Confirm all due dates are in the written procedures.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: The premium was calculated incorrectly for 18 transactions in the audit files. Thirteen included the broker fees in premium, four failed to include company fees in premium and one premium as shown in policy file did not match what was filed with the Division. This error affects three other audit tests, the accuracy of the monthly reports, tax reports, and tax & fee payments.

Result: Failed (32 files passes & 18 failed, error rate 36%)

Recommendations: It is recommended that the broker ensure the premium includes all company fees and does not include broker fees and that this information on the correct calculation of premium is maintained in their written procedures.

3. Verify the accuracy of all monthly reports filed

AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: A month end report run from the computer system by the 5th day of the following month gives a list of everything that was invoiced during the previous month. A manual reconciliation is performed comparing the computer list with the report of surplus lines transaction forms provided by office staff. One policy transaction was a late amended report and one policy transaction was a subscription policy but filed as separate policies. This error affects two other audit tests, the accuracy of the tax reports and tax & fee payments.

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

Recommendations: It is recommended that the broker follow their written procedures for when initial or renewal policies as well as endorsements are to be reported to the Alaska Division of Insurance. It is also recommended to wait to file the monthly report until closer to the due date and run additional reports to ensure all transactions with an effective date in the reporting month but invoiced in the following month are identified timely so that amended reports are not necessary.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: Three policies in the audit included multi-state risks. Two were not separated between the two states with the risks as they were filed as 100% Alaska risks. This error affects four additional audit tests, the accuracy of the premium calculation, monthly reports, tax reports, and tax & fee payments

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

Recommendations: It is recommended that the broker ensure their written procedures address how to identify and properly report multi-state policies. These two policies transaction reports will need to be adjusted with Alaska and the Washington portion filed with that state. It is recommended that the broker confirm all years for these two insureds have been filed correctly between the two states and make adjustments where necessary. An amended monthly summary is required to correct the premium for these policies and will be due to the Alaska Division of Insurance within 30 days of receipt of this report.

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

AS 21.34.180, 3 AAC 21

Comments: The three 2006 quarterly tax reports were not filed and the three 2007 quarterly tax reports were filed late with the Alaska Division of Insurance.

Result: Failed (2 reports passed & 6 failed, error rate 75%)

Recommendation: It is recommended that the broker follow their written procedures to ensure the tax reports are all filed timely.

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

AS 21.34.180, 3 AAC 21

Comments: Nine files were part of the monthly reports January - May 2007 that did not accurately flow through to the annual tax report. As this was a net zero result between the five months and did not affect the tax and fees due as the two quarter taxes were calculated and paid correctly, a revised annual report was not requested of the broker. The 21 errors found during the audit in the accuracy of the monthly reports, premium calculation and multi-state allocation calculation affects the tax reports as well. These errors accumulate to return tax & fees of (\$148.65) and (\$55.05) respectively.

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

Recommendation: It is recommended that the broker ensure all monthly reports figures correctly flow to the quarterly and annual tax reports by following their written procedures. It is recommended that the broker amend previously filed reports to correct the premium calculations. The Division will then refund the tax and fees to the broker to pass on 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: The 2006 annual tax & fee payment was paid late and a penalty was assessed and paid prior to the audit. All payments were made by ACH.

Results: Failed (7 payments passed & 1 failed, error rate 13%)

Recommendation: It is recommended that the broker follow their written procedures to ensure all payments are made timely.

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: All tax and fee payments made by the broker were accurately based upon the monthly and tax reports as filed.

Results: Passed (error rate 0%)

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

AS 21.34.020, 3 AAC 25.030 and .035

Comments: Seventeen files did not have the required affidavit of due diligence (prior to 6/11/06), or some documentation about the diligent search prior to binding coverage. The broker decided to continue using the affidavit of due diligence for their documentation but many were received after the date coverage was bound.

Results: Failed (33 files passed & 17 failed, error rate 34%)

Recommendations: It is recommended that the broker follow their written procedures and ensure they receive documentation or document in the electronic file the diligent search with admitted companies was received prior to binding coverage on the policy.

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

AS 21.34.100(e)

Comments: Five policies did not have the required language on the declaration page. One policy did not have the required language on the confirmation of insurance.

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

Recommendations: It is recommended that the broker follow their written procedures and ensure the required language in statute is printed or stamped on all evidence of insurance.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: Seven files did not maintain the required notification to the insured in writing, 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, 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).

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

Recommendations: It is recommended the broker ensure they are following their written procedures to maintain the required notification to the insured. In addition, the insured is not

required to pay the premium unless they are notified so it is recommended the insured be notified prior to sending an invoice.

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 companies.

Results: Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Three files did not have evidence of the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured as part of the policy or confirmation of insurance

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

Recommendations: It is recommended that the broker ensure they are following their written procedures and ensure all surplus lines policies and confirmation of insurance includes the Alaska Policyholder Notice.

File Documentation

Comments: Four files included information that was not related to the particular policy under audit or the correct policy year. And one file was not complete as the electronic version had portions of the policy and the paper file was not found, which is where the copy of the policy is maintained.

Recommendations: It is recommended that the broker fix the four electronic files with the extra information not related to a particular year or policy. It is also recommended that the broker create better quality control over what is input into the computer in the electronic files. It is critical the broker maintain all parts of a file and if a paper file is moved off site the broker should ensure all parts are maintained on the computer.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Alexander Morford & Woo 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 cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Alexander Morford & Woo Inc's management and staff.

Several significant issues did arise during the audit.

- 1) A file was not located with a copy of the policy available for review.
- 2) The incorrect calculation of premium results in the insured being charged the incorrect tax and fees and the submission of incorrect tax and fees to the Alaska Division of Insurance.
- 3) The diligent search in the admitted market first was not documented in many of the files or if it was, some were received after the date for binding coverage.
- 4) Many monthly reports and tax reports were filed late or not at all.

Re-Audit

The auditor's recommended actions should correct the problems encountered and it is recommended that Alexander Morford & Woo Inc be re-audited within the next three years to ascertain compliance with them.

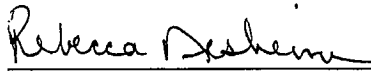
Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Alexander Morford & Woo Inc
As of December 31, 2007
TA 08-03

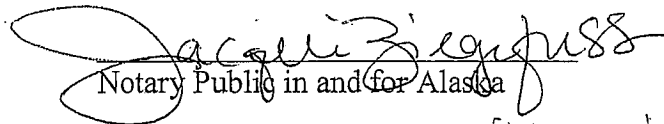
Juneau, Alaska)
December 16, 2008)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2007 of Alexander Morford & Woo Inc is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 16 day of December, 2008



Notary Public in and for Alaska

My Commission Expires with office