



"Serving the Insurance Industry"

June 2, 2014

Ms. Lisa Stoutamire, General Manager
Florida Automobile Joint Underwriting Association
1425 Piedmont Dr., E Suite 201A
Tallahassee, FL 32308-7961

Re: Florida Automobile Joint Underwriting Association 2015 Audit Proposal

Dear Lisa:

Thank you for the opportunity to provide the Association with a proposal for AIPSO's Residual Market Audit Services (RMAS) for the Florida Automobile Joint Underwriting Association (FAJUA) Program.

Audit Program Overview

AIPSO's RMAS audit scope includes a review of the provider's procedures to ensure compliance with established standards and will indicate areas where a provider is not complying. The audit measures the operational performance of the provider and ensures that FAJUA business is adequately supported. The financial review of an audit analyzes the information reported to the FAJUA to determine its accuracy and validity. The provider's records are also examined to ensure there is adequate separation and identification of FAJUA business.

Our FAJUA audits focus on the following components:

Underwriting/Premium Reporting: The underwriting component of the audit examines new business, renewal, endorsement, and cancellation procedures. Procedures are tested against plan performance standards and standard underwriting principles relative to private passenger and commercial auto risks. The audit will seek assurance that the servicing provider's procedures are in compliance with established standards, and that written premium is appropriate, adequately supported, and properly reported.

Premium/Commission Charge-off: The premium/commission charge-off component of the audit examines the provider's adherence to FAJUA Plan and Accounting and Statistical Requirements Manuals' charge-off eligibility requirements. The examination will also determine the accuracy and timeliness of reporting and compliance with the provider's established billing and collection procedures. In addition, these procedures will be reviewed to ensure the provider is effective in collecting earned premium/return commission due.

Accounting and Reporting: The financial component examines the provider's General Ledger, supporting documentation, and reporting procedures to ensure compliance with the FAJUA Accounting and Statistical Requirements Manual.

Operational: The operational audit component examines underwriting, policy services, billing, customer service, and document management. The review would evaluate underwriting and reporting processes through interviews with management and examination of systems, documents, and reports. The audit report would include, but is not limited to, a list of people being interviewed, organizational chart, review of procedures manual, training programs in place, rating worksheets, systems, complaint handling, fraud detection procedures, and management reports.

Recommended Audits

Dovetail Insurance Corporation

A premium/commission charge-off and accounting and reporting compliance review is recommended for Dovetail Insurance Corporation. As you know, Dovetail Insurance Corporation will no longer serve as the active policy administrator servicing provider as of June 1, 2014; therefore, a charge-off and financial compliance review is recommended, to ensure the eligibility of charge-offs and proper reporting of FAJUA activity.

Blue Cod Technologies

As discussed at the recent Board Meeting, an operational audit is recommended for Blue Cod Technologies. Blue Cod Technologies will begin servicing FAJUA business June 1, 2014. An operational audit is essential. The operational audit would ensure proper procedures and controls are established in the foundation.

An underwriting/premium reporting and accounting and reporting compliance review is also recommended. The underwriting and financial compliance reviews would serve to test the current procedures and principals in place and ensure proper handling and reporting of FAJUA business. In addition, the recommended audits would also provide a training opportunity, allowing RMAS auditors to provide direction and reporting guidance to the newly approved servicing provider.

Estimated Costs

Based on the above recommendations, we prepared the proposed audit costs for Dovetail Insurance Corporation and Blue Cod Technologies. The estimated audit costs include three primary components:

1. For 2015, staff's time is estimated to be billed at \$106 per hour. Our professional staff will be responsible for overseeing the audit from beginning to end. They will coordinate the audit, determine the files to sample, perform the operational as well as the underwriting, charge-off and financial compliance review, and complete the final audit report.
2. The estimated travel expenses (airfare, meals, hotel, etc.) are based upon average travel rates to conduct the audits; however, the audit staff's travel expenses will be billed at actual cost.
3. In-house audits require additional staff hours to be budgeted to cover turnaround time and overall coordination of files. As a result, the savings relating to travel costs are reduced by additional staff hours.

The estimates for the Dovetail Insurance Corporation audit are based on both the charge-off and financial sections being reviewed at either the provider's Columbia, South Carolina location or at AIPSO in Johnston, Rhode Island. The estimates for the Blue Cod Technologies audit are based on all sections being reviewed at the provider's Marlborough, MA location.

For your convenience, the estimated audit costs are summarized below:

Dovetail Insurance Corporation

Onsite: Columbia, SC	\$23,985	(\$18,285 staff + \$5,700 travel)
In-house: AIPSO – Johnston, RI	\$22,260	(\$22,260 staff only)

Blue Cod Technologies

Onsite: Marlborough, MA	\$25,320	(\$20,670 staff + \$4,650 travel)
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In the enclosures provided, audit costs are segmented by audit component, into two categories: staff hours and travel.

Our goal is to provide quality services that are valuable and meet the expectations of our customers at the lowest cost possible. RMAAS will work with the providers and educate them in areas where they can develop more knowledge about the FAJUA mechanism and the reporting requirements.

Thank you for the opportunity to work with the FAJUA and policy administrator providers. If you have any questions or would like to discuss other audit options, please feel free to call me at 401-528-1443 or email me at Bonnie.Arpin@AIPSO.com.

Sincerely,



Bonnie Arpin, AIAF
Supervisor – Residual Market Audit Services

Enclosure

cc: C. Kwolek
K. Leeman
T. Assad

2015 Proposed FAJUA Audits & Estimated Costs

	<u>Staff</u>	<u>Travel</u>	<u>Total</u>
Dovetail Insurance Corporation			
Charge-off & Financial Compliance Review in Columbia, SC			
Premium/Commission Charge-offs	\$ 7,155	\$ 2,200	\$ 9,355
Accounting & Reporting	11,130	3,950	15,080
Combined Audit Savings *	-	(450)	(450)
Grand Total	\$ 18,285	\$ 5,700	\$ 23,985

Dovetail Insurance Corporation

Charge-off & Financial Compliance Review at AIPSO in Johnston, RI

Premium/Commission Charge-offs	\$ 8,480	\$ -	\$ 8,480
Accounting & Reporting	13,780	-	13,780
Combined Audit Savings	-	-	-
Grand Total	\$ 22,260	\$ -	\$ 22,260

Blue Cod Technologies

Operational, Underwriting & Financial Compliance Review in Marlborough, MA

Operational Audit	\$ 6,095	\$ 1,500	\$ 7,595
Underwriting/Premium Reporting	7,155	1,500	8,655
Accounting & Reporting	7,420	2,550	9,970
Combined Audit Savings *	-	(900)	(900)
Grand Total	\$ 20,670	\$ 4,650	\$ 25,320

* Combined audit savings from audit sections sharing one vehicle rental expense.

Dovetail Insurance Corporation
2015 Proposed Audit Costs
Location: Dovetail's Office - Columbia, SC
Section: Charge-offs
Number of Files: 25

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	10	\$106/hr	\$ 1,060
Sample Selection	10	\$106/hr	1,060
Fieldwork	37.5	\$106/hr	3,975
Reports	10	\$106/hr	1,060
Total	67.5		\$ 7,155

Estimated Travel Costs			
	Number of Days	Consultant/ RMAS Staff	Estimated Cost
Flights	Roundtrip	1 AIPSO Staff	\$ 600
Hotel	5	1 AIPSO Staff	675
Rental Car (shared*)	5	1 AIPSO Staff	450
Meals	5	1 AIPSO Staff	375
Misc.(tips/gas)	5	1 AIPSO Staff	100
Total			\$ 2,200

Estimated AIPSO Staff Cost	\$ 7,155
Estimated Travel Cost	\$ 2,200
Estimated 2014 audit Cost	<u>\$ 9,355</u>

*shared vehicle - price will be adjusted if all audit sections are performed.

Dovetail Insurance Corporation
2015 Proposed Audit Costs
Location: Dovetail's Office - Columbia, SC
Section: Accounting & Reporting

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	10	\$106/hr	\$ 1,060
Fieldwork	75	\$106/hr	7,950
Reports	20	\$106/hr	2,120
Total	105		\$ 11,130

Estimated Travel Costs			
	Number of Days	RMAS Staff	Estimated Cost
Flights	Roundtrip	2 AIPSO Staff	\$ 1,200
Hotel	5	2 AIPSO Staff	1,350
Rental Car (shared*)	5	1 AIPSO Staff	450
Meals	5	2 AIPSO Staff	750
Misc.(tips/gas)	5	2 AIPSO Staff	200
Total			\$ 3,950

Estimated AIPSO Staff Cost	\$ 11,130
Estimated Travel Cost	\$ 3,950
Estimated 2014 audit Cost	\$ 15,080

*shared vehicle - price will be adjusted if all audit sections are performed.

Dovetail Insurance Corporation
2015 Proposed Audit Costs
Location: AIPSO Johnston, RI
Section: Charge-off
Number of Files: 25

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	15	\$106/hr	\$ 1,590
Sample Selection	10	\$106/hr	1,060
Fieldwork	45	\$106/hr	4,770
Reports	10	\$106/hr	1,060
Total	80		\$ 8,480

Dovetail Insurance Corporation
2015 Proposed Audit Costs
Location: AIPSO in Johnston, RI
Section: Accounting & Reporting

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	20	\$106/hr	\$ 2,120
Fieldwork	90	\$106/hr	9,540
Reports	20	\$106/hr	2,120
Total	130		\$ 13,780

Blue Cod Technologies
2015 Proposed Audit Costs
Location: Marlborough, MA
Section: Operational

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	10	\$106/hr	\$ 1,060
Sample Selection	0	\$106/hr	-
Fieldwork	37.5	\$106/hr	3,975
Reports	10	\$106/hr	1,060
Total	57.5		\$ 6,095

Estimated AIPSO Staff Cost			
	Number of Days	Consultant/ RMAS Staff	
Hotel	4	1 AIPSO Staff	600
Rental Car (shared*)	5	1 AIPSO Staff	450
Meals	5	1 AIPSO Staff	375
Misc.(tips/gas)	5	1 AIPSO Staff	75
Total			\$ 1,500

Estimated AIPSO Staff Cost	\$ 6,095
Estimated Travel Cost	\$ 1,500
Estimated 2015 audit Cost	\$ 7,595

*shared vehicle - price will be adjusted if all audit sections are performed.

Blue Cod Technologies
2015 Proposed Audit Costs
Location: Marlborough, MA
Section: Underwriting
Number of Files: 25

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	10	\$106/hr	\$ 1,060
Sample Selection	10	\$106/hr	1,060
Fieldwork	37.5	\$106/hr	3,975
Reports	10	\$106/hr	1,060
Total	67.5		\$ 7,155

Estimated Travel Costs			
	Number of Days	Consultant/ RMAS Staff	Estimated Cost
Hotel	4	1 AIPSO Staff	600
Rental Car (shared*)	5	1 AIPSO Staff	450
Meals	5	1 AIPSO Staff	375
Misc.(tips/gas)	5	1 AIPSO Staff	75
Total			\$ 1,500

Estimated AIPSO Staff Cost	\$ 7,155
Estimated Travel Cost	\$ 1,500
Estimated 2015 audit Cost	\$ 8,655

*shared vehicle - price will be adjusted if all audit sections are performed.

Blue Cod Technologies
2015 Proposed Audit Costs
Location: Marlborough, MA
Section: Accounting & Reporting

Estimated RMAS Staff Audit Costs			
	Hours	Cost per Hour	Estimated Staff Cost
Audit Prep.	10	\$106/hr	\$ 1,060
Sample Selection	0	\$106/hr	-
Fieldwork	50	\$106/hr	5,300
Reports	10	\$106/hr	1,060
Total	70		\$ 7,420

Estimated AIPSO Staff Cost			
	Number of Days	Consultant/ RMAS Staff	
Hotel	4	2 AIPSO Staff	1,200
Rental Car (shared*)	5	1 AIPSO Staff	450
Meals	5	2 AIPSO Staff	750
Misc.(tips/gas)	5	2 AIPSO Staff	150
Total			\$ 2,550

Estimated AIPSO Staff Cost	\$ 7,420
Estimated Travel Cost	\$ 2,550
Estimated 2015 audit Cost	\$ 9,970

*shared vehicle - price will be adjusted if all audit sections are performed.