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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 13-01)
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 13-01) 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 he 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 he 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 13-01) 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 May 21, 2013.

Dated this 21 day of May, 2013 at Anchorage, Alaska.

Bret S. Kolb

Bret S. Kolb, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

**Worldwide Facilities, Inc
Los Angeles, CA
Alaska License #9718**

TA 13-01

As of December 31, 2012

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



**FINAL REPORT:
May 21, 2013**

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

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and Economic Development

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May 21, 2013

Bret S. Kolb
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 (the division) performed a limited and targeted premium tax audit of Worldwide Facilities Inc (the broker). The audit was conducted by Rebecca Nesheim, tax auditor for the division.

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 third premium tax audit of Worldwide Facilities Inc conducted by the division. The second premium tax audit was completed July 9, 2010.

Subject Matters Audited

The broker is an Alaska licensed surplus lines broker based in Los Angeles, CA. The division included in the current audit a review of the statutory compliance with financial report filings, premium tax and filing fees payments, of accuracy and timeliness as well as required due diligence and disclosures and notifications to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2011 through December 31, 2012.

METHODOLOGY

The tax auditor sent the call letter and initial data requests to Worldwide Facilities Inc's office in Location. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Worldwide Facilities Inc complied on a timely basis with all data requests. The number of policies written during the audit period was 1,020, from which a sample of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly reports, quarterly reports, and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly and quarterly files sent to the Alaska Division of Insurance and verified the reports were filed by the due date.
- 2) Verify the accuracy of the premium calculation
 - i) Audit steps taken:
 - (1) Reviewed policy, declaration page, 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 all monthly and quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, declaration, and endorsement pages in each file.
 - (2) If the effective date did not match the monthly or 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 effective date may be a month or more prior to the actual book date or invoice date. In this case, the invoice date determines in which month or quarter the endorsement is required to be filed.
 - (3) Verified the monthly and quarterly reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees based upon the information in the files.
 - (4) Verified a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the monthly or quarterly filing based upon the effective date of the policy.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology used to allocate, if effective prior to 7/21/11.
 - i) Audit steps taken:
 - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
 - (2) Verified the multi-state allocation form was filed when appropriate
- 5) Verify quarterly tax and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly tax and annual premium tax reports were sent to the Alaska Division of Insurance.

- 6) Verify the accuracy of the quarterly tax and annual premium tax reports
 - i) Audit steps taken:
 - (1) Verified the quarterly tax 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 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
- 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 the diligent search was documented prior to binding and the declinations completed. If 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
- 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 stamp required by statute AS 21.34.100(e) is present and legible.
- 11) Review notifications for use of non-admitted insurer
 - i) Audit steps taken:
 - (1) Reviewed the correspondence and other documentation in the files to find a copy of the notification sent to the insured that meets the requirement in AS 21.34.110
- 12) Confirm coverage is placed with an eligible non-admitted insurer
 - i) Audit steps taken:
 - (1) Reviewed the 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 an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy, binder or cover note.

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 reports, quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: Twenty-three original monthly premium reports were filed on time and six Quarterly Reports effective third quarter 2011 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 and subsequent endorsements.

Results: Passed (error rate 0%)

3. Verify the accuracy of all monthly reports and quarterly reports filed

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

Comments: One policy was a subscription policy with a non-admitted company and an admitted company with each claiming a percentage of the risk but it was reported to the division as 100% non-admitted risk. Since the risk was on state government or its political subdivisions no taxes or fees are affected; thus, there is no effect on any other procedure test. A new report of surplus lines transaction needs to be filed to correct the report.

Three policies were multi-state risks for which Alaska is the home state so 100% of the policies premium was appropriately filed with Alaska so there is no effect on any other procedure test. However, the locations of risk were not disclosed in the transaction reports filed as required, just the city and state of the insured's headquarters.

The Report of Surplus Lines Transaction form being used is not the most current form and it does not have all the information required to be submitted to Alaska. Since the division failed to point this out to the broker when the reports were received during the two years, it will not be considered a finding for this audit.

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

Recommendations: It is recommended that the broker revise written procedures to ensure all subscription policies are appropriately reported and how to calculate premium tax and filing fees in those scenarios. The procedures should also include all locations of risk as an element of a policy that must be reported to the division. The broker needs to use the most current Report of Surplus Lines Transaction form located on the web. If there are programming issues with using the new form, then typing the missing information onto the form they are using is acceptable until such time as the programming can be changed. Look at the form on the web to determine what all information is missing from the form their program currently automatically generates.

Broker Response: Written procedure has been created to ensure that all subscription policies are appropriately reported, including how to calculate premium tax and filing fees in those scenarios. Worldwide has also implemented the procedure to use the most current Report of Surplus Lines Transaction Form.

Division Response: An amended transaction form for the subscription policy was received.

4. Verify the multi-state placements and premiums are filed correctly

AS 21.34.180

Comments: One policy effective prior to 7/21/11 had some non-Alaska risk so only the Alaska portion should have been filed to the division. However, to go back and amend the taxes on a policy that has already expired and try to file the taxes in the other 40 states may be difficult at this late date. This is no longer an issue going forward with the new law change effective 7/21/11.

This error affects three additional audit tests:

1. Accuracy of Monthly Reports
2. Accuracy of Tax Reports
3. Accuracy of Tax and Fee Payments

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

Recommendations: There are no recommendations for future transactions as this is no longer a requirement as of 7/21/11.

5. Verify quarterly and annual premium tax reports were filed on time

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The four required quarterly tax and annual premium tax reports were filed on time.

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The four required quarterly tax and annual premium tax reports were accurate based on the original monthly filings. The errors found during the audit in the multi-state premium affects the accuracy of the 2011 1st quarter tax report and the 2011 annual premium tax report. This flow-through finding is addressed in its respective audit test.

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 - .570

Comments: All payments were made on or before the required due dates and made by ACH.

Results: Passed (error rate 0%)

8. 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 reports as originally filed. The errors found during the audit in the multi-state premium affects the accuracy of the tax and fee payments. This flow-through finding is addressed in its respective audit test.

Results: Passed (error rate 0%)

9. Review 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. All documentation was received prior to binding.

Results: Passed (error rate 0%)

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

AS 21.34.100(e)

Comments: Nineteen files demonstrated a problem with the required disclosure stamp on the evidence of insurance. The disclosure stamp is required to be at least 10pt type. These 19 disclosure stamps on declaration pages were clearly less than 10pt type.

The stamp includes extraneous wording which makes it larger than many locations available on the documents.

The broker was very diligent about ensuring the disclosure stamp was located on all premium and non-premium bearing endorsements.

Results: Failed (31 files passed & 19 failed, error rate 38%)

Recommendations: It is recommended that the broker ensure written procedures are followed that all evidence of insurance have the required disclosure stamp in the required size. As electronic stamps are easily manipulated, it is important that all staff are aware they should not shrink the stamp below the 10pt type. The last sentence of the stamp can be removed as it is not required by statute.

Broker Response: We were attempting to electronically place the stamp on the Declarations page so it was visible for the insured to reference. Declarations pages issued by several carriers (Evanston, Everest, and Landmark for example) do not have adequate space to place the stamp without covering some of the Declarations page language. In an effort to place the stamp on the

Declarations page without hiding any of its language, the electronic stamp was inadvertently reduced in size to a font less than 10. We now understand that this is not acceptable and we have amended our procedures to provide the required 10 point font.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: All policy files included the notification of the three points necessary to meet statute requirements: 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. The notification is provided to the insured with both the quote and the binding documentation.

Results: Passed (error rate 0%)

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 files had the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured as part of the policy.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was the third premium tax audit of Worldwide Facilities Inc. The auditor tested 13 standards focusing on the broker's filing of financial reports and the subsequent payment of premium taxes and filing fees as well as due diligence, disclosure, and notification requirements for using a non-admitted insurer.

The audit was conducted in the auditor's office as she received electronic documents from the broker. The broker responded quickly to all requests for additional information. The auditor appreciated this behavior.

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

- 1) The disclosure stamp required on all evidence of insurance was significantly smaller than required on almost half the declaration pages.

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Worldwide Facilities Inc be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Worldwide Facilities Inc
As of December 31, 2012
TA 13-01

Juneau, Alaska)
May 21, 2013)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2012 of Worldwide Facilities Inc is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 30th day of May, 2013



Stacie L. Estevez
Notary Public in and for Alaska
My Commission Expires with office