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FILED
APR 29 2015
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

OF THE STATE OF IDAHO

In the Matter of: IDAHO STATE INSURANCE FUND Certificate of Authority No. 1924 NAIC No. 36129	Docket No. 18-3041-15 **ORDER ADOPTING REPORT OF LIMITED SCOPE EXAMINATION**

The Idaho Department of Insurance (Department), having conducted a limited scope examination of the premium billing and processing procedures of the Idaho State Insurance Fund (ISIF), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for the issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Limited Scope Examination of the Idaho State Insurance Fund (Report), as filed.

FINDINGS OF FACT

1. For purposes of regulation, ISIF is deemed to be an Idaho-domiciled mutual insurance company, pursuant to Idaho Code § 72-901(4), and is authorized to transact workers' compensation insurance in Idaho under Certificate of Authority No. 1924.

2. The Department completed a limited scope examination of ISIF pursuant to Idaho Code § 41-219(1) on or about March 23, 2015, following receipt of a request by ISIF for refund of an alleged overpayment of premium tax for year 2013. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on March 23, 2015, and a copy of such verified Report was transmitted to ISIF on March 25, 2015. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about March 25, 2015, the Department received a Waiver signed by Connie Barnett, Manager of ISIF. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, ISIF acknowledged receipt of the Report, waived the right to examine the Report for up to thirty (30) days and consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications. Such Waiver also included ISIF's agreement to waive other statutory rights, to include waiver of the right to make a written submission or rebuttal to the Report; and waiver of rights to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals, pursuant to Idaho Code § 41-227(4), with respect to any matters contained in the Report were submitted to the Department by ISIF.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant

portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that ISIF overpaid premium tax for written premiums in 2012 and 2013 and is entitled to a refund of $56,993 for year 2013, as requested.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Limited Scope Examination of the Idaho State Insurance Fund, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a), and a copy of this Order with all exhibits referenced herein, including the adopted Report, is hereby transmitted to the governor of the state of Idaho, in accordance with Idaho Code § 72-914.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 3, title 9, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-402A, that ISIF be refunded $56,993 for overpayment of premium tax for written premiums in 2013 in accordance with the Department's standard procedures.

IT IS SO ORDERED.

DATED this 28th day of April, 2015.

STATE OF IDAHO
DEPARTMENT OF INSURANCE

THOMAS A. DONOVAN
Acting Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 29th day of April, 2015, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF LIMITED SCOPE EXAMINATION to be served upon the following by the designated means:

Idaho State Insurance Fund Attn: Connie Barnett, Manager 1215 West State Street Boise, ID 83720-0044 Connie.Barnett@idahosif.org	☐ first class mail ☒ certified mail ☐ hand delivery ☒ email
The Honorable C.L. "Butch" Otter Governor, State of Idaho Idaho Statehouse Boise, ID 83720	☐ first class mail ☐ certified mail ☐ hand delivery ☐ email ☒ Statehouse Mail
Georgia Siehl, CPA, CFE Bureau Chief/Chief Examiner Idaho Department of Insurance 700 W. State Street, 3rd Floor Boise, ID 83720-0043 georgia.siehl@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION
(Limited-scope Examination)
Of

IDAHO STATE INSURANCE FUND
(Property or Casualty)
(NAIC Company Code: 36129)

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Boise, Idaho
March 23, 2015

The Honorable Thomas A. Donovan
Acting Director, Idaho Department of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Acting Director:

Pursuant to your instructions, in compliance with Section 41-219 (1), Idaho Code, we have conducted a limited-scope examination of

IDAHO STATE INSURANCE FUND
1215 West State Street
Boise, Idaho 83702

Hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Our limited-scope examination is focused on the review and understanding of the Company's premium billing and processing procedures in order to ascertain that there are adequate controls on premium processing and maintenance of premium data. We performed control and substantive tests to verify the accuracy and completeness of its 2012 and 2013 written premiums and deposit premiums. We also reviewed the appropriateness of the company's revised accounting treatment of the deposit premium. This limited-scope examination is not intended to communicate all matters of importance for an understanding of the company's financial condition.

HISTORY OF ISSUE

Prior to February 6, 2012, for recording premiums, the Company used the Workers Compensation Insurance System (WCIS) software to account for its workers compensation insurance policies. In this system, deposits were required from policyholders prior to providing coverage. These deposits were reported as written premium, held for the policy period and were subsequently applied to the final payroll reporting period of the policy (consumable deposit). Any remaining deposit balance was credited through an audit adjustment and applied to the next policy period. At the close of each policy period there was no unearned balance and written premium equaled earned premium for the policy period. A new deposit was billed in the next policy period.

At the conversion to Power Suite (February 6, 2012) software, deposits were also required prior to initiating coverage. However, management made the decision to change from a consumable deposit to a collateral deposit. With that change, the Company should have recorded deposits as Deposit Premium, not Written Premium. However, the Company made the mistake of recording those deposits as Written Premium and no audit adjustment was made to roll them to the next policy period. As a result, Written Premium has been overstated in the Company's financial statements for 2012 and 2013. That also resulted in the overpayment of premium tax for calendar years 2012 and 2013. Pursuant to Idaho Code Section 41-402A, the Company is not entitled to a tax refund on its 2012 premium tax, as the time period in which a refund request must be made has passed. The Company is currently requesting a refund of premium tax overpaid in 2013 from the Department of Insurance in the amount of $56,993.

The following schedules delineate the written premium and premium tax originally reported by the Company for 2012 and 2013 and the Company's revised written premium and premium tax for 2012 and 2013:

Year	Written Premium Originally Reported	Revised Written Premium
2012	$161,466,291	$134,999,248
2013	$195,299,404	$183,900,914

Year	Premium Tax Originally Reported	Revised Premium Tax	Tax Refund Requested
2012	$693,861	$561,525	$-0-
2013	$867,352	$810,359	$56,993

DESCRIPTION OF TESTS PERFORMED

The following tests/reviews were performed by the examiner during the course of this examination:

1. Obtain detail lists of 2012 and 2013 written premium (by policy) from the Company. Tie in the totals on these lists to the revised written premium as stated by the Company. Select a sample of policies from these lists. Recalculate the written premium on the selected policies and determine if they are accurate. Also determine the accuracy of deposit premium for each selected policy.
2. Review the Company's accounting entries for written premium and deposit premium and determine if those entries are correct, including the revisions on which the refund is based.
3. Review the Company's premium billing and processing procedures and ascertain if adequate procedures and controls are in place.
4. Review the NAIC Accounting Practices and Procedures Manual to determine if they address treatment of deposit premiums.
5. Review the Company's internal controls to ensure accuracy and completeness of written premiums.

SUMMARY OF FINDINGS

Change in Accounting Principles

The change in accounting for deposit premium from consumable deposit rightfully classified as written premium to collateral deposit to be classified as a liability started on February 6, 2012. This change was not disclosed in the notes to financial statements for 2012 annual statement. The 2012 NAIC Annual Statement Instructions requires a description of material changes in accounting principles, the impact of the change on net income, surplus, total assets, and total liabilities for the 2 years presented in the financial statements to be included in note 2 of the notes to financial statements. The Company did not disclose any change and the change was not reported to the department until an error in accounting for deposit premiums based on the change was discovered by the National Council on Compensation Insurance (NCCI).

Pursuant to §41-335, Idaho Code ....Each authorized insurer shall annually on or before March 1, or within any extension of time therefor, not to exceed thirty (30) days, ...file with the director a full and true statement of its financial condition, transactions and affairs as of the preceding December 31... the statement is to be prepared in accordance with the national association of insurance commissioners' (NAIC) annual statement instructions and the NAIC's accounting practices and procedures manual, utilizing the version of the manual effective January 1, 2004, and any subsequent revisions that are adopted for use by the director by rule, administrative order or bulletin.

We recommend the Company comply with §41-335, Idaho Code when filing annual statements with the Department.

Correction of Errors

Our examination determined that the deposit premium was held for the purpose of premium security and not as consideration for insurance. The Company is liable in the future to refund the entire amount of deposit premium or as adjusted in case of unpaid premiums when a policy is cancelled or not renewed. Therefore the deposit premiums collected and held by the Company should have been recorded as liabilities in their books until such time the amount is applied to unpaid premium or refunded to the policyholder and should not have formed part of written premiums.

Subsequent to the limited-scope examination period, the Company appeared to have corrected the error in accounting for deposit premiums. Internal controls are in place to ensure accuracy and completeness of premium data and deposit premiums are defined as a liability.

CONCLUSION

Our examination determined that the adjustments made by the Company to correct the error in accounting for deposit premium for the years 2012 and 2013 were accurate. As a result of the adjustment, written premiums for 2012 and 2013 were reduced by the amount of deposit premium collected in 2012 and 2013 erroneously classified as written premiums. The Company had overpaid premium tax for written premiums in 2012 and 2013.

Pursuant to §41-402A ....Where there has been an overpayment of any taxes, fines or penalties ... the director is authorized to refund all such taxes, fines or penalties erroneously ... collected or paid. No such refund shall be paid after one (1) year from the due date of the statement required in section 41-402(4), Idaho Code, unless before the expiration of such period a written claim is filed therefore by the insurer on such forms and in such manner as is prescribed by the director.

We recommend a refund of the difference between the premium tax paid and the accurate premium tax for written premiums in 2013 in the amount of $56,993.

ACKNOWLEDGEMENT

The undersigned acknowledged the assistance and cooperation extended during the course of the examination by officers and employees of the Company.

Respectfully submitted,

Kelvin Ko, CFE
Examiner-in-Charge
Representing the Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Kelvin Ko being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made a limited-scope examination of Idaho State Insurance Fund, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

Kelvin Ko

Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 23rd day of March, 2015, at Boise, Idaho.

Mandy M. Ary

Notary Public

MANDY M. ARY
NOTARY
PUBLIC
STATE OF IDAHO

My Commission Expires: 7/24/2018

State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

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Phone (208)334-4250
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THOMAS DONOVAN
Acting Director

WAIVER

In the matter of the Report of Limited-scope Examination as of March 23, 2015, of the:

IDAHO STATE INSURANCE FUND
1215 West State Street
Boise, ID

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 23rd day of March 2015, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 25 day of March, 2015

IDAHO STATE INSURANCE FUND

Connie Barnett
Name (print)

Connie Barnett
Name (signature)

Manager
Title

EXHIBIT
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