

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 16-01)
In the Matter of Audit of)
Poulton Associates Inc.)
_____)

FINDINGS OF FACT

1. An audit report of Poulton Associates Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Poulton Associates Inc.
2. The audit report of Poulton Associates Inc. (TA 16-01) has been transmitted to Craig Poulton, Compliance Officer, Poulton Associates 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 Poulton Associates Inc. (TA 16-01) 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 August 16, 2016.

Dated this 16th day of August, 2016 at Anchorage, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

**Poulton Associates Inc.
Salt Lake City, UT
Alaska License #9513**

TA 16-01

As of December 31, 2015

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



**FINAL REPORT:
August 16, 2016**

TABLE OF CONTENTS

	PAGE
1) TABLE OF CONTENTS.....	2
2) SALUTATION	3
3) SCOPE OF AUDIT.....	3
4) METHODOLOGY	4
5) PREMIUM TAX AUDIT	5
6) SUMMARY AND SUBSEQUENT EVENTS.....	10
7) AFFIDAVIT	11



August 16, 2016

Lori K Wing-Heier, CIC, CRM
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 Poulton Associates Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Poulton Associates 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 second premium tax audit of Poulton Associates Inc. conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Poulton Associates Inc. (the broker) is an Alaska licensed surplus lines broker based in Salt Lake City, Utah. The division elected to audit their quarterly filings, premium taxes and filing fees paid for accuracy and timeliness as well as required diligent search efforts, disclosures, notifications, and prompt delivery of material facts in evidence of insurance to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2014 through December 31, 2015.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Salt Lake City, Utah. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied on a timely basis with all data requests. The number of policies written during the audit period was 902, from which a sample of 50 files was selected for audit.

The following are the procedure steps for the audit:

- 1) Verify that quarterly reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the quarterly reports sent to the Alaska Division of Insurance and verified they were filed by the due date.
- 2) Verify the accuracy of the premium calculation.
 - i) Audit steps taken:
 - (1) Reviewed policy, binders, and invoices to determine how taxable premium was calculated.
 - (2) Verified the correct premium was reported on the reports as filed.
- 3) Verify the accuracy of quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, binder, and endorsement pages in each file.
 - (2) If the effective date did not match the quarterly filing, reviewed the correspondence to ensure the documentation in the file matched when the policy was booked. Most of these occurred with endorsements that often require additional information and sometimes company approval before it can be added to the policy. The invoice date determines in which quarter the endorsement is required to be filed.
 - (3) Verified the quarterly reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees based upon the information in the files.
 - (4) Verified a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the quarterly filing based upon the effective date of the policy.
 - (6) Verified the insured name, insurance company, and policy type codes were accurate on the forms filed.
 - (7) Verified the locations of risk were identified on the reports.
- 4) Confirm Alaska is the home state of the insured.
 - i) Audit steps taken:
 - (1) Verified where the principal place of business or residence of the insured is located.
 - (2) Verified at least partial risk is located in Alaska or the highest % of premium in Alaska if headquarters not in Alaska.
- 5) 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.
- 6) Verify tax and filing fee payments were made accurately.

- i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the quarterly reports as filed.
- 7) Review effort made to place insured with an admitted insurer.
 - i) Audit steps taken:
 - (1) Verified the diligent search was documented prior to binding and the declinations completed. If there were no declinations due to risk on the placement list, the list effective at the time of placement was reviewed to ensure the risk was on the list.
 - (2) For effective dates beginning 9/4/14, verified the documentation was received within 15 days of binding with the actual search completed prior to binding.
- 8) Review prompt delivery of evidence of insurance AS 21.34.100(a) and 3 AAC 25.060.
 - i) Audit steps taken:
 - (1) Reviewed dates of binding and forwarding evidence of insurance to insured.
- 9) Review required material facts are located on evidence of insurance AS 21.34.100(a).
 - i) Audit steps taken:
 - (1) Reviewed documents to confirm required material facts were located on the evidence of insurance .
- 10) Review disclosures for use of non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the evidence of insurance to ensure the broker's name and language required by statute AS 21.34.100(e) is present and legible.
- 11) Review notifications for use of non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the correspondence and other documentation in the files to find a copy of the notification sent to the insured that meets the requirement in AS 21.34.110.
- 12) Confirm coverage is placed with an eligible non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the Alaska published white lists and NAIC Quarterly Listings of Alien Insurers to ensure the company was eligible at the time of placement.
- 13) Review notice regarding nonrenewal and premium increase.
 - i) Audit steps taken:
 - (1) Verified there was an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy in the format approved by the Director of the Alaska Division of Insurance.
- 14) Other issues not previously identified as a procedure step were included when not in compliance with Alaska laws.
 - i) Audit steps taken:
 - (1) Reviewed documents to ensure other surplus lines statutes and regulations requirements were met.

Acceptable Error Rate:

The Broker's acceptable error rate for the above referenced standards and tests must be less than 10%.

PREMIUM TAX AUDIT

- | | |
|---|---|
| 1. Verify that quarterly reports and accompanying forms were filed on time | AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|---|---|

Comments: The eight original quarterly reports with accompanying forms were filed on time.

Results: Passed (error rate 0%)

- | | |
|--|---------------------|
| 2. Verify the accuracy of the premium calculation | AS 21.34.180 |
|--|---------------------|

Comments: The premium was calculated accurately on all policies.

Results: Passed (error rate 0%)

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

Comments: One policy was not received in the original report as filed but on an amended report received after the due date.

This error affects the test: Accuracy of Tax and Fee Payments

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

Recommendations: It is recommended the broker include in the activities section of the database under the narrative of process what filters are used to ensure all transactions for a given quarter are identified on the quarterly spreadsheet. A pre-set reminder for future reports would also be helpful.

Broker response: Your recommendations as given in the report are acceptable.

- | | |
|---|---------------------|
| 4. Verify the home state for insured is Alaska | AS 21.34.180 |
|---|---------------------|

Comments: The broker does not write multi-state policies. Confirmed Alaska is the home state for all insureds.

Results: Passed (error rate 0%)

5. 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 date for the quarterly payments and made by ACH.

Results: Passed (error rate 0%)

6. Verify tax and filing fees payments were made accurately
AS 21.34.180, 3 AAC 21.550 - .570

Comments: All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed. The error found during the audit in the accuracy of the quarter reports 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%)

7. Review diligent search effort made to place insured with an admitted insurer
AS 21.34.020, 3 AAC 25.010 and .035

Comments: The broker has a completely automated process where the producer in the transaction must confirm diligent search efforts online otherwise the electronic application process does not continue. The policies are all located on the placement list during the two years of the audit. Therefore, all diligent search documentation is done prior to binding.

Results: Passed (error rate 0%)

8. Review prompt delivery of evidence of insurance
AS 21.34.100(a) and 3 AAC 25.060

Comments: The broker has a completely automated process whereby once payment is received the policy is bound and provided immediately to the producer to give to the insured.

Results: Passed (error rate 0%)

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: Ten files did not include the broker license number as part of the material facts on policies as required.

Results: Failed (40 files passed & 10 failed, error rate 20%)

Recommendations: It is recommended the broker update their software to include the broker license number on all evidence of insurance.

Broker response: After review, we see that the inclusion of the license number for certain policies are accurate and changes we can fix. Your recommendations as given in the report are acceptable.

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

AS 21.34.100(e)

Comments: Four files had a problem with the disclosures that are required to be on evidence of insurance. Three disclosures were less than the required minimum 10 point size and one disclosure was missing from the policy.

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

Recommendations: It is recommended the broker update their software to ensure the disclosure language is at least 10 point in size and is located on all evidence of insurance.

Broker response: After review, we see that the changes to the font are accurate and changes we can fix. Your recommendations as given in the report are acceptable.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker has a completely automated process where the producer in the transaction must confirm receipt of the notification to the insured online that the company is not supervised by the division, it does not have a certificate of authority and in the case of insolvency the policy will not be covered by the Alaska Guaranty Act otherwise the application process does not continue. As such, all notification to the insured is done prior to binding.

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 policies included the Alaska Policyholder Notice.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Poulton Associates Inc. The auditor tested 13 standards focusing on the broker's filing of quarterly reports and the subsequent payment of premium taxes and filing fees as well as diligent search efforts, disclosure and notification requirements for using a non-admitted insurer, and prompt delivery of material facts to insured.

The audit was conducted in the auditor's office as she received electronic versions of the broker's files under audit. The broker responded quickly to all requests for information. The auditor appreciated this behavior.

Two issues did arise during the audit that affects the service to the insured and compliance with Alaska statutes and regulations.

- 1) All required material facts were not always included on the evidence of insurance.
- 2) Several of the disclosure language statements were smaller than the required minimum size which could make it difficult for the insured to see it.

The auditor would like to see screenshots of the implemented changes in the software to help the broker ensure all problems identified in the audit were captured accurately.

Re-Audit

In closing, the auditor's recommended actions and review of the procedures should help the broker correct the problems encountered. It is recommended that Poulton Associates Inc. be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Poulton Associates Inc.
As of December 31, 2015
TA 16-01

Juneau, Alaska)
August 16, 2016)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2015 of Poulton Associates Inc. is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 17 day of August, 2016



Brian Sonesen

Notary Public in and for Alaska

My Commission Expires office