EXAMINATION ADMINISTRATION

Examination Personnel

The Arizona Department of Insurance ("ADOI") uses a combination of employees and contractors to perform analysis and examination functions, including:

- **Analysts**, who compile and review statistics about market attributes, market trends and consumer complaints, and who correspond with insurer representatives regarding issues of concern. Analysts work with Administrators and Supervisors to identify potential field examination targets when other means of resolving an issue have proven not possible.

- **Examiners** are competitively procured contractors who complete field examination activities in accordance with the scope of work outlined by the Examination Supervisor.

- **Administrators and Supervisors**, who coordinate the analysis and examination processes, recommend to the Deputy Director targets for examination work, develop the scope and budget for examinations, and monitor the progress of the examination. Like Analysts, Administrators and Supervisors correspond with a prospective examinee to attempt to resolve issues of concern before recommending that a field examination be initiated.

- **Support and Administrative Staffers**, who correspond with examiners and examinees concerning administrative issues (Examination Coordinators); organize and maintain information submitted by insurers to facilitate review by analysts; organize and maintain ADOI records; audit and pay examiner billings; invoice, and deposit payments from, examinees.

Contractor Procurement

Independent contractor examiners must be competitively procured by the State Procurement Office (SPO) of the Arizona Department of Administration, in accordance with the Arizona Procurement Code, A.R.S. § 41-2501, et seq. The following is a summary of the steps involved in the contractor procurement process:

1. The ADOI assists the SPO in developing a Request For Proposals ("RFP"), which provides to prospective vendors such information as
   - a description of the required services (or "scope of work"),
   - the qualifications of individuals needed to perform those services,
   - the criteria on which proposals should be evaluated (such as price, experience, reliability, etc.),
   - uniform terms and conditions required in all State of Arizona contracts,
   - special terms and conditions (such as insurance coverage requirements, contract term and renewal provisions, etc.),
   - guidelines for contract administration, including expense reimbursement.

2. After the RFP has been developed, SPO sends a "letter of intent" to vendors that have provided similar services in the past and to vendors that provide similar services that have registered with the SPO. The letter informs these vendors about the existence of the RFP and invites vendors to request a copy of the RFP.

3. The SPO sends the RFP to vendors who request it.

4. The SPO holds a pre-proposal conference at which prospective bidders have an opportunity to ask questions or raise concerns to SPO and ADOI. Based on those questions and concerns, SPO may amend the RFP.

5. Vendor responses to the RFP are required to be submitted to the SPO by the proposal due date/time.

6. SPO constitutes an RFP review committee, consisting of ADOI employees and individuals outside ADOI to evaluate the proposals. The committee first eliminates from consideration contractors that failed to satisfy minimum eligibility requirements, and then assigns numerical scores to the eligible proposals based on the evaluation criteria contained in the RFP.

7. The SPO awards contracts to the vendors with the highest overall scores.

8. The ADOI is limited to the examiners and rates approved by the SPO.

Examination Costs

In accordance with A.R.S. § 20-159 , the Examinee will be charged examiner hourly rates (fees) for the time the examiner works and for the time the examiner travels to and from the examination site. The examinee will also be charged for examination-related expenses.

Examiner fees

Examiner services are charged at the examiner's contract rate for the category of service the examiner provided. The examiner's contract rate may change during the examination period because an examiner may be assigned a different role for the examination, or the examination may extend over a renewal period during which some examiners' rates will change. The nature of the work performed is identified on the examinee invoice, and a description of categories of work is available from the Department's "Examinations & Analysis" web page (see section entitled, "Insurer Examination and Analysis Web Page," to follow).

Examiner expenses

Examination expenses include, but are not limited to,

- **Airfare** to the exam site at the commencement of the exam, and travel from the exam site at the conclusion of the exam;
- A **living expense allowance** equal to the "M&IE" (meals and incidental expenses) rate prescribed in the "Domestic Per Diem Rates in the Continental United States (CONUS)" promulgated by the U.S. General Services Administration (GSA).

- A **lodging allowance** equal to 150% of the "Maximum Lodging" prescribed in the "Domestic Per Diem Rates in the Continental United States (CONUS)" promulgated by the U.S. General Services Administration (GSA).
- **Private vehicle travel** (in lieu of airfare) to the examination site;
- **Ground transportation or car rental**;
- **Shipping of exam reports and work papers**.

The GSA's Domestic Per Diem Rates are available through a link on the Department's "Examinations & Analysis" web page (see section entitled, "Insurer Examination and Analysis Web Page," to follow).

Overview of Examiner Billing Process

1. Examiner completes examination activities, records time on **timesheet** (**ATTACHMENT 1**) and has timesheet signed by insurer representative.

2. Examiner completes "**Billing Statement**" (**ATTACHMENT 2**), attaches supporting documentation (receipts and timesheet), and submits to Department of Insurance "Examination Coordinator."

3. Examination Coordinator reviews Billing Statement to ensure
   - Calculations are correct;
   - Service category and contractor category are correct;
   - Hours and type of work completed adhere to examination budget;

4. Billing Statements are provided to Examination Accountant who ensures
   - Hourly rates are correct;
   - Expense reimbursement requests conform to contract provisions and are supported by adequate documentation (receipts);
   - Correct insurer is identified (i.e. NAIC number corresponds to insurer being examined).

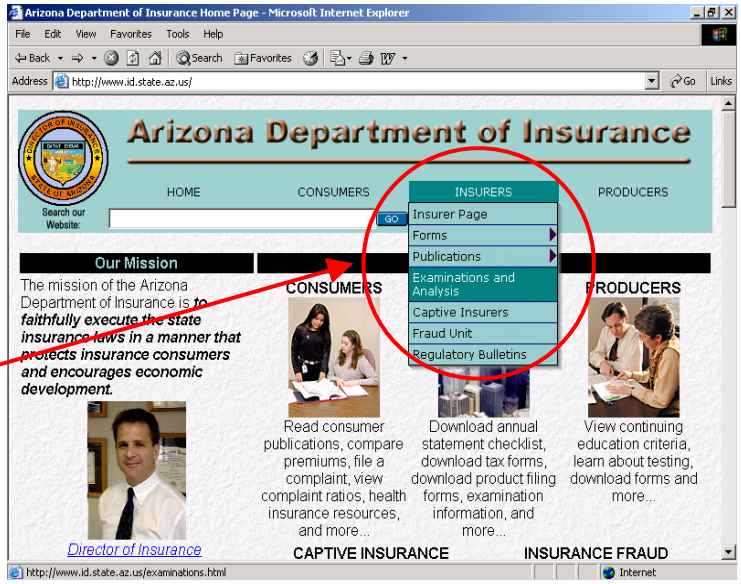
5. Data from Billing Statements is entered into the IERF Accounting System, which generates a transmittal document used to pay examiners and **invoices** (**ATTACHMENT 3**) that are sent to examinees. The Accounting Manager compares the transmittal document to the Billing Statements to ensure accuracy. Invoices show the amounts owed relative to the categories of work performed and the categories of expenses reimbursed to the examiner, and ***administrative overhead*** is included in the hourly rates shown.

6. Data from transmittal document is entered by the Examination Accountant into the Arizona Financial Information System ("AFIS") to produce payments to examiners. The Accounting Manager compares the transmittal document to the entry in AFIS to ensure accuracy.

7. The Examination Accountant follows up on any accounts receivable issues and responds to questions from examinees concerning invoices.

Insurer Examination and Analysis Web Page

The Department maintains an Internet web page dedicated to providing examinees with the most frequently requested information. The "Examination and Analysis" ("E & A") web page is located within the "Insurers" web portal of the Department's web site (**www.id.state.az.us**). To the right is a screen shot of our home page showing the "INSURERS" menu option selected and the "Examinations and Analysis" option highlighted.



The E & A web page provides general information about the Department's examination program, a description of the types of examination-related charges that may appear on an examination invoice, and ways that an examinee can assist the Department in delivering an efficient examination.

Overview of Overhead

Examiner hourly fees on examination invoices are increased by a 30% overhead factor to provide the Department funding for examination-related costs that are not necessarily attributable to a singular examination. These include:

- Analysis and examination targeting;
- Examination coordination and oversight;
- Accounting work relating to processing examiner billings and producing examination invoices;
- Examination record keeping, report preparation, correspondence with examinees, et al.

The overhead factor ensures that the Department has in place the infrastructure needed to properly manage and control our contractor resources. This is essential to cost-effectiveness and policy oversight relative to examinations.

The Office of the Attorney General has repeatedly advised that including an overhead factor is an appropriate and sensible application of the law, and necessary to provide for services that cannot be practically divided and billed to each insurer, and to pay for tasks that do not lend themselves to time billing.

In June 2000, after careful consideration, the Department increased the overhead factor from 15% to 30% to pay for in-house analysis. This reduced the need for more costly contract services, and spared insurers from periodic invoices relating to analysis of their filings and records. As reflected in **ATTACHMENT 4**, the increase in the overhead factor and use of employee analysts and supervisors has significantly reduced the total cost of our examination

program, and has improved the quality of our examinations and analysis through direct employee oversight and improved program continuity.

ATTACHMENT 4 shows that as contract services were replaced by employees, expenditures from the Insurance Examiners' Revolving Fund ("IERF") decreased significantly[1]. This is a particularly notable achievement considering that hourly rates charged by examiners (as established through the public procurement process) increased by approximately 25% between July 1998 and June 2003, and that the U.S. Consumer Price Index increased by approximately 14.5% over the same period.

Arizona is not alone in recouping its examination-related administrative costs. At least 18 other states have varying mechanisms for funding administrative overhead (**ATTACHMENT 5**). Some states (Idaho, Washington, Wisconsin), in lieu of charging an insurer for examination costs, are permitted to assess insurers or are able to retain insurer license fees to pay for examination-related costs. At least two states (Illinois, Wisconsin) charge a fixed amount per hour or per day for each examiner assigned to an examination. California adds a fixed hourly amount to cover administrative costs. Of states that use a percentage system, Arizona seems to be about in the middle, with some states charging as little as 15% and other states charging as much as 50% (Nevada, Ohio). New Hampshire bills insurers during the course of the examination for allocable costs, and send each insurer an invoice at the end of each fiscal year for common, unallocable costs. Regardless of the system employed, all insurance departments have common costs associated with examinations and insurers generally bear those costs by some manner.

Recent Accomplishments

Invoices to examinees have been improved to provide more specificity as to the categories of work performed by examiners.

Information describing our examination and analysis program is available via the Internet. From our "home page," enter the "Insurers" portal. The Examinations and Analysis Program option is located in the menu provided on the left side of the page. Just follow the links.

New examiner contracts have been improved to make expenses more predictable and less subject to "exception." The new contracts

- no longer pay a premium to vendors for work performed outside Arizona;
- no longer provide airfare reimbursement to an examiner for a biweekly return to their home; and,
- pay for travel time only when the examiner is traveling to the examination site at the commencement of the exam, or traveling home from the examination site at the conclusion of the exam.

[1] Part of the decrease in cost in FY 2003 is attributable to the Department curtailing the initiation of new market conduct examinations during the development of the Market Oversight Division.

Looking Toward the Future

We are working to develop procedures to provide examinees greater information about examination budgets and time frames, and a process by which examinees may question examination expenses.

We have also begun to centralize the responsibilities associated with reviewing examination billings so all examiners will have one point of contact, and so examiner billings are examined by only two people (the Examinations Accountant and the Accounting Manager).

We are improving our internal data management and reporting systems to eliminate duplicative entry of examiner time and billing data, so that with a single set of entries, examiners can be paid, invoices can be produced and sent, and data can be extracted by administrators and supervisors.

Primary Examination and Analysis Program Contacts

Examination Accountant **Vickie Hill** **E-mail: VHill@id.state.az.us** Phone: 602-912-8401 Fax: 602-912-8408	Examinations and Analysis Web Page **Scott Greenberg** **E-mail: SGreenberg@id.state.az.us** Phone: 602-912-8456 Fax: 602-912-8452
Market Conduct Examination Coordinator: **Cyndi Mayfield** **E-mail: CMayfield@id.state.az.us** Phone: 602-912-8455 Fax: 602-912-8469	Financial Examination Coordinator: **Kathy Schmidt** **E-mail: KSchmidt@id.state.az.us** Phone: 602-912-8422 Fax: 602-912-8421

To help us provide services quickly and efficiently, please correspond with us by e-mail whenever possible.

ATTACHMENT 1

ARIZONA DEPARTMENT OF INSURANCE
Market Oversight Division
Examinations Section

JANET NAPOLITANO
Governor

2910 North 44th Street, Second Floor
Phoenix, Arizona 85018-7256
Phone: 602-912-8442 Fax: 602-912-8469
http://www.id.state.az.us

CHARLES R. COHEN
Director Of Insurance

MR. Paul J. Hogan
Chief Market Conduct Examiner
Arizona Department of Insurance
2910 North 44th Street, Second Floor
Phoenix, Arizona 85018-7256

RE: **Sample IC**
Name of Company

Dear Mr. Hogan:

As the Company official or representative charged with assisting the Arizona examiners during the examination of the Company, I have reviewed and accept the time records submitted by the examiner as accurate to the best of my knowledge and information. This time record identifies the hours worked **on-site** by the examiner on the designated dates delineated below. I recognize and understand that the Arizona Department of Insurance, its Director, and Chief Examiner expect me to promptly bring to their attention any evidence of examiner absence or failure to perform work that is not consistent with the time records I have reviewed.

Examiner **Jane Y. Examiner** has worked the following time:

DAY	DATE	HOURS WORKED		TRAVEL TIME	TOTAL HOURS BILLED
		ON-SITE	at ADOI		
SATURDAY	6/17/2003				
SUNDAY	6/18/2003				
MONDAY	6/19/2003				
TUESDAY	6/20/2003				
WEDNESDAY	6/21/2003				
THURSDAY	6/22/2003	8.00			8.00
FRIDAY	6/23/2003	2.00			2.00
TOTAL for WEEK ENDING		10.00			10.00 *

On-site time approved by: _____
Company Representative

_____
Title

_____
Date

* *If the figure shown for total hours billed does not agree with the total hours billed to the company for this week ending period, examiner must provide a written explanation of the difference.*

Arizona Department of Insurance Independent Contractor *(Examiner)* Billing Statement

Contractor Name:	Employee Name:	Contractor ID:	Week Beginning:	Week Ending:
Insurance Examiner Consultants of America	Jane Y. Examiner	**INS0401**	6/17/2003	**6/23/2003**

NAIC #:	Examinee Name:	Billing Contact Person:	Area Code & Phone:
99999	**Sample IC**	John Q. Seguros	(999) 999-9999

Current Work Site Address:	City, County, State Zip code	Standard Rate:
123 Exemplar Street, Suite C-23	Bogus City, WY 88888	$30.00

Service Category: ☐ (1) Fincl Examiner ☑ (2) Mkt Cndct/Rate Examiner ☐ (9) Util Rvw Agt Lic Ex ☐ Other: _____

Contractor Category: ☐ (01) Assoc Ex ☑ (02) Ex I ☐ (03) Ex II ☑ (04) Ex II - AIE ☐ (05) Ex II - Asstng ☐ (06) Ex II - IC ☐ (07) Sr. Ex ☐ (08) Sr. Ex - CIE ☐ (09) Sr. Ex - Asstng ☐ (10) Sr. Ex - IC ☐ (11) Ex IC ☐ (12) Ex IC - CIE ☐ (13) Lead Ex

Code	Detailed Description	SAT 06/17	SUN 06/18	MON 06/19	TUE 06/20	WED 06/21	THUR 06/22	FRI 06/23	Total Hours	Hourly Rate	Amount Billed
2002	Travel Time								**0.00**	30.00	**0.00**
2203	Planning/Coordination								**0.00**	30.00	**0.00**
2207	Marketing/Sales						8.00	2.00	**10.00**	30.00	**300.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
									0.00		**0.00**
SUBTOTAL--EXAM FEES:		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**8.00**	**2.00**	**10.00**		**$300.00**

									Notes:	
1901	Travel, Airfare									**-**
1903	Travel, Ground Trans/Prking						16.00			**16.00**
1904	Travel, Lodging						50.00			**50.00**
1905	Travel, Meals/Incidentals						24.00			**24.00**
1909	Travel, Other: _____									**0.00**
1099	Other Expenses:_____									**0.00**
										0.00
										0.00
SUBTOT--EXPENSES:		$0.00	$0.00	$0.00	$0.00	$0.00	$90.00	$0.00		**90.00**

Examinee Billing Address if Different from Work Site Address (Address, City, State, Zip):

TOTAL: $390.00

Mail or hand check to: **ACH DIRECT DEPOSIT**

Remarks:

Examiner/Analyst Signature: DATE: June 23, 2003

ADOI Approval: DATE: June 26, 2003

Office Hours: From - To	Emergency Phone Number:	Date Work Started:	Estimated Completion Date:
8:30 - 5:00 (1/2 lunch)	**999-555-9999**	**June 22, 2003**	**July 21, 2003**

This form must be completed in INK. Copies of detailed receipts must be attached. MATERIALS SUBMITTED BECOME THE PROPERTY OF ADOI AND WILL NOT BE RETURNED.

ATTACHMENT 2

ARIZONA DEPARTMENT OF INSURANCE

INSURANCE EXAMINERS' REVOLVING FUND

2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7256 Phone: (602) 912-8401

Invoice

NAIC #	INVOICE DATE	INVOICE #
99999	6/27/2003	**120882**

For the work period ending

6/23/2003

Sample IC
John Q Seguros
123 Exemplar Street, Suite C-23
Bogus City, VY 88888

HRS	BILLING ITEM	WORK CLASSIFICATION	PRICE	AMOUNT
10	EXAMINER, JANE Y:M/C EXMR I - OUT STATE	2207 MC Marketing/Sales	30.00	300.00
	W/E 20030620, EXAMINER, JANE Y	2905 MC Tvl, Meals/Incidentals	24.00	24.00
	W/E 20030620, EXAMINER, JANE Y	2904 MC Tvl, Lodging	50.00	50.00
	W/E 20030620, EXAMINER, JANE Y	2909 MC Tvl, Other	16.00	16.00
	Total Reimbursable Expenses			90.00

Please send a copy of this invoice along with your check or money order made payable to the INSURANCE EXAMINERS' REVOLVING FUND to:

Insurance Examiners' Revolving Fund
2910 North 44th Street, Second Floor
Phoenix, Arizona 85018-7256

Invoice Total:

$390.00

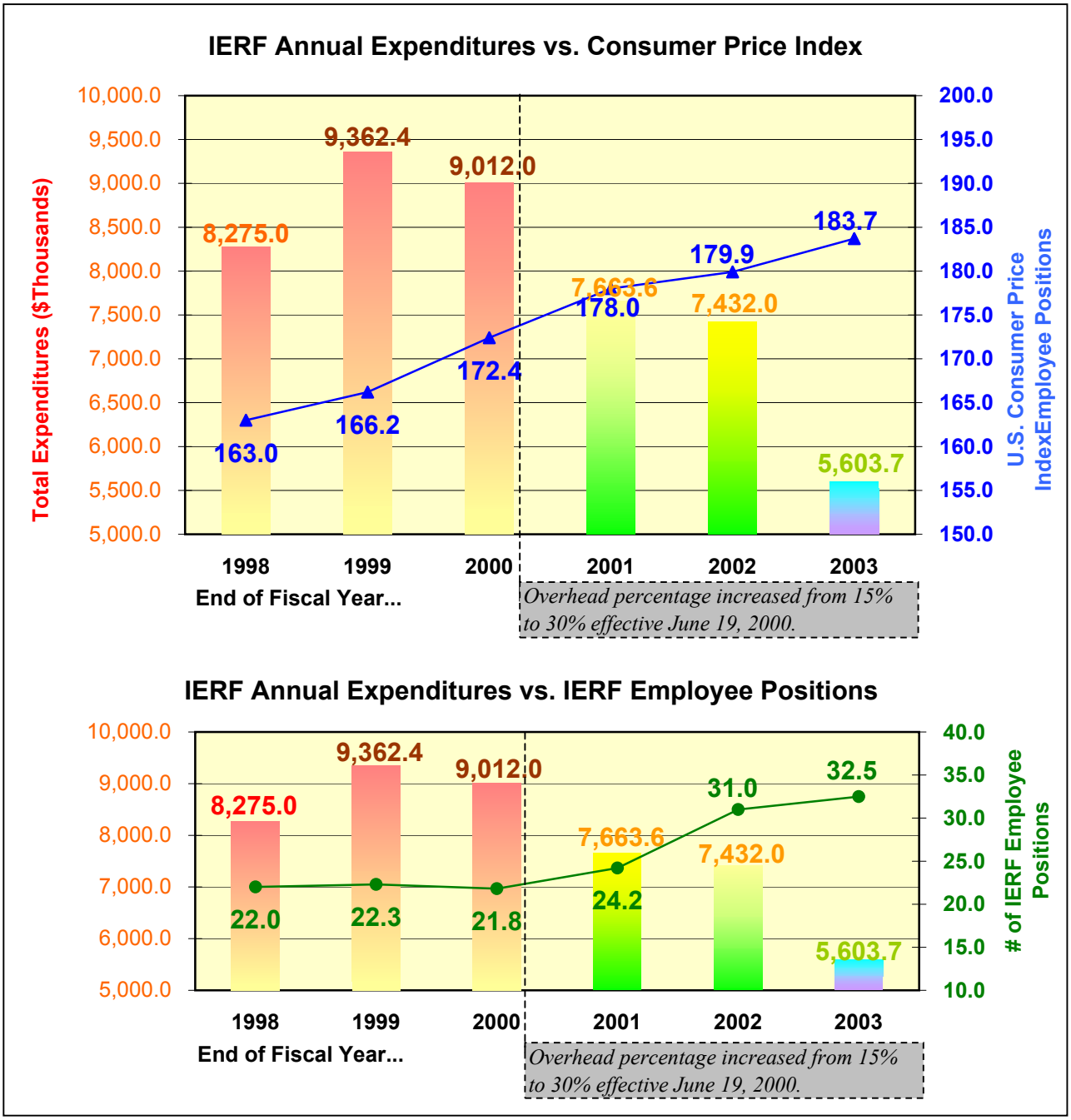
Payment due on or before

7/11/2003

Please consult the "Examinations and Analysis" link from the "INSURERS" web page on our Internet web site (www.id.state.az.us) for information about examination invoices and the examination process.

ATTACHMENT 3

ATTACHMENT 4



ATTACHMENT 5

HOW STATES FUND
EXAMINATION-RELATED ADMINISTRATIVE COSTS

State	Admin Charge	Amount	Comments
Alabama	No	N/A	
Alaska	No	N/A	State has option to charge for various exam support functions.
Arizona	Yes	30%	
Arkansas	No	N/A	
California	Yes	Varies	Hourly amount to cover adminitrative time over the course of the examination period is factored into billing rate.
Colorado	No	N/A	
Connecticut	No	N/A	
Delaware	Yes	35%	
Dist. Of Columbia			
Florida	No	N/A	Contractors bill the Companies directly
Georgia	No	N/A	
Hawaii	No	N/A	Statutes limits the insurer to pay only for “the cost of the exam.”
Idaho	No	N/A	Exam costs paid out of fees collected from all licensed insurers and are not billed to the company under examination.
Illinois	Yes	N/A	Companies are charged $300 per day per examiner.
Indiana	No	N/A	
Iowa	No	N/A	
Kansas	No	N/A	
Kentucky	Yes	25%	
Louisana	No	N/A	
Maine	Yes		State employees bill salary, plus benefits. Contractors are paid via the RFP rate in the contract.
Maryland	Yes	N/A	State charges for administrative functions on a sliding scale based on position.
Massachusetts	No	N/A	
Michigan	No	N/A	
Minnesota			
Mississippi	No	N/A	
Missouri	Yes	15%	By Statute.
Montana	No	N/A	
Nebraska	No	N/A	
Nevada	Yes	50%	Applied to salary.

State	Admin Charge	Amount	Comments
New Hampshire	Yes	Var.	Bill for examiner fees covers the actual expenses of the market conduct division, including salaries, employment befefits, and payroll taxes. The expenses billed also include an allocated portion of department operating expenses, such as rent, electricity, etc. Companies are billed monthly for total examiner days on the "job" during the month. The amount billed per examiner day is based upon the Department's estimated annual division expenses divided by the total estimated billable days for all examinations. At the end of the fiscal year, companies examined receive an adjusted billing based upon the actual expenses and billable days for the year
New Jersey	No	N/A	Premium tax pays for examiners (Dept. Employees)
New Mexico	No	N/A	
New York	Yes	35%	
North Carolina	No	N/A	Does not use contract examiners for MCE.
North Dakota			
Ohio	Yes	50%	
Oklahoma	No	N/A	Has been considered
Oregon	Yes	5-25%	Sliding scale depending on employee's position.
Pennsylvania	Yes	13%	Factored into per diem fees. Includes salaries, benefits and contract increases.
Rhode Island	Yes	50%	Set by statute
South Carolina	No	N/A	
South Dakota	No	N/A	
Tennessee	Yes	Var.	58% added to salaries and benefits of employee examiners. 25% added to contract examiner fees. All amounts refer to financial examiners as TN currently does not have MC examiners.
Texas	Yes	33%	Surcharge applied to foreign insurers only.
Utah	Yes	50%	
Vermont	No	N/A	Considering a surcharge
Virginia	No	N/A	
Washington	No	N/A	Domestic Companies pay premium assessment that is used to fund agency budget. Domestic companies not charged for exams, except title companies and fraternal benefit companies who are exempt from the premium assessment. Aminstrative expenses for examinations of foreign insurers absorbed.
West Virginia	No	N/A	

State	Admin Charge	Amount	Comments
Wisconsin	Yes	Varies	Annual assessment for domestic insurers to fund both market conduct and financial examinations. Complex formula based on premium volume. Non-domestic insurers are charged travel costs plus $32.00 an hour for each examiner.
Wyoming	No	N/A	