Florida Workers Compensation Joint Underwriting Association, Inc.
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VIA E-MAIL

FWCJUA AUDIT COMMITTEE BULLETIN 07-07

TO: Florida Workers' Compensation Joint Underwriting Association, Inc. Audit Committee

FROM: Laura S. Torrence, Executive Director

DATE: November 27, 2007

RE: **NOVEMBER 30, 2007 AUDIT COMMITTEE TELECONFERENCE MEETING AGENDA**

Enclosed for your review is the agenda for the FWCJUA Audit Committee teleconference meeting scheduled for Friday, November 30, 2007 at 1:00 p.m. (Eastern Time). An operator will dial out to the following parties:

Fred Bennett	803-470-5009
Bob Milligan	850-413-5980
Beth Vecchioli	850-224-1585
Jim Watford	850-413-5368
Andy Gray	850-521-3161

All other parties please contact Kathy Coyne at (941) 378-7408, to participate in the teleconference. Should you have any questions concerning the teleconference call, or the agenda, please do not hesitate to contact me.

c: FWCJUA Board of Governors
Tom Maida, *General Counsel*
Jim Watford, *Florida Office of Insurance Regulation*
FWCJUA Interested Parties

AGENDA FOR THE MEETING OF THE AUDIT COMMITTEE OF THE FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION, INC. TO BE HELD ON FRIDAY, NOVEMBER 30, 2007 AT 1:00 P.M. VIA TELECONFERENCE

I.	CALL TO ORDER AND OPENING REMARKS	Fred Bennett
II.	ANTI-TRUST PREAMBLE (Attachment A)	Tom Maida
III.	REVIEW OF AUDIT COMMITTEE DUTIES (Attachment B) • Audit Committee Charter	Laura Torrence Laura Lopez
IV.	ETHICS & SUNSHINE MATTERS • Code of Conduct (Attachment C) • Conflict of Interest Policy (Attachment D)	Laura Torrence Tom Maida
V.	2006 MARKET CONDUCT EXAM (Attachment E)	Laura Torrence
VI.	DRAFT JUNE 30, 2007 FINANCIAL AUDIT (Attachment F)	Laura Torrence Andy Gray
VII.	FEDERAL INCOME TAX EXEMPTION FILING UPDATE (Attachment G)	Laura Torrence Andy Gray
VIII.	PROCUREMENT (Attachment H) • Auditor Appointment Process	Laura Torrence Laura Lopez
IX.	AUDIT COMMITTEE CHARTER PROCEDURES CHECKLIST (Attachment I)	Laura Lopez
X.	GENERAL ANNOUNCEMENTS	Fred Bennett
XI.	ADJOURNMENT AND CLOSING REMARKS	Fred Bennett

ANTI-TRUST PREAMBLE

We are here to discuss and act on matters relating to the business of the Florida Workers' Compensation Joint Underwriting Association (FWCJUA) and not to discuss or pursue the business interests of our individual funds or companies.

We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws.

We should not engage in discussions – either at this meeting or in private conversations – of our individual fund's or companies' plans or contemplated activities. We should concern ourselves only with the business of the Florida Workers' Compensation Joint Underwriting Association as set forth in the agenda for this meeting.

Only FWCJUA market matters may be discussed at the meeting and each fund's or company's voluntary market plans cannot be discussed.

REVIEW OF AUDIT COMMITTEE DUTIES

Section 8B. of the FWCJUA's Seventh Amended Bylaws provides that the Audit Committee shall have the following duties:

1. To recommend to the Board for its approval the appointment of a firm of independent certified public accountants (the "Auditors") to audit the accounts of the FWCJUA for the financial years in respect of which such appointment is made;

2. To make, or cause to be made by the Auditors, such examinations or audits of the affairs and operations of the FWCJUA, of such scope, with such objects, and at such times or intervals as the committee may determine in its discretion or as may be ordered by the Board;

3. To submit to the Board as soon as may be convenient following the conclusion of each examination or audit made by or at the discretion of the committee, a written report thereon;

4. To review matters associated with internal control;

5. To discharge its duties and responsibilities in accordance with the Audit Committee Charter, as adopted and from time to time amended by the Board;

6. To provide oversight of the FWCJUA's cooperation and communications with the Auditor General.

7. To perform such other functions as may be reasonably related to the foregoing duties.

Attached for the Committee's perusal is the Audit Committee Charter as well as a new member orientation.

No Committee action is required on this agenda item.

FWCJUA AUDIT COMMITTEE NEW MEMBER ORIENTATION

I. FWCJUA AUDIT HISTORY *(Note: The firm which completes the audit has also traditionally completed and filed the FWCJUA's federal income tax return.)*

Arthur Anderson – 1994
- 7 service providers
- Unqualified 'clean' opinion
- Audit adjustments necessary, resulted in restatement of annual statement
- Internal control issues mentioned however by mid-1995 those issues had already been addressed

Ernst & Young – 1995
- 7 service providers
- Unqualified 'clean' opinion
- Audit adjustments necessary, resulted in restatement of the annual statement
- Internal control issues mentioned however with internalization of the accounting function those issues were addressed

Ernst & Young – 1996
- Unqualified 'clean' opinion
- 1 service provider
- 1 recorded audit adjustment regarding federal income taxes and several minor unrecorded audit adjustments from past years
- No internal control issues

Ernst & Young – 1997, 1998, 1999, 2000
- Unqualified 'clean' opinion
- 1 service provider
- No audit adjustments – recorded or unrecorded
- No internal control issues

Thomas Howell Ferguson – 2001, 2002, 2003, 2004, 2005, 2006
- Unqualified 'clean' opinion
- 1 service provider
- No audit adjustments – recorded or unrecorded
- No internal control issues

Thomas Howell Ferguson – 2007

II. FWCJUA APPROXIMATE ANNUAL AUDIT TIMELINE

November – December:
- Review of Internal Controls both at FWCJUA Office and Travelers
- Initial Review using 3rd Quarter Statement

February – March:
- Onsite at FWCJUA office for further testing
- Review and testing of Annual Statement

April 1:
- Audit completed and finalized *(Note: Over the past few years, the audit has been expedited for delivery on March 1st to be available during the legislative session. Also during 2007, there was a 6/30 audit completed as a byproduct of legislation which may alter this year end's timeline.)*

III. SARBANES – OXLEY

In response to Sarbanes-Oxley, Thomas Howell Ferguson advised the audit committee to adopt a charter and to implement a code of conduct. The Charter was adopted by the Board at its December 2002 meeting and the charter procedures checklist and code of conduct were implemented in May of 2003. The checklist was implemented to ensure that the Audit Committee was meeting regularly and accomplishing their duties and responsibilities.

As the original code of conduct was developed within the Audit Committee, the changes necessary to the code of conduct as a result of 2007 legislation will be reviewed first by the audit committee and then taken to the board to approval and implementation.

ETHICS & SUNSHINE MATTERS

Code of Conduct

The Committee shall consider revisions to the FWCJUA's Code of Business Conduct and Ethics policy that incorporate provisions of Senate Bill 1894 which became law effective July 1, 2007.

Attached for the Committee's review are copies of the proposed revised policy and Senate Bill 1894. Further, for background discussion purposes, also attached is a 2005 directive received from OIR's Commissioner McCarty which relates to this general matter.

The Committee shall formulate its recommendation to the Board for revisions to the FWCJUA's Code of Business Conduct and Ethics policy.

FLORIDA WORKERS COMPENSATION JOINT UNDERWRITING ASSOCIATION, INC.

CODE OF BUSINESS CONDUCT AND ETHICS

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INTRODUCTION

This Code of Business Conduct and Ethics was developed by the Audit Committee of the Florida Workers' Compensation Joint Underwriting Association, Inc. (the "FWCJUA") and approved by the Board of Governors to provide guidance for all Board Members and Employees of the FWCJUA. All FWCJUA personnel are expected to maintain high ethical standards of conduct and to comply fully with applicable laws and governmental regulations. Each Employee and Board Member should read this document carefully with a commitment to uphold these standards. All Employees and Board Members will receive or be provided with a copy of this Code and should read, understand and comply with this Code in all of the FWCJUA's operations.

Day-to-day observance of this Code will create an attractive, healthy working environment for all Employees consistent with the FWCJUA's core values, and further project a positive image of the FWCJUA to consumers, suppliers and the public at large.

This Code is not an employment contract. By issuing this Code, the FWCJUA has not created any contractual rights.

This Code is in addition to other detailed policies that the FWCJUA may adopt from time to time. All Employees and Board Members should read, understand and comply with any applicable detailed policies.

INTERPRETATION

References herein to the "FWCJUA" mean the Florida Workers' Compensation Joint Underwriting Association, Inc.; "Senior Management" means the Executive Director and the other Officers and Senior Managers as defined in the Plan of Operation; "Employees" means all employees of the FWCJUA, including, without limitation, ~~the Executive Director~~members of Senior Management; and "Board Member" means a member of the Board of Governors of the FWCJUA.

The FWCJUA's Board of Governors is responsible for setting the standards of business conduct contained in this Code and updating these standards as it deems appropriate to reflect changes in the legal and regulatory framework applicable to the FWCJUA, the business practices within the FWCJUA's industry, the FWCJUA's own business practices, and the prevailing ethical standards of the communities in which the FWCJUA operates. Questions concerning specific application of this Code should be referred to your supervisor or the Executive Director.

While this Code deals with major areas of concern, it cannot cover every situation which may arise. Employees and Board Members are expected to exercise their own best judgment and discretion within the parameters of this Code, keeping in mind the high standards to which the FWCJUA is committed.

REPORTING VIOLATIONS AND ENSURING COMPLIANCE

Except as otherwise explicitly provided in this Code, if any Employee believes that this Code has been violated or the FWCJUA has or is about to violate a law or regulation, or an Employee believes that he or she is being asked to violate this Code or a law or regulation in the performance of duties for the FWCJUA, the matter should be promptly reported to the Employee's supervisor or Executive Director. If for any reason the Employee is uncomfortable reporting such matter to his or her supervisor or the Executive Director, then the matters should be promptly reported to the Chairman of the Audit Committee, who will respond as promptly and discreetly as practicable with an appropriate investigation.

Except as otherwise explicitly provided in this Code, if any Board Member believes that this Code has been violated or the FWCJUA has or is about to violate a law or regulation, or a Board Member believes that he or she is being asked to violate this Code or a law or regulation in the performance of duties for the FWCJUA, the matter should be promptly reported to the Chairman of the Audit Committee.

Violations of the FWCJUA's anti-harassment policy shall be reported as provided for in this Code under the "General Anti-Harassment Policy" section.

Every Employee and Board Member shall cooperate in assuring that any violation of this Code is brought to the attention of the appropriate person. The FWCJUA will take appropriate steps to maintain the confidentiality of the reporting Employee's or Board Member's identity, to the extent that it can do so consistent with applicable law and the FWCJUA's obligations to investigate and remedy the matter and, if appropriate, to report the matter to government officials. To the extent permitted by applicable law, Employees may report violations of this Code on an anonymous basis.

No retribution will be taken against an Employee or Board Member for reporting, in good faith, a violation or suspected violation, and any supervisor intimidating or imposing sanctions on any Employee or Board Member for reporting a matter in good faith will be disciplined.

Based on the degree of responsibility of the Employee involved, compliance with this Code will be included in the Employee's performance review.

The Audit Committee of the FWCJUA's Board of Governors is responsible for overseeing the interpretation and enforcement of this Code. Subject to the Audit Committee's ultimate authority: (i) the Executive Director will be responsible for monitoring the enforcement of this Code as it pertains to Employees at their location and (ii) the Audit Committee will be responsible for monitoring (a) enforcement of this Code and these procedures as they pertain to the FWCJUA's Board Members and Executive Director, and (b) the steps taken by the Executive Director with respect to the enforcement of this Code. If any questions regarding possible breaches or violations of this Code are not resolvable by the Audit Committee, such questions shall be referred to the General Counsel for legal guidance in resolving the possible breach or violation.

Upon request by the Board of Governors or promptly after an issue is raised that might constitute a breach of, or require a waiver of or change in this Code, the Executive Director or General Counsel will report to the Audit Committee concerning compliance with this Code and any breaches or violations or other ethical issues which may have occurred or been presented. The Audit Committee shall consider all issues brought before it. In instances where breaches or violations of this Code or other ethical issues may have been identified, the Executive Director or General Counsel may make such recommendation as may be appropriate to prevent a recurrence. The ultimate decision with respect to any such action will, however, be made by the Audit Committee.

Only the Audit Committee may waive provisions of this Code with respect to Board Members and ~~executive officers~~members of Senior Management of the FWCJUA, and only the Audit Committee may change any provision of this Code; provided, however, that no provision of this Code may be waived to the extent that the provision is otherwise imposed by applicable law or regulation.

~~An~~In addition to the penalties otherwise provided by applicable laws and regulations, an Employee or Board Member found to have violated this Code will be subject to appropriate disciplinary action, ranging from warnings to possible termination or removal.

Nothing in this Code should be interpreted or construed as limiting the ability of an Employee or Board Member to report violations of applicable laws or regulations to the Commission on Ethics, Office of Insurance Regulation, Department of Financial Services, or other appropriate regulatory authority where such reporting is otherwise required or permitted by law or regulation.

COMPLIANCE WITH LAWS AND REGULATIONS GENERALLY

The FWCJUA insists that its business be conducted in compliance in all material respects with all applicable laws and regulations.

Effective July 1, 2007, Board Members and members of Senior Management are subject to the following provisions of the state Code of Ethics for Public Officers and Employees:

- Section 112.313, standards of conduct.
- Section 112.3135, restrictions on employment of relatives.
- Section 112.3143, voting conflicts.
- Section 112.3145, disclosure of financial interests.
- Section 112.316, construction of code of ethics.
- Section 112.317, penalties.

Any illegal action will be dealt with swiftly and violations will be reported to the proper authorities. Failure to obey fully all laws and regulations violates this Code and may expose both the FWCJUA and responsible Employees or Board Members to criminal or civil prosecution.

If an Employee or a Board Member has any questions on specific laws, regulations or other legal issues, he or she should contact the FWCJUA's General Counsel.

FAIR DEALINGS WITH OTHERS

Each Employee and Board Member of the FWCJUA should endeavor to deal fairly with the FWCJUA's customers, suppliers, external advisers and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

CORPORATE OPPORTUNITIES ~~AND CONFLICTS OF INTEREST~~

Employees and Board Members owe the FWCJUA a duty to advance the interests of the FWCJUA and its policyholders when the opportunity to do so arises. As a result, Employees and Board Members are prohibited from taking personal advantage of certain business opportunities in which the FWCJUA may be interested. This so-called "corporate opportunity doctrine" is complicated and it is not possible to clearly define all of the business opportunities which belong or could be of interest to the FWCJUA and what business opportunities may be taken advantage of personally by Employees or Board Members. The most common types of situations falling within this corporate opportunity doctrine prohibit Employees and Board Members from: (i) personally taking advantage of any business opportunity that typically would be pursued by, or would be of interest to, the FWCJUA; (ii) personally taking advantage of any other business opportunity that the FWCJUA may want to take advantage of if the opportunity is discovered using FWCJUA property, business contacts or information, or that the Employee becomes aware of because he or she works for the FWCJUA (or that a Board Member becomes aware of in his or her capacity as a director of the FWCJUA); or (iii) disadvantaging the FWCJUA. If an Employee or Board Member has any question regarding whether this corporate opportunity doctrine applies to any potential business opportunity, he or she should consult with the FWCJUA's General Counsel.

CONFLICTS OF INTEREST

Although Employees are free to participate in outside activities, it is important that Employees not engage in any activity that is (or could appear to be) a conflict between their own personal or business interests and the FWCJUA's best interests. Examples of conflicts of interest include:

- Being a consultant to, or a director, officer or employee of, or otherwise operating an outside business:
    - that supplies products or services to the FWCJUA; or

  - that purchases products or services from the FWCJUA.

- Having any financial interest, including stock ownership, in any such outside business that might create or give the appearance of a conflict of interest.

- Seeking or accepting any personal loan or services from any such outside business, except from financial institutions or service providers offering similar loans or services to third parties under similar terms in the ordinary course of their respective businesses.

- Being a consultant to, or a director, officer or employee of, or otherwise operating an outside business if the demands of the outside business would interfere with the Employee's responsibilities with the FWCJUA, without the express written permission of the Chair of the Board.

- Accepting any personal loan or guarantee of obligations from the FWCJUA

- Using the FWCJUA's property, information or position for personal gain.

Actual or potentially conflicting interests (including but not limited to any material transaction or relationship that reasonably could be expected to give rise to a conflicting interest) must be reported to the Executive Director or the Audit Committee.

A Board Member or member of Senior Management may not, on behalf of the FWCJUA, purchase or lease property, goods, or services from an entity in which the Board Member or member of Senior Management (or his or her spouse or child) owns more than a 5% interest. In addition, a Board Member or member of Senior Management, acting in a private capacity, may not sell or lease property, goods, or services to the FWCJUA.

A Board Member or member of Senior Management may not have any employment or contractual relationship with a business entity that does business with the FWCJUA, and may not have any employment or contractual relationship that creates a continuing or frequently recurring conflict between the Board Member's or member of Senior Management's private interests and public duties that would impede the full and faithful discharge of the Board Member's or member of Senior Management's public duties.

These prohibitions do not apply in the following situations:

- When the business is rotated among all qualified suppliers

- When the business is awarded by competitive bid and the person did not attempt to influence the outcome. In this case the person must file with the Commission on Ethics a disclosure of the interest before the bid is submitted. Commission on Ethics Form 3A is used for this disclosure

- When the transaction is for legal advertising, utility services, or passage on a common carrier.

- When an emergency purchase is necessary for the public health, safety, or welfare.

- When the business entity is the only source of the property, goods, or services. In this case the person must file with the Commission on Ethics a disclosure of his or her interest. Commission on Ethics Form 4A is used for this disclosure.

- When the aggregate of the transactions does not exceed $500 in a calendar year.

- When the business is the deposit of FWCJUA funds in a bank in which the Board Member or member of Senior Management is an officer, director, or stockholder, provided that there is a record showing that the FWCJUA has determined that the Board Member or member of Senior Management did not favor his or her bank over other banks.

- When the person purchases goods or services in a private capacity on terms available to similarly situated members of the public.

An FWCJUA-specific prohibition restricts the ability of certain persons to serve on the Board. An employee, officer, owner, or director of an insurance agency, insurer, or other insurance entity cannot be a Board Member if the insurance agency, insurer, or other insurance entity or an affiliate provides policy issuance, policy administration, underwriting, claims handling, or payroll audit services to the FWCJUA.

All Employees and prospective Employees must file a signed statement with the FWCJUA attesting that the Employee or prospective Employee does not have a conflict of interest as defined by law. Employees must file the statement annually on or before July 1, and prospective Employees must file the statement before beginning employment. "Conflict of interest" is defined as "a situation in which in which regard for a private interest tends to lead to disregard of a public duty or interest."

MISUSE OF PUBLIC POSITION

A Board Member or member of Senior Management may not "corruptly use or attempt to use" his or her official position or resources to secure a special privilege or benefit for himself or herself or for others.

A Board Member, member of Senior Management or a former Board Member or member of Senior Management may not disclose or use information obtained by virtue of his or her official position and unavailable to the general public for his or her personal gain or benefit or for the gain or benefit of another. This prohibition does not apply to information relating exclusively to governmental practices.

POST-SERVICE RESTRICTIONS

A former Board Member may not represent a person for compensation before the Board for a period of two years following vacation of office.

A former member of Senior Management may not represent a person for compensation before the FWCJUA for a period of two years following vacation of position.

VOTING CONFLICTS

A Board Member may not participate in or vote on a matter if the Board Member's insurance agency, insurance company, or other insurance entity would obtain a special or unique benefit that would not apply to other similarly situated insurance entities.

In addition to this FWCJUA-specific prohibition, the state Code of Ethics for Public Officers and Employees provides other limitations on the ability of Board Members to vote on or participate in certain matters.

Except as provided above, a Board Member is not prohibited from voting on any measure, but when the measure would inure to the "special private gain or loss" of the Board Member or a relative (parent, child, spouse, sibling, or in-law) of the Board Member, a business associate of the Board Member, or a principal who has retained the Board Member, the voting conflict must be disclosed by filing a disclosure with the person responsible for the minutes of the meeting within 15 days after the vote. Commission on Ethics Form 8A is used for this disclosure. The disclosure must be incorporated into the minutes of the meeting.

A Board Member may not participate in a matter that would inure to the "special private gain or loss" of the Board Member or a relative (parent, child, spouse, sibling, or in-law) of the Board Member, a business associate of the Board Member, or a principal who has retained the Board Member, unless the Board Member files advance notice of the conflict with the person responsible for the minutes of the meeting. Commission on Ethics Form 8B is used for this disclosure. The disclosure must be incorporated into the minutes of the meeting. In some circumstances, the disclosure may instead be made orally at the meeting.

There are no hard and fast rules for determining whether a decision inures to a person's "special private gain or loss," but the Commission on Ethics has developed guidelines. In general, an action creates a special private gain or loss if it has a greater impact on the Board Member (or the Board Member's relative, business associate, or principal) than on other similarly situated persons. The Commission on Ethics has applied several tests:

- Remote and speculative. A special private gain or loss is deemed not to exist if there was uncertainty at the time of the vote as to whether there would be any gain or loss to the public officer.

- Size of class. Where the class of persons potentially affected is large, special private gain or loss exists only if there are circumstances unique to the officer under which he or she stands to gain or lose more than other members of the class, but when the class is small, special gain or loss is more likely to be found. Where the officer's interest involves less than 1% of the class, the impact is deemed to be general rather than special.

- Preliminary or procedural motions. There is no special private gain or loss involved in preliminary or procedural motions.

For purposes of the restrictions on participation, the term "participation" is defined to include any attempt to influence a decision by oral or written communication, made either by the Board Member or by another at the direction of the Board Member.

FINANCIAL DISCLOSURES

Board Members and members of Senior Management must file the statement of financial interests required by section 112.3145, Florida Statutes (Commission on Ethics Form 1), no later than July 1 of each year. Disclosure of financial interests under section 112.3145 is not as extensive and specific as the disclosures required of elected officials and certain other persons under Article II, Section 8 of the Florida Constitution.

Form 1 must be filed both with the Commission on Ethics and with the Office of Insurance Regulation.

Board Members and members of Senior Management must file a final statement (Commission on Ethics Form 1F) within 60 days after leaving office or employment.

Newly employed members of Senior Management and newly appointed Board Members must file Form 1 within 30 days after the beginning of employment or the date of appointment.

NEPOTISM

Except in the case of emergencies, a Board Member or member of Senior Management may not appoint, employ, promote, or advance a relative in or to a position in the FWCJUA, and may not advocate the appointment, employment, promotion, or advancement of a relative in or to a position in the FWCJUA.

For purposes of this prohibition, "relative" includes parents, children, siblings, spouses, in-laws, aunts, uncles, nieces, nephews, first cousins, step-parents, step-children, step-siblings, and half-siblings.

USE OF FWCJUA PROPERTY

Use of FWCJUA property or services for personal benefit is prohibited. When an Employee uses FWCJUA property, it must be for valid corporate purposes and, except as described below, exclusively for the FWCJUA's benefit or in accordance with the FWCJUA Market Assistance Plan.

FWCJUA property includes far more than many people realize. In addition to physical plants, equipment, computers, software, inventory, corporate funds and office supplies, FWCJUA property includes the following: technologies, concepts, intellectual property, product development strategies and projects, business strategies and plans, policyholder lists, personnel data, FWCJUA phone directories, organization charts, product cost data, product pricing, financial data and all other proprietary information about the FWCJUA's business and Employees.

All of the FWCJUA's information systems, including communications systems, magnetic media, e-mail, voice mail, and Intranet, Extranet and Internet access systems are the FWCJUA's property and generally must be used only for business activities. Incidental personal use is permissible as long as it does not consume more than a trivial amount of resources, does not interfere with productivity, does not preempt any business activity, is otherwise appropriate and reasonable and is consistent with the FWCJUA's business values and this Code. The FWCJUA reserves the right at any time to access, read, monitor, inspect and disclose the contents of, postings to and downloads from all of the FWCJUA's information systems.

No one may use the FWCJUA's information systems at work to access, view, post, store, transmit, download, or distribute any profane, obscene, derogatory, harassing, offensive or inappropriate materials. Additionally, no Employee may use these systems to send FWCJUA information or copyrighted documents that are not authorized for transmittal or reproduction.

EQUAL EMPLOYMENT OPPORTUNITY AND AFFIRMATIVE ACTION POLICY

It is the FWCJUA's policy to employ and advance in employment qualified persons without discrimination against any Employee or applicant for employment because of gender, race, color, national origin, religion, ~~sex, physical or mental disability, national origin, age over 40, or status as a special disabled veteran, veteran of the Vietnam era, or other covered veteran~~age, disability, or any other legally protected class or characteristic~~ protected by applicable law~~. This policy applies throughout the FWCJUA at all levels.

To effectuate its commitment to this policy, the FWCJUA will continue to undertake the following:

1. The FWCJUA will recruit, hire, train, and promote qualified persons in all job titles, and ensure that all other personnel actions are administered without regard ~~to~~gender, race, color, ~~religion, sex, ~~national origin, religion, age, disability, ~~age over 40, status as a special disabled veteran, Vietnam era veteran or other covered veteran, ~~or any other legally protected class or characteristic~~ protected by applicable law~~.

2. The FWCJUA will make all employment decisions based on valid job requirements and qualifications.

3. The FWCJUA will ensure that all personnel actions, such as compensation, benefits, transfers, layoffs, return from layoff, FWCJUA-sponsored training, education, and social and recreational programs, will be administered without regard ~~to~~gender, race, color, ~~religion, sex, ~~national origin, religion, age, disability, ~~age over 40, status as a special disabled veteran, Vietnam era veteran or other covered veteran, ~~or any other legally protected class or characteristic~~ protected by applicable law~~.

4. The FWCJUA strictly prohibits any harassment, intimidation or other hostile working conditions that are based ~~on~~gender, race, color, ~~religion, sex,~~ national origin, religion, age, disability, ~~age over 40, status as a special disabled veteran, Vietnam era veteran or other covered veteran,~~ or any other legally protected class or characteristic~~ protected by applicable law~~.

5. Employees and applicants shall not be subjected to harassment, intimidation, threats, coercion, discrimination or other types of retaliation because they have engaged in or may engage in any protected activity or exercised any protected right under applicable equal employment opportunity laws.

Overall responsibility for the implementation of the FWCJUA's equal employment opportunity policy is assigned to the Executive Director. He or she will audit the implementation of the FWCJUA's commitment to this equal employment opportunity policy and, when requested, will report to the Board of Governors of the FWCJUA on progress toward maintaining the objectives of this policy.

GENERAL ANTI-HARASSMENT POLICY

The FWCJUA expects the workplace to be free from physical, psychological, verbal and nonverbal harassment based on any legally protected characteristic. These protected characteristics may include, but are not limited to, an individual's gender, race, color, national origin, religion, age, ~~ancestry,~~ disability, ~~veteran status or use of family medical leave or workers' compensation benefits~~or any other legally protected class or characteristic. Therefore, the FWCJUA strictly prohibits all forms of harassment based on these or any other characteristic protected by applicable law. This policy applies to Employees, Board Members, vendors, customers and visitors.

Harassment may exist:

- When submission to such conduct is implicitly or expressly made a term or condition of employment;
- When submission to or rejection of such conduct is used as a basis for any employment decisions; or
- When such conduct results in creating an intimidating, hostile, threatening or offensive working environment.

Examples of conduct prohibited under this policy include, but are not limited to, the following:

- Unwelcome sexual advances, requests for sexual favors or physical conduct of a sexual nature such as touching or brushing up against another or making derogatory comments.

- Unwelcome verbal or non-verbal conduct or visual displays of a sexual, offensive or discriminating manner, such as posters, calendars, photographs, cartoons, graffiti, websites, computer screen savers or other offensive graphic displays.

- Making submission to or rejection of harassment the basis of any employment decision.

- Unprofessional comments in any work environment based on an individual's protected characteristic(s).

- Insults, name calling or slurs based on an individual's protected characteristic(s).

- Jokes or other remarks that are sexual or offensive in nature or demeaning to an individual's protected characteristic(s).

- Physical, verbal or psychological abuse based on an individual's protected characteristic(s) such as stereotyping, name calling, assaulting, sabotaging, segregating or threatening any individual in the workplace.

This or similar conduct is offensive and inappropriate in the work place. The FWCJUA will not tolerate any forms of harassment, whether by a supervisor or by any other Employee.

Complaints of harassment will be promptly and impartially investigated. An Employee found to have harassed another Employee will be subject to appropriate disciplinary action, ranging from warnings to possible termination of employment. Any Employee who believes that he or she has been the subject of harassment or has witnessed harassment is required to report this immediately to his or her supervisor, or to the Executive Director. If a complaint involves a supervisor or other management official, the report shall be directed to the Chairman of the Audit Committee. Except where circumstances arise in which others may have to be informed, complaints will remain confidential so as to protect the confidentiality of the Employee who files a complaint, to encourage the reporting of any incidents of harassment, and to protect the reputation of any Employee wrongfully charged with harassment. Pending full investigation and resolution of the complaint, interim measures may be taken, such as separating Employees.

The FWCJUA further prohibits and will not tolerate any form of retaliation against any Employee for making a complaint in good faith or cooperating in the investigation of a complaint. If any Employee believes that he or she is experiencing any such retaliation, the Employee must report that promptly to the Executive Director or Chair of the Audit Committee.

ACCURACY, RETENTION AND DISPOSAL OF RECORDS

Each Employee is responsible for maintaining accurate and reasonably detailed documents, reports and other records. No one may falsify or improperly alter any information contained in the FWCJUA's records.

With certain exceptions, the FWCJUA's records are subject to the provisions of Chapter 119, Florida Statutes, which requires the FWCJUA to make its records available for public inspection and copying. An Employee must notify the Executive Director immediately upon receiving a request for any FWCJUA records. Questions about complying with public records requests under Chapter 119, Florida Statutes, should be resolved with the advice and counsel of the FWCJUA's General Counsel.

Good business practice ~~requires~~and various laws and regulations require that certain FWCJUA records be retained for various time periods. ~~Often, these are required by law, and it~~It is the responsibility of each Employee to ensure that records are retained in compliance with applicable document retention policies established from time to time by the FWCJUA in compliance with applicable laws. Documents that need not be kept should be disposed of in compliance with FWCJUA policies. Where litigation or a government investigation is likely or ongoing, records may not be destroyed until the Executive Director or the FWCJUA's General Counsel advises that the matter has been concluded.

For questions about record retention, contact the Executive Director or the FWCJUA's General Counsel, particularly if any litigation, investigation, or administrative action is (or may be) threatened or pending.

ACCOUNTING PRACTICES

Employees and Board Members must comply with the FWCJUA's accounting rules and controls and with statutory accounting practices, and must cooperate fully with the FWCJUA's internal and external auditors. All funds, assets, transactions and payments must be accurately reflected and no false or misleading entries may be made on corporate records.

Payments for goods and services provided to the FWCJUA must be payable to the person or company legally entitled to receive payment. All invoices must accurately reflect the items and services being purchased or sold and the prices being paid. Except in rare instances, no payment may be made to a party in a country other than the one in which the party resides, maintains a place of business, or has delivered the goods or provided the services for which payment is made.

POLITICAL CONTRIBUTIONS

While the FWCJUA encourages individual participation in the political process, no Employee should create the impression of speaking or acting on the FWCJUA's behalf without specific authorization. It is up to each Employee to abide by all laws relating to political contributions, and to make such contributions as individuals, not as representatives of the FWCJUA. Employees cannot contribute any FWCJUA money, property, time, or services (directly or indirectly) to any political candidate or political party.

LOBBYING AND LEGISLATIVE CONTACTS

There may be instances where the Employees' collective experience may be helpful to the political and legislative processes. In those cases, the FWCJUA, through its senior management, may publicly offer recommendations about laws or governmental actions and take public positions on issues that affect the FWCJUA's business.

Under some circumstances, a written or personal contact with a government official may subject the person making the contact or the FWCJUA to registration and reporting requirements under applicable lobbying laws. An Employee intending to contact a government official regarding any attempt to propose, defeat or modify any law, regulation or rule affecting the FWCJUA should clear such activity in advance with the Executive Director and the FWCJUA's General Counsel for determination whether such conduct would require registration or reporting under applicable lobbying laws.

BUSINESS WITH GOVERNMENTS AND OFFICIALS

Employees and Board Members must never make improper gifts or payments, such as bribes or kickbacks, in any way in connection with the FWCJUA's business. Gifts or payments to or for the personal benefit of a governmental official or to or for the personal benefit of an employee of one of the FWCJUA's policyholders or suppliers are clearly improper. Indirect transactions, such as payments of commissions to a producer or sales representative on the understanding that he or she will pay a bribe or kickback to an employee of a policyholder, are also prohibited.

GIFTS AND GRATUITIES

Employees and Board Members should avoid any relationship, activity or investment that might conflict with their responsibilities to the FWCJUA or impair their abilities to act independently in the best interests of the FWCJUA. ~~For example, Employees and Board Members should not accept significant gifts, entertainment, favors or other gratuities from persons doing business or seeking to do business with the FWCJUA. Acceptance of gratuities having only nominal value, if consistent with local business custom and practice, is permissible. Except as explicitly permitted by FWCJUA policies, no Employee should give or receive gifts of cash.~~

A Board Member or member of Senior Management is prohibited from soliciting or accepting any thing of value based on the understanding that his or her official actions will be influenced.

In addition to this general limitation on gifts, the legislature has created a gift ban applicable specifically to the FWCJUA. Under the FWCJUA gift ban, no Employee or Board Member may knowingly accept, directly or indirectly, any thing of value from a person or entity that has a contractual relationship with the FWCJUA or is under consideration for a contract, or from their employees or representatives. The term "directly or indirectly" is intended to prevent evasion. For example, a gift received by the spouse of an Employee can be expected to be treated the same as a gift received directly by the Employee.

There is no "de minimis" exception for low-value gifts.

I acknowledge that I have read and understand the foregoing Code of Business Conduct and Ethics, and certify that I will comply with its terms and conditions.

DATED: ______________________________

____
(Signature)

____
(Print or type name)

Document comparison done by Workshare DeltaView on Sunday, September 30, 2007 6:08:52 PM

Input:	
Document 1	interwovenSite://TLHDMS1/TALL/164837/1
Document 2	interwovenSite://TLHDMS1/TALL/164838/1
Rendering set	standard

Legend:	
Insertion	
~~Deletion~~	
~~Moved from~~	
Moved to	
Style change	
Format change	
~~Moved deletion~~	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	112
Deletions	41
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	153

An act relating to the Florida Workers' Compensation Joint Underwriting Association, Inc.; amending s. 627.311, F.S.; providing requirements for the joint underwriting plan of insurers which operates as the association; revising the membership of the board of governors that oversees operation of the joint underwriting plan; revising restrictions on who may serve on the board; providing for the continuous review of the plan; requiring that the market-assistance plan be periodically reviewed and updated; providing guidelines for procurement of goods and services, including legal services; authorizing the use of surplus funds of former plan C; requiring that excess funds received by the plan be returned to the state; providing for the applicability of specified statutes regulating ethical standards; requiring annual statements by plan employees certifying that they do not have conflicts of interest; prescribing limits on representing persons or entities before the plan by former senior managers or officers of the plan; prohibiting any part of the plan's income from inuring to the benefit of a private individual; prohibiting employees and board members from accepting expenditures from a person or an entity; providing applicability; requiring periodic comprehensive market examinations; prescribing the disposition of

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assets of the plan upon dissolution; requiring that the plan submit a request for an Internal Revenue Service letter concerning the plan's eligibility as a tax-exempt entity; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Subsections (5), (6), and (7) of section 627.311, Florida Statutes, are amended to read:

627.311 Joint underwriters and joint reinsurers; public records and public meetings exemptions.--

(5)(a) The office shall, after consultation with insurers, approve a joint underwriting plan of insurers which shall operate as the Florida Workers' Compensation Joint Underwriting Association, Inc., a nonprofit entity. For the purposes of this subsection, the term "insurer" includes group self-insurance funds authorized by s. 624.4621, commercial self-insurance funds authorized by s. 624.462, assessable mutual insurers authorized under s. 628.6011, and insurers licensed to write workers' compensation and employer's liability insurance in this state. The purpose of the plan is to provide workers' compensation and employer's liability insurance to applicants who are required by law to maintain workers' compensation and employer's liability insurance and who are in good faith entitled to but who are unable to procure such insurance through the voluntary market. Except as provided herein, the plan must have actuarially sound rates that ensure that the plan is self-supporting.

(b) The operation of the plan is subject to the supervision of a 9-member board of governors. Each member

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described in subparagraph 1., subparagraph 2., subparagraph 3., or subparagraph 5. shall be appointed by the Financial Services Commission and shall serve at the pleasure of the commission. The board of governors shall be comprised of:

~~1. Three members appointed by the Financial Services Commission. Each member appointed by the commission shall serve at the pleasure of the commission;~~

1.~~2.~~ Two representatives of the 20 domestic insurers, as defined in s. 624.06(1), having the largest voluntary direct premiums written in this state for workers' compensation and employer's liability insurance who~~, which~~ shall be appointed by the commission from a list of five nominees for each vacancy submitted ~~elected~~ by those 20 domestic insurers. The commission may reject all of the nominees recommended for a position and request that the insurers submit a new list of five different recommended nominees for the position who have not previously been recommended by the insurers;

2.~~3.~~ Two representatives of the 20 foreign insurers as defined in s. 624.06(2) having the largest voluntary direct premiums written in this state for workers' compensation and employer's liability insurance who~~, which~~ shall be appointed by the commission from a list of five nominees for each vacancy submitted ~~elected~~ by those 20 foreign insurers. The commission may reject all of the nominees recommended for a position and request that the insurers submit a new list of five different recommended nominees for the position who have not previously been recommended by the insurers;

3.~~4.~~ One representative of ~~person appointed by~~ the largest property and casualty insurance agents' association in this state who shall be appointed by the commission from a

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list of five nominees for each vacancy submitted by the association. The commission may reject all of the nominees recommended for a position and request that the association submit a new list of five different recommended nominees for the position who have not previously been recommended by the association; ~~and~~

4.~~5.~~ The consumer advocate appointed under s. 627.0613 or the consumer advocate's designee; and~~.~~

5. Three other persons appointed by the commission.

Each board member shall be appointed to ~~serve~~ a 4-year term and may be appointed to ~~serve~~ consecutive terms. A vacancy on the board shall be filled in the same manner as the original appointment for the unexpired portion of the term. The Financial Services Commission shall designate a member of the board to serve as chair. ~~No board member shall be an insurer which provides services to the plan or which has an affiliate which provides services to the plan or which is serviced by a service company or third-party administrator which provides services to the plan or which has an affiliate which provides services to the plan.~~ The meetings and records ~~minutes, audits, and procedures~~ of the board of governors and plan are subject to chapters ~~chapter~~ 119 and 286, unless otherwise exempted by law.

(c) The operation of the plan shall be governed by a plan of operation that is prepared at the direction of the board of governors and approved by order of the office. The plan is subject to continuous review by the office. The office may, by order, withdraw approval of all or part of a plan if the office determines that conditions have changed since approval was granted and that the purposes of the plan require

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changes in the plan. ~~The plan of operation may be changed at any time by the board of governors or upon request of the office. The plan of operation and all changes thereto are subject to the approval of the office.~~ The plan of operation shall:

1. Authorize the board to engage in the activities necessary to implement this subsection, including, but not limited to, borrowing money.

2. Develop criteria for eligibility for coverage by the plan, including, but not limited to, documented rejection by at least two insurers which reasonably assures that insureds covered under the plan are unable to acquire coverage in the voluntary market.

3. Require notice from the agent to the insured at the time of the application for coverage that the application is for coverage with the plan and that coverage may be available through an insurer, group self-insurers' fund, commercial self-insurance fund, or assessable mutual insurer through another agent at a lower cost.

4. Establish programs to encourage insurers to provide coverage to applicants of the plan in the voluntary market and to insureds of the plan, including, but not limited to:

a. Establishing procedures for an insurer to use in notifying the plan of the insurer's desire to provide coverage to applicants to the plan or existing insureds of the plan and in describing the types of risks in which the insurer is interested. The description of the desired risks must be on a form developed by the plan.

b. Developing forms and procedures that provide an insurer with the information necessary to determine whether the insurer wants to write particular applicants to the plan or insureds of the plan.

c. Developing procedures for notice to the plan and the applicant to the plan or insured of the plan that an insurer will insure the applicant or the insured of the plan, and notice of the cost of the coverage offered; and developing procedures for the selection of an insuring entity by the applicant or insured of the plan.

d. Provide for a market-assistance plan to assist in the placement of employers. All applications for coverage in the plan received 45 days before the effective date for coverage shall be processed through the market-assistance plan. A market-assistance plan specifically designed to serve the needs of small, good policyholders as defined by the board must be reviewed and updated periodically ~~finalized by January 1, 1994~~.

5. Provide for policy and claims services to the insureds of the plan of the nature and quality provided for insureds in the voluntary market.

6. Provide for the review of applications for coverage with the plan for reasonableness and accuracy, using any available historic information regarding the insured.

7. Provide for procedures for auditing insureds of the plan which are based on reasonable business judgment and are designed to maximize the likelihood that the plan will collect the appropriate premiums.

8. Authorize the plan to terminate the coverage of and refuse future coverage for any insured that submits a fraudulent application to the plan or provides fraudulent or grossly erroneous records to the plan or to any service

provider of the plan in conjunction with the activities of the plan.

9. Establish service standards for agents who submit business to the plan.

10. Establish criteria and procedures to prohibit any agent who does not adhere to the established service standards from placing business with the plan or receiving, directly or indirectly, any commissions for business placed with the plan.

11. Provide for the establishment of reasonable safety programs for all insureds in the plan. All insureds of the plan must participate in the safety program.

12. Authorize the plan to terminate the coverage of and refuse future coverage to any insured who fails to pay premiums or surcharges when due; who, at the time of application, is delinquent in payments of workers' compensation or employer's liability insurance premiums or surcharges owed to an insurer, group self-insurers' fund, commercial self-insurance fund, or assessable mutual insurer licensed to write such coverage in this state; or who refuses to substantially comply with any safety programs recommended by the plan.

13. Authorize the board of governors to provide the goods and services required by the plan through staff employed by the plan, through reasonably compensated service providers who contract with the plan to provide services as specified by the board of governors, or through a combination of employees and service providers.

a. Purchases that equal or exceed $2,500 but are less than or equal to $25,000, shall be made by receipt of written quotes, telephone quotes, or informal bids, whenever practical. The procurement of goods or services valued over

$25,000 are subject to competitive solicitation, except in situations in which the goods or services are provided by a sole source or are deemed an emergency purchase, or the services are exempted from competitive-solicitation requirements under s. 287.057(5)(f). Justification for the sole-sourcing or emergency procurement must be documented. Contracts for goods or services valued at or over $100,000 are subject to board approval.

b. The board shall determine whether it is more cost-effective and in the best interests of the plan to use legal services provided by in-house attorneys employed by the plan rather than contracting with outside counsel. In making such determination, the board shall document its findings and shall consider the expertise needed; whether time commitments exceed in-house staff resources; whether local representation is needed; the travel, lodging, and other costs associated with in-house representation; and such other factors that the board determines are relevant.

14. Provide for service standards for service providers, methods of determining adherence to those service standards, incentives and disincentives for service, and procedures for terminating contracts for service providers that fail to adhere to service standards.

15. Provide procedures for selecting service providers and standards for qualification as a service provider that reasonably assure that any service provider selected will continue to operate as an ongoing concern and is capable of providing the specified services in the manner required.

16. Provide for reasonable accounting and data-reporting practices.

17. Provide for annual review of costs associated with the administration and servicing of the policies issued by the plan to determine alternatives by which costs can be reduced.

18. Authorize the acquisition of such excess insurance or reinsurance as is consistent with the purposes of the plan.

19. Provide for an annual report to the office on a date specified by the office and containing such information as the office reasonably requires.

20. Establish multiple rating plans for various classifications of risk which reflect risk of loss, hazard grade, actual losses, size of premium, and compliance with loss control. At least one of such plans must be a preferred-rating plan to accommodate small-premium policyholders with good experience as defined in sub-subparagraph 22.a.

21. Establish agent commission schedules.

22. For employers otherwise eligible for coverage under the plan, establish three tiers of employers meeting the criteria and subject to the rate limitations specified in this subparagraph.

a. Tier One.--

(I) Criteria; rated employers.--An employer that has an experience modification rating shall be included in Tier One if the employer meets all of the following:

(A) The experience modification is below 1.00.

(B) The employer had no lost-time claims subsequent to the applicable experience modification rating period.

(C) The total of the employer's medical-only claims subsequent to the applicable experience modification rating period did not exceed 20 percent of premium.

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(II) Criteria; non-rated employers.--An employer that does not have an experience modification rating shall be included in Tier One if the employer meets all of the following:

(A) The employer had no lost-time claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(B) The total of the employer's medical-only claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan did not exceed 20 percent of premium.

(C) The employer has secured workers' compensation coverage for the entire 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(D) The employer is able to provide the plan with a loss history generated by the employer's prior workers' compensation insurer, except if the employer is not able to produce a loss history due to the insolvency of an insurer, the receiver shall provide to the plan, upon the request of the employer or the employer's agent, a copy of the employer's loss history from the records of the insolvent insurer if the loss history is contained in records of the insurer which are in the possession of the receiver. If the receiver is unable to produce the loss history, the employer may, in lieu of the loss history, submit an affidavit from the employer and the employer's insurance agent setting forth the loss history.

(E) The employer is not a new business.

(III) Premiums.--The premiums for Tier One insureds shall be set at a premium level 25 percent above the comparable voluntary market premiums until the plan has sufficient experience as determined by the board to establish an actuarially sound rate for Tier One, at which point the board shall, subject to paragraph (e), adjust the rates, if necessary, to produce actuarially sound rates, provided such rate adjustment shall not take effect prior to January 1, 2007.

b. Tier Two.--

(I) Criteria; rated employers.--An employer that has an experience modification rating shall be included in Tier Two if the employer meets all of the following:

(A) The experience modification is equal to or greater than 1.00 but not greater than 1.10.

(B) The employer had no lost-time claims subsequent to the applicable experience modification rating period.

(C) The total of the employer's medical-only claims subsequent to the applicable experience modification rating period did not exceed 20 percent of premium.

(II) Criteria; non-rated employers.--An employer that does not have any experience modification rating shall be included in Tier Two if the employer is a new business. An employer shall be included in Tier Two if the employer has less than 3 years of loss experience in the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan and the employer meets all of the following:

(A) The employer had no lost-time claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(B) The total of the employer's medical-only claims for the 3-year period immediately preceding the inception date

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or renewal date of the employer's coverage under the plan did not exceed 20 percent of premium.

(C) The employer is able to provide the plan with a loss history generated by the workers' compensation insurer that provided coverage for the portion or portions of such period during which the employer had secured workers' compensation coverage, except if the employer is not able to produce a loss history due to the insolvency of an insurer, the receiver shall provide to the plan, upon the request of the employer or the employer's agent, a copy of the employer's loss history from the records of the insolvent insurer if the loss history is contained in records of the insurer which are in the possession of the receiver. If the receiver is unable to produce the loss history, the employer may, in lieu of the loss history, submit an affidavit from the employer and the employer's insurance agent setting forth the loss history.

(III) Premiums.--The premiums for Tier Two insureds shall be set at a rate level 50 percent above the comparable voluntary market premiums until the plan has sufficient experience as determined by the board to establish an actuarially sound rate for Tier Two, at which point the board shall, subject to paragraph (e), adjust the rates, if necessary, to produce actuarially sound rates, provided such rate adjustment shall not take effect prior to January 1, 2007.

c. Tier Three.--

(I) Eligibility.--An employer shall be included in Tier Three if the employer does not meet the criteria for Tier One or Tier Two.

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(II) Rates.--The board shall establish, subject to paragraph (e), and the plan shall charge, actuarially sound rates for Tier Three insureds.

23. For Tier One or Tier Two employers which employ no nonexempt employees or which report payroll which is less than the minimum wage hourly rate for one full-time employee for 1 year at 40 hours per week, the plan shall establish actuarially sound premiums, provided, however, that the premiums may not exceed $2,500. These premiums shall be in addition to the fee specified in subparagraph 26. When the plan establishes actuarially sound rates for all employers in Tier One and Tier Two, the premiums for employers referred to in this paragraph are no longer subject to the $2,500 cap.

24. Provide for a depopulation program to reduce the number of insureds in the plan. If an employer insured through the plan is offered coverage from a voluntary market carrier:

a. During the first 30 days of coverage under the plan;

b. Before a policy is issued under the plan;

c. By issuance of a policy upon expiration or cancellation of the policy under the plan; or

d. By assumption of the plan's obligation with respect to an in-force policy,

that employer is no longer eligible for coverage through the plan. The premium for risks assumed by the voluntary market carrier must be no greater than the premium the insured would have paid under the plan, and shall be adjusted upon renewal to reflect changes in the plan rates and the tier for which the insured would qualify as of the time of renewal. The insured may be charged such premiums only for the first 3

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years of coverage in the voluntary market. A premium under this subparagraph is deemed approved and is not an excess premium for purposes of s. 627.171.

25. Require that policies issued and applications must include a notice that the policy could be replaced by a policy issued from a voluntary market carrier and that, if an offer of coverage is obtained from a voluntary market carrier, the policyholder is no longer eligible for coverage through the plan. The notice must also specify that acceptance of coverage under the plan creates a conclusive presumption that the applicant or policyholder is aware of this potential.

26. Require that each application for coverage and each renewal premium be accompanied by a nonrefundable fee of $475 to cover costs of administration and fraud prevention. The board may, with the prior approval of the office, increase the amount of the fee pursuant to a rate filing to reflect increased costs of administration and fraud prevention. The fee is not subject to commission and is fully earned upon commencement of coverage.

(d)1. The funding of the plan shall include premiums as provided in subparagraph (c)22. and assessments as provided in this paragraph.

2.a. If the board determines that a deficit exists in Tier One or Tier Two or that there is any deficit remaining attributable to any of the plan's former subplans and that the deficit cannot be fully funded by using policyholder surplus attributable to former subplan C or, if the surplus in the former subplan C does not fully fund the deficit ~~without the use of deficit assessments~~, the board shall request the office to levy, by order, a deficit assessment against premiums charged to insureds for workers' compensation insurance by

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insurers as defined in s. 631.904(5). The office shall issue the order after verifying the amount of the deficit. The assessment shall be specified as a percentage of future premium collections, as recommended by the board and approved by the office. The same percentage shall apply to premiums on all workers' compensation policies issued or renewed during the 12-month period beginning on the effective date of the assessment, as specified in the order.

b. With respect to each insurer collecting premiums that are subject to the assessment, the insurer shall collect the assessment at the same time as the insurer collects the premium payment for each policy and shall remit the assessments collected to the plan as provided in the order issued by the office. The office shall verify the accurate and timely collection and remittance of deficit assessments and shall report such information to the board. Each insurer collecting assessments shall provide such information with respect to premiums and collections as may be required by the office to enable the office to monitor and audit compliance with this paragraph.

c. Deficit assessments are not considered part of an insurer's rate, are not premium, and are not subject to the premium tax, to the assessments under ss. 440.49 and 440.51, to the surplus lines tax, to any fees, or to any commissions. The deficit assessment imposed shall become plan funds at the moment of collection and shall not constitute income to the insurer for any purpose, including financial reporting on the insurer's income statement. An insurer is liable for all assessments that the insurer collects and must treat the failure of an insured to pay an assessment as a failure to pay premium. An insurer is not liable for uncollectible assessments.

d. When an insurer is required to return unearned premium, the insurer shall also return any collected assessments attributable to the unearned premium.

e. Deficit assessments as described in this subparagraph shall not be levied after July 1, 2012 ~~2007~~.

3.a. All policies issued to Tier Three insureds shall be assessable. All Tier Three assessable policies must be clearly identified as assessable by containing, in contrasting color and in not less than 10-point type, the following statement:

"This is an assessable policy. If the plan is unable to pay its obligations, policyholders will be required to contribute on a pro rata earned premium basis the money necessary to meet any assessment levied."

b. The board may from time to time assess Tier Three insureds to whom the plan has issued assessable policies for the purpose of funding plan deficits. Any such assessment shall be based upon a reasonable actuarial estimate of the amount of the deficit, taking into account the amount needed to fund medical and indemnity reserves and reserves for incurred but not reported claims, and allowing for general administrative expenses, the cost of levying and collecting the assessment, a reasonable allowance for estimated uncollectible assessments, and allocated and unallocated loss adjustment expenses.

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c. Each Tier Three insured's share of a deficit shall be computed by applying to the premium earned on the insured's policy or policies during the period to be covered by the assessment the ratio of the total deficit to the total premiums earned during such period upon all policies subject to the assessment. If one or more Tier Three insureds fail to pay an assessment, the other Tier Three insureds shall be liable on a proportionate basis for additional assessments to fund the deficit. The plan may compromise and settle individual assessment claims without affecting the validity of or amounts due on assessments levied against other insureds. The plan may offer and accept discounted payments for assessments which are promptly paid. The plan may offset the amount of any unpaid assessment against unearned premiums which may otherwise be due to an insured. The plan shall institute legal action when necessary and appropriate to collect the assessment from any insured who fails to pay an assessment when due.

d. The venue of a proceeding to enforce or collect an assessment or to contest the validity or amount of an assessment shall be in the Circuit Court of Leon County.

e. If the board finds that a deficit in Tier Three exists for any period and that an assessment is necessary, the board shall certify to the office the need for an assessment. No sooner than 30 days after the date of such certification, the board shall notify in writing each insured who is to be assessed that an assessment is being levied against the insured, and informing the insured of the amount of the assessment, the period for which the assessment is being levied, and the date by which payment of the assessment is due. The board shall establish a date by which payment of the assessment is due, which shall be no sooner than 30 days nor later than 120 days after the date on which notice of the assessment is mailed to the insured.

f. Whenever the board makes a determination that the plan does not have a sufficient cash basis to meet 6 ~~3~~ months of projected cash needs due to a deficit in Tier Three, the board may request the department to transfer funds from the Workers' Compensation Administration Trust Fund to the plan in an amount sufficient to fund the difference between the amount available and the amount needed to meet a 6-month ~~3-month~~ projected cash need as determined by the board and verified by the office, subject to the approval of the Legislative Budget Commission. If the Legislative Budget Commission approves a transfer of funds under this sub-subparagraph, the plan shall report to the Legislature the transfer of funds and the Legislature shall review the plan during the next legislative session or the current legislative session, if the transfer occurs during a legislative session. This sub-subparagraph shall not apply until the plan determines and the office verifies that assessments collected by the plan pursuant to sub-subparagraph b. are insufficient to fund the deficit in Tier Three and to meet 6 ~~3~~ months of projected cash needs.

4. The plan may offer rating, dividend plans, and other plans to encourage loss prevention programs.

(e) For rates and rating plans effective on or after January 1, 2008, the plan shall establish and use its rates and rating plans, and the plan may establish and use changes in rating plans at any time, but no more frequently than two times per any rating class for any calendar year. By ~~December 1, 1993, and~~ December 1 of each year thereafter, except as provided in subparagraph (c)22., the board shall establish and

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use actuarially sound rates for use by the plan to assure that the plan is self-funding while those rates are in effect. Such rates and rating plans must be filed with the office within 30 calendar days after their effective dates, and shall be considered a "use and file" filing. Any disapproval by the office must have an effective date that is at least 60 days from the date of disapproval of the rates and rating plan and must have prospective effect only. The plan <u>shall</u> ~~may not~~ be subject to any order by the office to return to policyholders any portion of the rates disapproved by the office. The office may not disapprove any rates or rating plans unless it demonstrates that such rates and rating plans are excessive, inadequate, or unfairly discriminatory.

(f) No later than June 1 of each year, the plan shall obtain an independent actuarial certification of the results of the operations of the plan for prior years, and shall furnish a copy of the certification to the office. If, after the effective date of the plan, the projected ultimate incurred losses and expenses and dividends for prior years exceed collected premiums, accrued net investment income, and prior assessments for prior years, the certification is subject to review and approval by the office before it becomes final.

(g) Whenever a deficit exists, the plan shall, within 90 days, provide the office with a program to eliminate the deficit within a reasonable time. The deficit may be funded through increased premiums charged to insureds of the plan for subsequent years, through the use of policyholder surplus attributable to any year<u>, including policyholder surplus in former subplan C as authorized in subparagraph (d)2.</u>, through the use of assessments as provided in subparagraph (d)2., and

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through assessments on assessable policies as provided in subparagraph (d)3. Any entity that was a policyholder of former subplan C is not subject to any assessments that are attributable to deficits in former subplan C.

(h) Any premium or assessments collected by the plan in excess of the amount necessary to fund projected ultimate incurred losses and expenses of the plan and not paid to insureds of the plan in conjunction with loss prevention or dividend programs shall be retained by the plan for future use. Any state funds received by the plan in excess of the amount necessary to fund deficits in subplan D or any tier shall be returned to the state.

(i) The decisions of the board of governors do not constitute final agency action and are not subject to chapter 120.

(j) Policies for insureds shall be issued by the plan.

(k) The plan created under this subsection is liable only for payment for losses arising under policies issued by the plan with dates of accidents occurring on or after January 1, 1994.

(l) Plan losses are the sole and exclusive responsibility of the plan, and payment for such losses must be funded in accordance with this subsection and must not come, directly or indirectly, from insurers or any guaranty association for such insurers.

(m) Senior managers and officers, as defined in the plan of operation, and members of the board of governors are subject to the provisions of ss. 112.313, 112.3135, 112.3143, 112.3145, 112.316, and 112.317. Senior managers, officers, and board members are also required to file such disclosures with the Commission on Ethics and the Office of Insurance

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Regulation. The executive director of the plan or his or her designee shall notify each newly appointed and existing appointed member of the board of governors, senior manager, and officer of their duty to comply with the reporting requirements of s. 112.345. At least quarterly, the executive director of the plan or his or her designee shall submit to the Commission on Ethics a list of names of the senior managers, officers, and members of the board of governors who are subject to the public disclosure requirements under s. 112.3145. Notwithstanding s. 112.313, an employee, officer, owner, or director of an insurance agency, insurance company, or other insurance entity may be a member of the board of governors unless such employee, officer, owner, or director of an insurance agency, insurance company, other insurance entity, or an affiliate provides policy issuance, policy administration, underwriting, claims handling, or payroll audit services. Notwithstanding s. 112.3143, such board member may not participate in or vote on a matter if the insurance agency, insurance company, or other insurance entity would obtain a special or unique benefit that would not apply to other similarly situated insurance entities. ~~Each joint underwriting plan or association created under this section is not a state agency, board, or commission. However, for the purposes of s. 199.183(1) only, the joint underwriting plan is a political subdivision of the state and is exempt from the corporate income tax.~~

(n) On or before July 1 of each year, employees of the plan shall sign and submit a statement to the plan attesting that they do not have a conflict of interest as defined in part III of chapter 112. As a condition of employment, all prospective employees shall sign and submit a conflict-of-interest statement to the plan. ~~Each joint underwriting plan or association may elect to pay premium taxes on the premiums received on its behalf or may elect to have the member insurers to whom the premiums are allocated pay the premium taxes if the member insurer had written the policy. The joint underwriting plan or association shall notify the member insurers and the Department of Revenue by January 15 of each year of its election for the same year. As used in this paragraph, the term "premiums received" means the consideration for insurance, by whatever name called, but does not include any policy assessment or surcharge received by the joint underwriting association as a result of apportioning losses or deficits of the association pursuant to this section.~~

(o) Any senior manager or officer of the plan who is employed by the plan as of January 1, 2008, regardless of the date of hire, and who subsequently retires or terminates employment may not represent another person or entity before the plan for 2 years after retirement or termination of employment from the plan.

(p) No part of the income of the plan may inure to the benefit of any private person.

(q) Notwithstanding ss. 112.3148 and 112.3149 or other provision of law, an employee or board member may not knowingly accept, directly or indirectly, any expenditure or gift from a person or entity, or an employee or representative of such person or entity, which has a contractual relationship with the plan or is under consideration for a contract. An employee or board member who fails to comply with paragraph (m) or this paragraph is subject to penalties provided under s. 112.317.

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(r) This section does not prohibit the plan from providing insurance coverage to any employer with whom a former employee of the plan is affiliated or employing or reemploying any former employee of the plan in a part-time, full-time, temporary, or permanent capacity, so long as such employment does not violate any provision of part III of chapter 112.

(s)~~(o)~~ Neither the plan nor any member of the board of governors is liable for monetary damages to any person for any statement, vote, decision, or failure to act, regarding the management or policies of the plan, unless:

1. The member breached or failed to perform her or his duties as a member; and

2. The member's breach of, or failure to perform, duties constitutes:

a. A violation of the criminal law, unless the member had reasonable cause to believe her or his conduct was not unlawful. A judgment or other final adjudication against a member in any criminal proceeding for violation of the criminal law estops that member from contesting the fact that her or his breach, or failure to perform, constitutes a violation of the criminal law; but does not estop the member from establishing that she or he had reasonable cause to believe that her or his conduct was lawful or had no reasonable cause to believe that her or his conduct was unlawful;

b. A transaction from which the member derived an improper personal benefit, either directly or indirectly; or

c. Recklessness or any act or omission that was committed in bad faith or with malicious purpose or in a manner exhibiting wanton and willful disregard of human

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rights, safety, or property. For purposes of this sub-subparagraph, the term "recklessness" means the acting, or omission to act, in conscious disregard of a risk:

(I) Known, or so obvious that it should have been known, to the member; and

(II) Known to the member, or so obvious that it should have been known, to be so great as to make it highly probable that harm would follow from such act or omission.

(t)~~(p)~~ No insurer shall provide workers' compensation and employer's liability insurance to any person who is delinquent in the payment of premiums, assessments, penalties, or surcharges owed to the plan or to any person who is an affiliated person of a person who is delinquent in the payment of premiums, assessments, penalties, or surcharges owed to the plan. For purposes of this paragraph, the term "affiliated person" of another person means:

1. The spouse of such other natural person;

2. Any person who directly or indirectly owns or controls, or holds with the power to vote, 5 percent or more of the outstanding voting securities of such other person;

3. Any person who directly or indirectly owns 5 percent or more of the outstanding voting securities that are directly or indirectly owned or controlled, or held with the power to vote, by such other person;

4. Any person or group of persons who directly or indirectly control, are controlled by, or are under common control with such other person;

5. Any officer, director, trustee, partner, owner, manager, joint venturer, or employee, or other person performing duties similar to persons in those positions, of such other persons; or

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6. Any person who has an officer, director, trustee, partner, or joint venturer in common with such other person.

(u)~~(q)~~ Effective July 1, 2004, the plan is exempt from the premium tax under s. 624.509 and any assessments under ss. 440.49 and 440.51.

(v) The Office of Insurance Regulation shall perform a comprehensive market conduct examination of the plan periodically to determine compliance with its plan of operation and internal operating policies and procedures.

(w) Upon dissolution, the assets of the plan shall be applied first to pay all debts, liabilities, and obligations of the plan, including the establishment of reasonable reserves for any contingent liabilities or obligations, and all remaining assets of the plan shall become property of the state and shall be deposited in the Workers' Compensation Administration Trust Fund. However, dissolution may not take effect as long as the plan has financial obligations outstanding unless adequate provision has been made for the payment of financial obligations pursuant to the documents authorizing the financial obligations.

(6) Each joint underwriting plan or association created under this section is not a state agency, board, or commission. However, for the purposes of s. 199.183(1) only, the joint underwriting plan created under subsection (5) is a political subdivision of the state and is exempt from the corporate income tax.

(7) Each joint underwriting plan or association may elect to pay premium taxes on the premiums received on its behalf or may elect to have the member insurers to whom the premiums are allocated pay the premium taxes if the member insurer had written the policy. The joint underwriting plan or

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<u>association shall notify the member insurers and the Department of Revenue by January 15 of each year of its election for the same year. As used in this paragraph, the term "premiums received" means the consideration for insurance, by whatever name called, but does not include any policy assessment or surcharge received by the joint underwriting association as a result of apportioning losses or deficits of the association pursuant to this section.</u>

<u>(8)</u>~~(6)~~ As used in this section and ss. 215.555 and 627.351, the term "collateral protection insurance" means commercial property insurance of which a creditor is the primary beneficiary and policyholder and which protects or covers an interest of the creditor arising out of a credit transaction secured by real or personal property. Initiation of such coverage is triggered by the mortgagor's failure to maintain insurance coverage as required by the mortgage or other lending document. Collateral protection insurance is not residential coverage.

<u>(9)</u>~~(7)~~(a) The Florida Automobile Joint Underwriting Association created under this section shall be deemed to have appointed its general manager as its agent to receive service of all legal process issued against the association in any civil action or proceeding in this state. Process so served shall be valid and binding upon the insurer.

(b) Service of process upon the association's general manager as the association's agent pursuant to such an appointment shall be the sole method of service of process upon the association.

Section 2. <u>No later than January 1, 2008, the Florida Workers' Compensation Joint Underwriting Association, Inc., shall submit a request to the Internal Revenue Service for a</u>

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letter ruling or determination on the plan's eligibility as a tax-exempt entity.

Section 3. This act shall take effect July 1, 2007.

FWCJUA

Florida Workers Compensation Joint Underwriting Association, Inc.

P.O. Box 48957, Sarasota, FL 34230-5957
• Tel (941) 378-7400 • Fax (941) 378-7405 • www.fwcjua.com

VIA E-MAIL

FWCJUA BOARD OF GOVERNORS BULLETIN 05-26

TO: Florida Workers' Compensation Joint Underwriting Association, Inc. Board of Governors

FROM: Laura S. Torrence, Executive Director

DATE: October 13, 2005

RE: **OIR DIRECTIVE**

Enclosed for your review is an October 12, 2005 letter from Commissioner McCarty directing the FWCJUA to ensure that its plan of operation provides for both standards for the conduct of its directors, officers and senior management and for greater transparency and accountability as specified in his letter. Further, Commissioner McCarty request that the FWCJUA Board take appropriate action regarding this matter no later than December 15, 2005.

Enclosure

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

October 12, 2005

Laura Torrence
Florida Workers' Compensation JUA
P.O. Box 48957
Sarasota, FL 34230-5957

Via Facsimile and US Mail

Re: NOTICE TO THE FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION ("FWCJUA")- PLAN OF OPERATION

Dear Mr. Torrence:

In an effort to confirm that all joint underwriting associations or quasi-governmental insurers establish standards for the conduct of their directors, officers and senior management, and to provide for greater transparency and accountability, the Office is reviewing all plans of operation.

The FWCJUA should examine its plan of operation and amend its plan to include the following provisions if these items are not already covered in the plan:

- A requirement that officers and senior management be subject to the background investigation and notice provisions of Sections 624.404(3), 628.261, Florida Statutes, and their respective Rules as promulgated in the Florida Administrative Code.
- A requirement that the Florida Division of Insurance Fraud will be notified within 48 hours of any suspected fraud and/or compromise of public trust by a quasi-governmental employee.
- A code of ethics that includes detailed provisions regarding conflicts of interest and post-employment restrictions. The provisions in Part III of Chapter 112 may provide guidance.
- Clear guidance to employees as to gifts from and other financial interests in vendors.

• • •

KEVIN M. MCCARTY • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLDFS.COM • EMAIL: KEVIN.MCCARTY@FLDFS.COM

- Meetings noticed in accordance with the Sunshine laws.
- A requirement to promptly comply with all public record requests, except for claim files and any other information exempt from the public records law.

If the plan of operation does not include the above terms, the Board should consider amendments to the plan of operation at its next Board meeting, but no later than December 15, 2005. All plan amendments are required to be submitted to the Office upon approval by the Board. We would be happy to look at any proposed amendments in advance to facilitate this process.

Sincerely,

Kevin M. McCarty
Commissioner

cc: Ray Neff, Chairman of the Board

ETHICS & SUNSHINE MATTERS

Conflict of Interest Policy

The Committee shall consider revisions to the FWCJUA's Statement of Policy Regarding Potential Conflicts of Interest that incorporate provisions of Senate Bill 1894 which became law effective July 1, 2007.

Attached for the Committee's review is a copy of the proposed revised policy.

The Committee shall formulate its recommendation to the Board for revisions to the FWCJUA's Statement of Policy Regarding Potential Conflicts of Interest.

FLORIDA WORKERS' COMPENSATION
JOINT UNDERWRITING ASSOCIATION, INC.

Statement of Policy
Regarding Potential Conflicts of Interest
of Board Members, Senior Management and Other Employees

The Board of Governors of the Florida Workers' Compensation Joint Underwriting Association, Inc. (the "FWCJUA") hereby establishes the following policy (the "Policy") regarding conflicts or potential conflicts of interest of ~~Board members and Board member representatives (collectively, "Board members"), officers of the FWCJUA (collectively, "Officers"), and the FWCJUA's Executive Director (the "Executive Director"~~members of the Board of Governors (each, a "Board Member"), the Executive Director and other senior managers of the FWCJUA as defined in the Plan of Operation (collectively, "Senior Management"), and other personnel employed or to be employed by the FWCJUA ("Other Employees"). This Policy is established in order to ensure that Board ~~members, Officers, and the Executive Director~~Members, Senior Management and Other Employees conduct themselves in a manner which avoids any impropriety or appearance of impropriety relating to decisions based upon self-interest. The Board recognizes that it is essential that the members of the Board, ~~Officers, and the Executive Director~~Senior Management and Other Employees be independent and impartial and that their positions not be used for private gain or other improper purpose. Further, the Board realizes that even in the absence of wrongdoing, the appearance of impropriety must be avoided. Toward that end, the Board adopts and implements the Policy as described herein.

(1) Service Providers. No Board ~~member~~Member shall, through any insurer, insurance agency, or other insurance entity the member represents or in which the member has a substantial financial interest, provide ~~services to the FWCJUA. Nor shall any Board member, through any administrator or service company of any such insurer, provide such services. A Board member~~policy issuance, policy administration, underwriting, claims handling, or payroll audit services to the FWCJUA or respond to a request for proposals from the FWCJUA for such services. A Board Member may respond to a request for proposals from the FWCJUA to provide ~~such~~other types of services, but shall not participate in developing an RFP, or in considering or voting upon responses thereto. Any Board ~~member~~Member who participates in the development of such an RFP for such services, or in consideration or voting upon responses thereto, shall not be awarded such a contract. Any Board ~~member~~Member who represents, or who has a substantial financial interest in any insurer who contracts to provide non-insurance services to the FWCJUA, shall be required to resign such member's position on the Board immediately after the contract is awarded. However, a contract awarded to such a party shall not be void or voidable because interested Board ~~members~~Members are present at meetings in which proposals are evaluated or decisions are made, including the final vote to award the contract, provided that votes of the interested member(s) are not counted for that purpose. Such interested Board ~~members~~Members may, however, be counted in determining the presence of a quorum at any such meeting.

(2) Improper Benefits. No Board ~~member~~Member shall use his or her position to foster or facilitate any pecuniary gain for himself or herself~~, his or her member company,~~ or any other entity in which the member ~~or the member company or companies~~ has a substantial financial interest. No Board ~~member~~Member shall use his or her position on the Board to secure or promote any business relationship from which he or she may derive a financial gain, or receive any gift or gratuity~~, other than meals,~~ in his or her capacity as a Board ~~member~~Member. Each Board ~~member~~Member recognizes that he or she may be liable for monetary damages for a vote, decision or failure to act regarding the management or policies of the FWCJUA where such member breaches or fails to perform his or her duties as a member and derives, either directly or indirectly, an improper personal benefit from the transaction.

(3) Voting. ~~No Board member shall vote upon any matter the outcome of which will potentially confer a material benefit upon that member or his or her member company. However, a decision by the Board is not void or voidable because the decision benefits a Board member or his or her member company if the interest of the Board member or the member company in the outcome of the matter is disclosed or known to the voting members of the Board prior to the vote and the outcome of the matter is fair and reasonable as to the FWCJUA and its policyholders at the time it is authorized by the Board.~~A Board Member may not participate in or vote on a matter if the Board Member's insurance agency, insurance company, or other insurance entity would obtain a special or unique benefit that would not apply to other similarly situated insurance entities. In addition to this FWCJUA-specific prohibition, the state Code of Ethics for Public Officers and Employees provides other limitations on the ability of Board Members to vote on or participate in certain matters. Except as provided above, a Board Member is not prohibited from voting on any measure, but when the measure would inure to the "special private gain or loss" of the Board Member or a relative (parent, child, spouse, sibling, or in-law) of the Board Member, a business associate of the Board Member, or a principal who has retained the Board Member, the voting conflict must be disclosed by filing a disclosure with the person responsible for the minutes of the meeting within 15 days after the vote. Commission on Ethics Form 8A is used for this disclosure. The disclosure must be incorporated into the minutes of the meeting. A Board Member may not participate in a matter that would inure to the "special private gain or loss" of the Board Member or a relative (parent, child, spouse, sibling, or in-law) of the Board Member, a business associate of the Board Member, or a principal who has retained the Board Member, unless the Board Member files advance notice of the conflict with the person responsible for the minutes of the meeting. Commission on Ethics Form 8B is used for this disclosure. The disclosure must be incorporated into the minutes of the meeting. In some circumstances, the disclosure may instead be made orally at the meeting.

(4) ~~Executive Director and Officers~~Senior Management. It is the intent of the Board that the ~~Executive Director and Officers~~Senior Management of the FWCJUA execute the duties of their offices without conflict of interest or any apparent conflict of interest. Accordingly, ~~the Executive Director and Officers of the FWCJUA~~members of Senior Management shall not use their positions to foster or facilitate any pecuniary gain for themselves or any other entity in which ~~the Executive Director or any Officer~~they have substantial financial interests~~. Nor shall the Executive Director or any Officer~~, unless otherwise permitted in

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accordance with the Code of Business Conduct and Ethics. Nor shall any member of Senior Management use his or her position to promote any business relationship from which he or she may derive a financial gain, or receive any gift or gratuity not permitted to be received by Board members pursuant to this Policy. However, no contract in which ~~the Executive Director or any Officer~~a member of Senior Management may have an indirect pecuniary interest shall be void or voidable if the interest of the ~~Executive Director or Officer~~member of Senior Management is disclosed or known to the voting members of the Board prior to the vote and the outcome of the matter is fair and reasonable as to the FWCJUA and its policyholders at the time it is authorized by the Board and is not otherwise prohibited by the Code of Business Conduct and Ethics.

(5) Non-FWCJUA Business. In order to ensure that this Policy is maintained, Board Members and members of ~~the Board, Officers, and the Executive Director~~Senior Management, in their respective capacities, shall not in the context of regular or special meetings of the Board or any committee or subgroup of the Board, or in any meeting in person or by telephone discuss matters which relate to individual member companies, their business and their policyholders, except as those matters relate directly to the operations of the FWCJUA.

(6) Statement of No Conflict. By executing this Policy below, a member of Senior Management or Other Employee certifies that he or she does not have a conflict of interest as defined by law. "Conflict of interest" is defined as "a situation in which regard for a private interest tends to lead to disregard of a public duty or interest."

As ~~the Executive Director, an Officer, or~~ a member of the Board of Governors, Senior Management or Other Employee of the Florida Workers' Compensation Joint Underwriting Association, Inc., I signify my acceptance of the Policy described above.

______________________________ ______________________________

Name Signature

Date______________________________

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Insertions	33
Deletions	30
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Style change	0
Format changed	0
Total changes	63

2006 MARKET CONDUCT EXAM

The Audit Committee shall review the 2006 Market Conduct Final Examination Report covering the scope of January 1, 2003 through June 30, 2006 which was received by the FWCJUA in August 2007 and receive an update on the actions taken in response to the report.

Most importantly, there were no compliance issues raised in the report. The exam was quite comprehensive and resulted in a favorable report on FWCJUA operations. The exam was an operational review and was conducted by OIR's contracted outside audit firm of Buttner Hammock & Company (BHC). BHC reviewed four general areas of the FWCJUA's operations, those being (1) organizational structure and administration; (2) financial performance; (3) payments, allocations, recoveries and financial auditing; and (4) IT systems operations and administration, disaster preparedness. In conclusion, there were only ten relatively minor recommendations for the FWCJUA to consider, and OIR Market Investigations indicated that the FWCJUA was not obligated to implement any of the recommendations within the report.

By way of background, the FWCJUA received a draft copy of the report on June 11, 2007 which was reviewed in summary form with the Board at its June 12th meeting. Given staff had just received the comprehensive report the day prior to the meeting, staff asked for additional time to prepare its draft response for Board consideration, and the Board agreed to revisit the matter at this June 29th teleconference meeting.

At its June 29th meeting, the Board was advised that pursuant to the provisions of Section 624.319(1), Florida Statutes, and Rule 69N-121.066, Florida Administrative Code, the FWCJUA may request an informal conference prior to the filing of the report by the Office of Insurance Regulation. The request must be made in writing within thirty (30) days of receipt of this notice. Should the FWCJUA elect this option, a written statement outlining the specific concerns and documentation supporting your position must accompany the request. If no response is received within thirty (30) days, the draft report would be filed as a finalized report and made a public document.

Torrence then referred the Board to a draft response that focused on minor edits to the draft report that would generally make the report more accurate. She noted that the edits were inconsequential to the report findings and recommendations and therefore, consideration should be given to whether an actual response should be issued.

The Board was concerned whether the FWCJUA would incur any additional costs associated with this market conduct examination if it submitted the editorial comments; and thus, it was the consensus of the Board that the FWCJUA should not incur any additional costs associated with the exam given that the comprehensive exam was favorable and had already cost policyholders approximately $80,000. It was further agreed that Torrence should provide the minor edits to OIR Market Investigations for accuracy sake provided no additional costs for the exam would be incurred by the FWCJUA.

On July 6, 2007, Torrence provided the editorial comments to OIR Market Investigations. The comments were incorporated into the final report with no further expense being incurred by the FWCJUA for the exam. The policyholder cost for the exam totaled $75,486.91.

Attached for the Audit Committee's review are copies of the summary of the exam recommendations and actions taken, the payroll procedures, as well as the 2006 Market Conduct Final Examination Report.

The Committee shall review the attached materials related to the 2006 Market Conduct Final Examination Report and provide further direction to staff as warranted.

FWCJUA 2006 MARKET CONDUCT EXAM RECOMMENDATIONS & ACTION TAKEN

1. **Recommendation:** Payroll is a significant expense of the FWCJUA. BHC recommends that the Executive Director review the payroll reports and journal entries periodically, to serve as an independent review of the monitoring by the Controller, thus enhancing segregation of duties.
Action taken: The Executive Director now reviews payroll reports quarterly and this process is recorded in the attached Payroll Procedures.

2. **Recommendation:** BHC recommends that the FWCJUA prepare formal documentation of the FWCJUA Payroll Procedures. BHC considers documentation of Payroll Procedures to be good business practice, since payroll is a vital segment of operations.
Action taken: The attached Payroll Procedures were developed and implemented.

3. **Recommendation:** FWCJUA should consider the need to develop a formal documented Succession Plan. A documented plan can minimize business interruption, should a key employee become unwilling or unable to perform his or her duties, and should clearly define the specific individuals inside or outside of the organization that are qualified to take over the duties of key employees on a temporary or permanent basis.
Action taken: The Operations Committee is scheduled to consider the activity of developing a formal documented Succession Plan as part of the 2008 Business Plan at its meeting on December 3, 2007. It is also anticipated that a Committee recommendation shall be considered by the Board on December 11th.

4. **Recommendation:** BHC recommends that prior to the Board's approval of the draft of the FWCJUA's Records Management and Retention Policy, FWCJUA's management should update the policy for the following areas:
   - The Electronic Document Management System.
   - The draft policy includes emphasis on off-site storage (i.e. references to document storage vendors who will shred FWCJUA documents, preservation of off-site storage facilities, procedures for packaging, bundling, and labeling hard copy records). The FWCJUA does not currently use off-site storage, and emphasizes electronic storage. The FWCJUA may choose to include provisions for off-site storage, as the need may arise. Currently, there is no document storage vendor.
   - The destruction of the FWCJUA documents should be expanded to address the individual(s) responsible for shredding documents.

   While there may still be a need for the storage of some hard copy records, the Records Management and Retention Policy should reflect the FWCJUA's efforts to move toward a paperless environment.
Action taken: The draft of the FWCJUA's Records Management and Retention Policy required major revisions given the passage of Senate Bill 1894 and BHC's recommendations were addressed during the rewrite. It is anticipated that the Operations Committee shall consider a proposed Records Management and Retention Policy at its meeting on December 3, 2007. It is also anticipated that a Committee recommendation shall be considered by the Board on December 11th.

5. **Recommendation:** The FWCJUA should consider obtaining a written contract with outside attorneys for litigation management services. Having signed written contracts for all services performed by outside parties is considered good business practice, and a written agreement will better equip the FWCJUA and its Board to establish oversight and the monitoring of performance under contracts.
Action taken: A proposed engagement for 2008 services has been secured and will be considered by the Operations Committee at its meeting on December 3, 2007. It is also anticipated that a Committee recommendation shall be considered by the Board on December 11th.

6. **Recommendation:** The FWCJUA should consider requiring Travelers to engage an independent auditor to perform a SAS 70 audit and provide the Board with a copy of the audit report.
Action taken: This will be considered upon the rebidding of the policy administration and managed care services as this expense was not contemplated under the current contract.

7. **Recommendation**: BHC recommends that the nightly backup be taken off-site daily, either to the bank vault or to the home of a Manager, the latter which was disclosed as an option in the DRP. The current practice of taking the back-up tape to the bank vault twice a week leaves FWCJUA exposed to a potential data loss of more than one day in the event of a sudden disaster, other than an approaching hurricane, for which the FWCJUA has planned for daily off-site data transport. Although the secondary backup may be removed at a moment's notice if a sudden disaster occurs during normal business hours, an after-hours sudden disaster could result in a potential loss of data for more than one day.
   Action taken: In August 2007, the FWCJUA moved its primary servers and data storage to a Sungard facility in Alpharetta, Georgia. This offsite location allows data to be replicated between the office in Sarasota and the secure data facility in Georgia. A complete nightly tape backup is still being performed at the offsite location. The document management information is not replicated to Sarasota due to storage size but is included in the nightly backup. Additional options for document management data redundancy are currently being explored.

8. **Recommendation**: BHC recommends that the results of the monthly testing of data backup procedures by randomly restoring files should be documented to ensure that the process occurs at a specified time each month, different types of files are tested, and the results are available for review, by Management, the Operations Committee, or the Board.
   Action taken: Backup and generator testing is completed and documented on a monthly basis.

9. **Recommendation**: BHC recommends that the results of the systems recovery process and post- test evaluations should be documented to ensure that the results are available for verification that the periodic testing is occurring at appropriate intervals and that results are appropriately communicated. BHC recommends that testing should occur at least once per year.
   Action taken: Disaster testing procedures have been created and tested for staff and equipment. The disaster testing procedures will be reviewed and tests scheduled every spring. Post test evaluations are collected and reviewed after each test. A "hurricane" disaster test was successfully executed on 10/11/07.

10. **Recommendation**: BHC recommends that the FWCJUA execute its intention to review Travelers' Disaster Recovery Plan on an annual basis.
    Action taken: Travelers' Disaster Recovery Plan was reviewed as part of a service provider audit conducted by FWCJUA staff in July 2007 and was deemed acceptable. It should also be noted that Travelers' Disaster Recovery Plan was reviewed by the FWCJUA prior to the inception of the contract in January 2006.

Payroll Procedures

Purpose: To identify the steps involved in setting up a new employee to the payroll system with Paychex, the documentation necessary to make changes to an employee's payroll information as well as the information necessary to process a termination of an employee from the payroll system.

Segregation of Duties: The Controller is the main contact with the payroll vendor, Paychex. However, all additions, changes or terminations reflected in the payroll records with Paychex are documented with approval of either the employee's supervisor, the Executive Director or the employee himself. The Executive Director reviews the payroll reports and call-in sheet quarterly to ensure accurate and approved amounts are being reported to Paychex. In addition, Executive Management and the Board of Governors review the Budgeted Forecast with Actual amounts at the end of each quarter during the calendar year.

The FWCJUA contracts with Paychex for the processing of its bi-weekly payroll checks. Paychex uses the information the FWCJUA provides them and processes the individual payroll checks as well as completes both the quarterly and annual payroll tax filings of the 941's, UCT-6's and the 940.

There are multiple situations when additions and/or changes need to be made to the information Paychex has regarding an employee's paycheck. The topics below outline the necessary information the Controller will provide to Paychex to make the change as well as the required documentation which will serve as the backup to the bi-weekly payroll check run in addition to being filed within the employee's human resources file. The employee human resource files are stored in a locked drawer in the Controller's office as well as scanned into the FWCJUA's document management system with authorized access to the documents by only the Executive Director and Controller.

The FWCJUA pays to-date for all salaried employees, therefore on a particular pay day all wages have been paid up to that point. In regards to hourly employees, they are paid on a one week lag and thus up to the previous Friday. So since Friday is always a payday, they are paid through the previous Friday and therefore would only have one week of 'unpaid' time outstanding after a pay day.

Paychex calls the Controller on the Tuesday before Friday's payday. The Controller advises of any additions, terminations or changes. It is very common to have no changes as is the case most weeks.

Once Paychex processes the bi-weekly check run, the Controller reviews upon receipt to ensure each employee was paid the appropriate amount and any changes, additions or deletions where properly applied to the bi-weekly payroll. Once all is verified, the journal entry is completed and entered into the general ledger system. The payroll documents and the necessary documentation for any changes, additions or deletions are then scanned into the FWCJUA's document management system.

New employee:

- Completed and signed W-4 form – provides name, address, social security number, tax filing status and number of exemptions.
- A letter and/or email from the hiring supervisor advising starting date and starting salary or hourly wage.
- Date of birth
- Direct deposit form and voided check (available for up to 3 different accounts both checking and savings) (needs to be faxed to Paychex prior to payroll call-in date)
- Information about any deductions for health and/or dental insurance premiums, colonial life individual policies, flexible spending accounts or 401K deductions. Documentation for the deductions is received and signed by the employee. New employees are not eligible for benefits until the 1st of the month following 30 days employment and therefore these amounts are usually added at a later time.
- a 'first-time' salary amount as the new employee may have started in the middle of a pay period.

Beginning of each calendar year:

- Salary change information for management. Management's salary changes are usually effective January 1 after approval of the Board at the December Executive Compensation Committee meeting. A signed salary change form is received to document any salary change necessary and is signed by the Executive Director.
- Updates and/or additions to deductions for health and/or dental insurance premiums, colonial life individual policies, flexible spending accounts or 401K deductions. As insurance policies usually run from 1/1 to 12/31 any price changes usually take place at the beginning of the calendar year. Documentation for the deductions is received and signed by the employee.
- Occasionally employees will change their federal tax withholdings at the beginning of a new calendar year – a signed W-4 form is received from the employee.

After July 1 salary change:

- Salary change information for all employees. A signed salary change form is received for any salary changes necessary. The form is signed by both the employee's supervisor as well as the Executive Director.

Miscellaneous changes:

- Addition, changes and/or deletions of deductions for health and/or dental insurance premiums, colonial life individual policies, flexible spending accounts or their 401K deduction. Documentation for the deductions is received and signed by the employee.
- Occasionally employees will need to change their federal tax withholdings– a signed W-4 form is received from the employee.
- The number of hours paid each period for an hourly employee is reported to Paychex each time. The number of hours paid is documented by the employee's weekly time cards which are approved by the employee's supervisor.

Departing employee:

- A letter and/or email from the employee's supervisor in regards to their last day of work.
- Determine the amount of the last paycheck as the employee may not have worked the entire pay period – the departing employee will receive their last paycheck on a regularly scheduled payday. There are no special checks printed for last paychecks.
- A letter and/or email from the employee's supervisor regarding the amount of unused vacation time. The FWCJUA pays the employee for any unused vacation time remaining upon departure. This amount is paid 2 weeks after their last paycheck as a precaution in case of a situation where the prior employee has not returned company property or properly reimbursed the FWCJUA for a personal expense.

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

FINANCIAL SERVICES COMMISSION

CHARLIE CRIST
GOVERNOR

ALEX SINK
CHIEF FINANCIAL OFFICER

BILL MCCOLLUM
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF AGRICULTURE

August 13, 2007

CERTIFIED MAIL
RETURN RECEIPT - 7005 1820 0003 1899 9840

Mr. Ray Neff, President
Florida Workers' Compensation Joint Underwriting Association, Inc.
6003 Honore Avenue, Suite 204
Sarasota, FL 34238-5717

Re: Florida Market Conduct Examination
Scope of Examination: Scope of Examination: January 1, 2003 to June 30, 2006
Line of Business: Workers' Compensation

Dear Mr. Neff:

Enclosed is a copy of the 2006 Market Conduct Final Examination Report for your Company covering the scope of January 1, 2003 through June 30, 2006.

Also enclosed is Form 118 to be executed, and returned pursuant to Section 624.319(5), Florida Statutes. Failure to return the executed form pursuant to this Statute may subject your Company to a penalty. We now consider this examination finalized.

Sincerely,

James E. Nesmith

James E. Nesmith

JAMES E. NESMITH, CIC • MANAGEMENT REVIEW SPECIALIST
OFFICE OF INSURANCE REGULATION • MARKET INVESTIGATIONS
200 EAST GAINES STREET, TALLAHASSEE, FLORIDA 32399-4210 • (850) 413-5012 • FAX (850) 922-5680
James.Nesmith@fldfs.com

FORM 118

FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

I hereby certify that I am the officer in charge of the Florida business of:

Florida Workers' Compensation Joint Underwriting Association, Inc.

I have read the report of the ***Market Conduct*** *examination as of*

September 2006

filed with the Office of Insurance Regulation. The recommendations contained in the report will be considered within a reasonable time.

This form is hereby executed in compliance with Section 624.319(5), Florida Statutes.

Laura S. Torrence
Name

Executive Director & Secretary
Title

Laura S. Torrence
Signature

8/17/2007
Date

Sworn to and subscribed before me this 17th day of August, 2007

MICHAEL K. CLEARY
Notary Public - State of Florida
My Commission Expires Sep 26, 2008
Commission # DD 349759
Bonded By National Notary Assn.

NOTARY PUBLIC Michael K. Cleary
Signature

My commission expires 9/26/08

This form is to be completed, notarized and returned to: James Nesmith, Florida Office of Insurance Regulation, Market Investigations, 200 East Gaines St., Larson Building, Tallahassee, Florida 32399-4210, within 30 days from receipt. <u>If Form 118 is not returned to the Office within 30 days of the date of signature on the return receipt card, this matter will be forwarded to our Legal Division for appropriate legal action</u>.

STATE OF FLORIDA

Financial Services Commission
Office of Insurance Regulation
Market Investigations

REPORT OF
MARKET CONDUCT EXAMINATION

2006 Report

of

Florida Workers's Compensation Joint Underwriting Association, Inc.

FINANCIAL SERVICES COMMISSION

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

OPERATIONAL REVIEW FINAL EXAMINATION REPORT

OF

FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION, INC.

AS OF

SEPTEMBER 30, 2006

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Independent Accountants' Report of Agreed-Upon Procedures Applied to the Florida Workers' Compensation Joint Underwriting Association, Inc.

Buttner Hammock & Company, P.A. (BHC) has completed the operational review and performed the agreed-upon procedures enumerated below for the Florida Workers' Compensation Joint Underwriting Association, Inc. (FWCJUA). The procedures were performed solely for the information and purposes of the Office of Insurance Regulation (OIR).

The activities and operations of FWCJUA are governed primarily by the following documents:

- Florida Statute § 627.311(5).
- Florida Statutes § 627.312 and 627.313.
- FWCJUA Plan of Operation.
- FWCJUA Accounting Policy & Procedures.
- FWCJUA Reporting Requirements.
- FWCJUA Claims Handling Procedures.
- FWCJUA Underwriting Principles & Procedures Guide.

BHC personnel reviewed these documents, and other documents discussed herein, at the beginning of the engagement to obtain an understanding of the duties and responsibilities of the FWCJUA and its operating procedures to facilitate the performance of this operational review.

Background of FWCJUA

The FWCJUA was created on December 30, 1993, pursuant to Florida Statute § 627.311(5), to provide workers' compensation and employer's liability insurance coverage to qualified risks in the state of Florida who are required by law to maintain workers' compensation and employer's liability insurance and, who in good faith are entitled but unable to purchase such insurance through the voluntary insurance markets. As a result, employers insured within the FWCJUA pay premiums in excess of those paid in the voluntary market. The FWCJUA collects premiums from its policyholders in order to satisfy the obligations of the FWCJUA. If the FWCJUA is unable to pay its obligations, the FWCJUA is authorized to assess amounts necessary to support operations from certain policyholders, subject to the approval of the OIR.

The FWCJUA is a not-for-profit corporation which accounts for its activities using a fiscal year ending on December 31st, and is exempt, by statute, from State of Florida corporate income taxes, premium taxes, intangible taxes, and assessment from the Division of Workers' Compensation and the Florida Workers' Compensation Insurance Guaranty Association. The FWCJUA is not exempt from federal income taxes, although Florida Senate Bill S 1894ER, effective July 1, 2007, requires that no later than January 1, 2008, the FWCJUA submit a request to the Internal Revenue Service for a letter ruling or determination on the plan's eligibility as a tax-exempt entity (Exhibit 6). FWCJUA plans to engage Thomas Howell Ferguson, a CPA firm in Tallahassee, Florida, to assist with this effort.

Public Records

The FWCJUA maintains a website that allows access to the following public records:

- Statutory audit filing
- Annual statements
- Actuarial opinion
- Rate filing
- Quarterly financial statements
- Public meeting notes
- Agency Procedures Agreement Application Process
- Employer information including:
    - Eligibility
    - Duties and responsibilities
    - Certificates of insurance
    - Producer locator
    - Products and programs
        - Special products
        - Coverage in other states
        - Rating plans (Tiers 1, 2, 3)
        - Experience Rating Plan
        - Assigned Risk Adjustment Plan
        - Florida Drug Free Workplace
        - Florida Contracting Classification Premium Adjustment Program
- Producer
    - Eligibility
    - Duties and responsibilities
    - Authorization agreement
    - Application forms
    - Rates and minimum premiums
    - Binding procedures
    - Certificates of insurance
    - FAQ for underwriting
    - Pricing tool
    - Employee leasing agreements
- Current rates by class code
- Market Assistance Program
- Safety
- Related links
- About FWCJUA
    - History
    - Board Members
    - Mission
    - Facts
    - News
    - Plan of Operations
    - Articles of Incorporation
    - Bylaws
    - Operations Manual
- Contact the FWCJUA

The FWCJUA public records policy, currently undocumented, is in the process of being documented. In addition, Florida Senate Bill S 1894ER, effective July 1, 2007, further addresses public records exempting personnel, reinsurance and claim records from disclosure with regard to Florida's Government in the Sunshine Law (Exhibit 6). For public record requests that can be answered by content on the website, the FWCJUA refers the request to their website. Minutes of the Board of Governors meetings and summary claims data are available from the FWCJUA upon request. Other public records requests are referred to the General Counsel and the chair of the Board of Governors before the requested information is released.

From the FWCJUA's inception through July 2003, there were three rating plans established for various classifications of risks and all employers holding FWCJUA policies were assigned to one of these three rating subplans, either A, B, or C, with subplan C insureds receiving an assessable policy.

Effective July 26, 2003, legislation was adopted that resulted in significant changes to the FWCJUA's rating structures. A new subplan D was established to provide coverage for small employers (15 or fewer employees) and charitable organizations. The rates prescribed for these polices were 25% above the voluntary market premiums for these small employers and 10% above the voluntary market premiums for charitable organizations. Those capped rates generated a substantial deficit with the only means of elimination of the deficit being to levy an assessment on subplan D policyholders.

Effective, July 1, 2004, the Florida Legislature addressed the growing subplan D deficit by enacting legislation to replace the subplan rating system discussed in the previous paragraph with a three-tier rating plan based on the insured's premium or loss experience. The rates were statutorily capped in two of the three rating tiers and the surcharges over the premiums in the voluntary market were increased and provisions were made to ensure actuarially sound rates in all three rating tiers by January 2007. Should funding for the tier plans be insufficient, an assessment could be levied against all workers' compensation insureds in the State of Florida to fund the FWCJUA's cash flow deficits, or funds from the State of Florida, Workers' Compensation Administration Trust Fund (WCATF) may be transferred to the FWCJUA upon the request of the DFS by the FWCJUA's Board of Governors (Board) and the approval of the Legislative Budget Commission (LBC).

No assessments were recommended in fiscal years 2003, 2004, 2005, or through June 30, 2006. The FWCJUA's compliance with assessment procedures and governing documents is described further in the "Scope of Examination and Findings" section, Part A – Procedure 8.

The FWCJUA is managed by its Executive Director and is directed by a Board of Governors. Prior to the July 26, 2003 legislation, the Board consisted of 13 members. After July 26, 2003, the Board is comprised of nine members, including two representatives from the 20 domestic insurers defined in Florida Statute § 624.06(1), two representatives from the 20 foreign insurers defined in Florida Statute § 624.06(2), three members appointed by the Florida Financial Services Commission, the Consumer Advocate appointed under Florida Statute § 627.0613, and one representative from the state's largest property and casualty insurance agents' association.

The Board utilizes committees to monitor the operations of the FWCJUA. The committees of the Board include the following:

- Audit Committee
- Executive Compensation Committee
- Investment Committee
- Operations Committee
- Market Assistance Plan (MAP) Committee
- Producer Appeals Committee
- Rates & Forms Committee
- Reinsurance Committee
- Safety Committee
- Producer Committee

Board Committee members are appointed by the Board Chairman and Board Committees meet periodically as the need arises. The FWCJUA has consistently employed 18 individuals during the scope period of the examination. Employee turnover during the scope period has included an Accountant, an Executive Assistant, and several Underwriters or Customer Service Specialists.

FWCJUA's staffing is described further in Part A – Procedure 2.

The FWCJUA utilizes the services of the St. Paul Travelers Company, Inc. (Travelers) to provide policy administration, managed care services, and claims administration. Under the terms of Travelers' contract with the FWCJUA, Travelers underwrites policies, issues policies, collects premiums, performs premium audits, and adjusts and pays claims.

Any company that is licensed to write workers' compensation insurance in the State of Florida is required to contract with a Florida licensed rating/statistical organization for workers' compensation. During the scope period, The National Council on Compensation Insurance (NCCI) was the only licensed rating/statistical organization for workers' compensation in Florida. Accordingly, the FWCJUA has contracted with NCCI.

Scope of Examination and Findings

The scope period of the examination is January 1, 2003 through June 30, 2006. This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. This examination was performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).

PART A – Organizational Structure and Administration

Procedure 1: Review and assess the plan of operation for the FWCJUA. Comment on the completeness of the plan and its compliance with the requirements of Florida Statutes and the consistency of operations with approved plans.

Findings: BHC obtained the FWCJUA's Plan of Operation and Florida Statutes §§ 627.311(5), 627.312 and 627.313 to obtain an understanding of the documents governing the FWCJUA's operations. The FWCJUA's Plan of Operation consists of the following three components:

- Articles of Incorporation of the FWCJUA;
- Bylaws of the FWCJUA, as amended from time to time; and,
- The FWCJUA Operations Manual.

BHC discussed the Plan of Operation with the Executive Director, who informed BHC that the Bylaws and the Operations Manual had been revised several times during the scope period between 2003 and June 2006. These governing documents were revised due to, among other reasons, legislative changes affecting the FWCJUA's rating structure, assessment options and requirements, the number of Board members, service provider requirements, and revisions to FWCJUA forms.

The Executive Director provided BHC with current and prior versions of the FWCJUA's Bylaws and the Operations Manuals.

Operations Manual

Date of Revision		
December 1, 2002	September 27, 2004	November 30, 2005
March 27, 2003	October 19, 2004	December 28, 2005
July 26, 2003	December 30, 2004	January 12, 2006
September 26, 2003	February 1, 2005	March 28, 2006
July 1, 2004	March 15, 2005	

Bylaws	**Effective Date**
2nd Amended Bylaws	June 21, 2002
3rd Amended Bylaws	May 8, 2003
4th Amended Bylaws	July 18, 2003
5th Amended Bylaws	July 1, 2004

In order to assess compliance of various revisions of the FWCJUA's governing documents, BHC obtained a copy of Florida Statutes §§ 627.311(5), 627.312 and 627.313 for the years 2002 through 2006. BHC noted that Florida Statutes §§ 627.312 and 627.313 did not exist prior to 2004 and the current Florida Statute was actually Florida Statute § 627.311(5) was actually Florida Statute § 627.311(4) prior to the legislative changes that occurred in 2003.

BHC reviewed the text of the Florida Statutes in effect from 2002 through 2006 and reviewed the various versions of the governing documents, noting that it appeared revisions to the governing documents were made in response to the legislative changes described by the Executive Director. BHC reviewed the text of Senate Bill (SB) 50-A, and House Bill (HB) 1251 from the Florida Legislature's 2003 and 2004 Legislative Sessions, respectively, to gain further understanding of the legislative changes affecting the operations of the FWCJUA. BHC also reviewed the minutes from the FWCJUA's Board and Committee Meetings (described further in Part A – Procedure 3), noting the Board's discussion regarding revising the governing documents and the Board's approval to revise those documents.

Based upon the review and discussions with the Executive Director, BHC believes the FWCJUA's Plan of Operation is adequate for administering the duties and responsibilities of the

FWCJUA and is in compliance with the requirements of Florida Statutes §§ 627.311(5), 627.312 and 627.313. BHC believes the operations of the FWCJUA are materially consistent with the approved Plan of Operation, and the Plan of Operation appears complete.

Procedure 2: Review the management and organizational structure of the FWCJUA, including staffing levels, qualifications of personnel, segregation of duties, and conflicts of interest. Comment on the effectiveness of the management and organizational structure of the FWCJUA.

Findings: The FWCJUA provided BHC with an organizational chart of the FWCJUA, included as Exhibit 1. The FWCJUA's management team is comprised of four Executive Managers, two Managers, and one Supervisor. The FWCJUA's staff is organized into the following functional areas:

Executive Director	1
Accounting	3
Operations / Program Managers	2
Underwriting	8
Information Technology	2
Administrative	2
Total	18

BHC reviewed the FWCJUA's organizational and management structure by reviewing the organizational chart and the background history of the FWCJUA, touring the office of the FWCJUA, observing FWCJUA personnel performing their duties, reviewing the job descriptions of each staff position, reviewing the resumes of FWCJUA management personnel, and discussing with management, on an as needed basis, the duties and responsibilities of the Executive Director, Controller, Operations Manager, Program Manager, Systems Manager, other FWCJUA staff, the Board and Board Committees.

Comparison of the FWCJUA's Organization Structure to Other Guaranty Associations

BHC performed a comparison of the organizational structure of the FWCJUA to the structure of other guaranty associations or joint underwriting associations for which BHC is knowledgeable.

BHC's analysis considered factors including the organization's purpose, staff size, governing documents, oversight (including composition and appointment of each organization's governing Board), and whether operational functions were performed in-house or were outsourced.

Based upon the review, BHC believes the staffing level of the FWCJUA is adequate. FWCJUA staff and management are qualified to perform their duties, and the duties of personnel are adequately segregated. BHC noted no conflicts of interest. BHC believes the FWCJUA's management and organizational structure is functional and enables the FWCJUA to execute its duties as provided by Florida Statute § 627.311(5).

Procedure 3: Conduct a review of the activities of the FWCJUA's Board of Governors and other Board Committees for 2003, 2004, 2005, and through June 30, 2006 to assess whether the Board and the Board Committees are fulfilling their fiduciary responsibilities.

Findings: BHC requested copies of all minutes of meetings of the FWCJUA Board and the Board Committees for the fiscal years 2003, 2004, 2005, and through June 30, 2006. BHC reviewed the minutes, noting that meetings were conducted on the following dates:

Board of Governors	Audit Committee	Rates & Forms Committee	Producer Appeals Committee	Reinsurance Committee
March 19, 2003	May 14, 2003	February 18, 2003	May 13, 2003	May 29, 2003
June 4, 2003	December 1, 2003	February 17, 2004	November 5, 2003	December 2, 2003
June 18, 2003	February 23, 2004	February 26, 2004	March 17, 2004	September 8, 2004
September 10, 2003	October 22, 2004	December 6, 2004	June 24, 2004	November 16, 2004
November 13, 2003	March 31, 2005	February 22, 2005	September 20, 2004	December 8, 2004
December 10, 2003	June 14, 2005	June 9, 2005		December 17, 2004
February 9, 2004	September 13, 2005	September 14, 2005		January 12, 2005
March 26, 2004	December 5, 2005	November 18, 2005	**Operations**	February 24, 2005
April 7, 2004	March 30, 2006	February 15, 2006	**Committee**	November 18, 2005
May 17, 2004	June 6, 2006	March 10, 2006		
June 9, 2004			December 3, 2003	**Safety Committee**
June 22, 2004	**Investment**		December 8, 2004	
September 21, 2004	**Committee**	**Executive**	March 3, 2005	June 16, 2003
December 17, 2004		**Compensation**	May 9, 2005	November 22, 2004
March 15, 2005	June 16, 2003	**Committee**	September 13, 2005	December 15, 2004
April 8, 2005	June 15, 2004		November 21, 2005	November 14, 2005
May 10, 2005	August 9, 2004	March 4, 2003	March 10, 2006	April 28, 2006
June 22, 2005	June 9, 2005	June 4, 2003		
September 20, 2005	May 11, 2006	December 9, 2003	**Annual**	
October 24, 2005		December 16, 2004	**Membership**	
December 13, 2005	**MAP Committee**	February 25, 2005	**Meetings**	
February 15, 2006		April 15, 2005		
March 15, 2006	December 16, 2004	September 14, 2005	December 10, 2003	
April 10, 2006	September 7, 2005	December 6, 2005	December 17, 2004	
June 14, 2006	November 28, 2005	January 23, 2006	December 13, 2005	

Fiduciary Responsibilities of the FWCJUA's Board

BHC performed a review of the Board's activities and operations. The fiduciary responsibilities of the Board are primarily governed by the following documents:

- Florida Statute § 627.311(5); and,
- FWCJUA's Bylaws (part of the FWCJUA's Plan of Operation).

BHC reviewed these documents and prepared a list of the fiduciary responsibilities of the Board reproduced as Exhibit 2 to this report. BHC submitted this list to the FWCJUA's Chairman of the Board who reviewed the list and agreed with BHC's prepared list with additional comments.

BHC reviewed the minutes of the meetings of the Board during 2003 through June 2006, and compared the activities of the Board, as reported in the minutes, to BHC's list of the fiduciary responsibilities of the Board. Exhibit 2 includes the results of these procedures.

Based upon the review, BHC believes the Board is functioning in accordance with the governing documents and is exercising its fiduciary responsibilities appropriately. The Board members are monitoring and overseeing the FWCJUA's operations in a professional manner and appear to be timely updated on changing events.

Procedure 4: Review the FWCJUA's documented and undocumented process control procedures, including segregation of duties and conflicts of interest. Assess adequacy of documented operating processes and procedures to ensure continuity of operations in the event of management or staffing changes.

Findings: BHC inquired of the Executive Director if there were any documented processes and procedures relating to operations. The Executive Director provided documented procedures and, through interviews with BHC, provided undocumented procedures for specific areas of operations. Documented and undocumented operating processes and procedures were identified to BHC as follows:

DOCUMENTED PROCEDURES

Accounting Policy & Procedures

The Executive Director provided BHC with a copy of the FWCJUA's documented Accounting Policy & Procedures, containing sections for the following processes:

- Individual Account Reconciliations
- Bank Reconciliations
- Cash Flow - Subplans and Tiers
- Checks (Accounts Payable)
- Individual Monthly Financial Statements – Balancing
- Investment Statement Reconciliations
- General Ledger Collections Database Reconciliation
- General & Administrative Expense Allocation
- Increase / Decrease Adjustments
- Loss Portfolio Transfers
- Daily Cash Receipts
- Monthly Cash Receipts
- Petty Cash
- Ceded Losses
- NSF Procedures
- Fixed Assets
- Journal Entries
- Quarterly/Annual Financial Report
- Quarterly Premium Reconciliation / Adjustments
- Service Carrier Reports – Travelers
- Service Carrier Interest Letter

BHC reviewed the following sections of the Accounting Policy & Procedures:

- Individual Account Reconciliations – The purpose of this review is to ensure the ending balances of the general ledger accounts are correct. Each Accountant is responsible for certain subplans/tiers, and to incorporate proper segregation of duties, reviews the reconciliation prepared by the other Accountant. The Controller reviews appropriate accounts monthly and/or quarterly in preparation of the financial statements.

  Reconciliations are prepared as follows:

  Bank reconciliation spreadsheet to Microsoft Great Plains Dynamics (GPD) Accounting Software.

Premium receivable report in GPD to application status in FLARE[3], a software program with modules for underwriting, claims, accounting for premiums, and reporting.

Individual subplans/tiers general ledger accounts to Travelers' cumulative carrier report spreadsheet for the current period.

Fixed assets report in GPD to internal net book value report in Fixed Assets System (FAS), a separate software program for fixed assets.

Non-sufficient funds (NSF) checks report in GPD to NSF checks spreadsheet in Microsoft Excel and to Detail Inquiry Report by subplan/tier in GPD.

Bad debt write-offs and recoveries in GPD with general ledger collections book in FLARE[3] in total and by subplan/tier.

Prepaid expenses report in GPD to standard and monthly-prepared journal entries.

- Bank Reconciliation – The purpose of this review is to reconcile the bank account activity in GPD with the activity posted by the FWCJUA's bank.

  The FWCJUA has the following nine bank accounts:

  - Operating Account
  - Payroll Account
  - Application Processing - Subplan A
  - Application Processing - Subplan C
  - Application Processing - Subplan D1
  - Application Processing - Subplan D2
  - Application Processing - Tier 1
  - Application Processing - Tier 2
  - Application Processing - Tier 3

  The Controller informed BHC that no policies were ever bound in subplan B and therefore, the FWCJUA did not open a subplan B Application Processing bank account.

  The Controller informed BHC that the FWCJUA separates subplan D into two groups for accounting and application processing: The D2 subplan consists of non-profit employers subject to the 10% cap on premiums, while the D1 subplan consists of all other subplan D employers, whose premium cap is set by statute at 25%.

  The Operating Account is utilized for all business prior to July 26, 2003 (the effective date of subplan D) and is the check writing account. There is also a zero balance account (ZBA) linked to the Operating account for use by Paychex, the FWCJUA's payroll vendor and Ceredian, the FWCJUA's Flexible Spending Account (FSA) vendor.

  Reconciliations to be performed are divided between the Accountant and Senior Accountant. The Accountant reconciles the Operating Account, Payroll Account, and the three Tier Accounts. The Senior Accountant reconciles the four Subplan Accounts. FWCJUA's Controller reviews and approves all bank reconciliations once they are completed.

  BHC requested for analysis all FWCJUA bank account reconciliations, including the bank statements for December 2005. BHC reviewed the bank reconciliations noting that the accountant or the senior accountant and the controller properly indicated their preparation of, or approval of the bank reconciliations by their handwritten signatures on the bank reconciliations.

- Cash Flow – Subplans and Tiers – The purpose of this review is to provide a detail of cash activity for each of the Subplans and tiers. This review is conducted monthly after the bank reconciliation is complete.

  The Senior Accountant prepares all cash flow reports for the subplans and tiers, and the Accountant prepares the initial cash flow report for the Operating Account. There are two different cash flow statements prepared for the Operating Account. Once the initial (basic) cash flow statement is prepared by the Accountant, the Senior Accountant then prepares the more detailed cash flow statement for the Operating Account.

  As a lump sum payment is made to Travelers, the initial cash flow report only shows the total payment, while the more detailed cash flow statement breaks out that payment into premiums, losses, servicing carrier and commission fees. After the cash flow statement is completed, the Controller reviews the cash flow statement for accuracy as well as a monitor for the amount of cash in each account.

  Reconciliations are conducted for the following:

    Premium receivable balances in GPD to balances in the FLARE[3] application status reports.

    Advance premium paid and deposit premium totals in the FLARE[3] application status reports to the Travelers' cash receipts report sent to Travelers at the end of the month.

    SunTrust ending balance on the Cash Flow Excel spreadsheet to the ending balance on the Cash Reconciliation Report in GPD.

- Checks – Accounts Payable – The accounts payable process includes preparing invoices for payment, obtaining proper approval of the expense, and accurately recording that expense into the general ledger.

  All invoices received by the FWCJUA are given to the Accounting Department. The Accountant prepares the vendor invoices for approval and payments, obtains the proper approval, processes the checks (checks are processed twice a month), and confirms all vendor invoices are paid timely. The following individuals generally approve these types of invoices:

FWCJUA Staff	Expense Type
Executive Director	Legal and actuary expenses, and expense reports
Operations Manager	Claims consulting and expense reports
Controller	Office, benefits, audit, and actuary expenses, and expense reports
Program Manager	Office expenses, rating/statistical organization expenses, and expense reports
Systems Manager	IT-related computer services and supplies
Executive Assistant	Office expenses and Board meeting expenses

After the Accountant prepares the accounts payable vouchers and obtains the necessary approvals from all management except the Controller, the Controller reviews all vouchers and invoices for approval and verifies the recording of the expense to the proper general ledger account. Once the checks are printed, the Executive Director and Operations Manager sign the checks. During the signature process, they review the expense documentation to ensure that it is a valid expense for the FWCJUA.

All checks are secured in the Controller's office. When the Accountant is ready to process checks, she requests the necessary number of blank checks and the Accountant and Controller sign a log sheet included with the blank pre-printed check stock evidencing the check stock issuance. The Controller does not have signing authority on the checks and all checks for any amount must contain wet signatures from two of the following authorized signers:

Executive Director

Operations Manager

Chair of the Board of Directors

Vice-Chair of the Board of Directors

BHC selected the December 2005 Operating Account bank statement for analysis, noting that all imaged cleared checks shown on the bank statement contained the handwritten signatures of the Executive Director and the Operations Manager.

- Individual Monthly Financial Statements – The purpose of this review is to ensure that each of the subplans and tiers are balanced. These reports are run by the Accountant and Senior Accountant several times a month. With all expenses being paid out of the Operating Account, if an appropriate due to / due from is not booked, the subplan/tier financial statements will not balance. The reconciliation process is designed to identify any discrepancies as well as serve as a reminder if any of the subplan/tiers owe the Operating Account for expenses paid on their behalf or if the Operating Account owes the subplan/tier.

- Investment Statement Reconciliations – The FWCJUA's procedures for the reconciliation of investment statements are described in Part A – Procedure 6.

- General Ledger Collection Database Reconciliation – The purpose of this process is to maintain a detail database of all uncollectible (bad debt) premium that balances with the general ledger. This activity is stored within the general ledger collections database of the FLARE[3] system.

  The data entry and balancing of the accounts is completed by one of the accountants with the Controller reviewing and approving the final reports for accuracy. The information entered into the general ledger collections database and the general ledger is reconciled monthly.

- General and Administrative Expense Allocation – The FWCJUA's procedures for general and administrative expense allocation are described in Part B – Procedure 11.

- Increase / Decrease Adjustments (IAJ / DAJ) – These entries are necessary when adjustments / transfers are made to the cash accounts in order for the entry to appear on the bank reconciliation module in the Microsoft Great Plains Dynamics (GPD) accounting software. Journal entries adjust the general ledger balance, however, the entries will not appear in the bank reconciliation module. In order for the adjustment / transfer to appear on the bank reconciliation module, an IAJ / DAJ must be entered.

  The Accountant and Senior Accountant can prepare IAJ / DAJ entries, but only the Controller can transfer cash between bank accounts using the bank's online treasury management system. The online system can also be used to pay Travelers and the FWCJUA's reinsurance intermediary, and to transfer funds into the FWCJUA's investment accounts. The Executive Director is the systems administrator and has designated only these three payees in the online treasury management system.

  The Executive Assistant initiates the transfer of funds by logging into the online treasury management system and sets up the transfer by entering the payee and the amount. The Executive Assistant is not able to transfer any funds. After the Executive Assistant sets up the transfer, the Controller logs into the online treasury management system and transfers the funds to one of the designated accounts. The Controller is unable to transfer funds to any other account or individual and the Controller cannot change the amounts to be transferred. If an amount needs to be changed, the Executive Assistant must enter the new amount into the online treasury management system, and the Controller would then be able to execute the transfer.

  The Controller informed BHC that the FWCJUA only utilizes ACH electronic transfers for cash transfers and does not utilize wire transfers. The Controller stated that the FWCJUA does not encounter situations in which a same-day wire transfer is necessary, as a next day ACH transfer is much less expensive (25¢ for an ACH transfer vs. $15 for a wire transfer).

- Loss Portfolio Transfers (LPT) – The FWCJUA entered into an LPT with a reinsurer covering accident years 1994 – 1999. Travelers prepares the bordereau report for all applicable claims activity processed in Travelers' systems, sends the original report to the reinsurer requesting reimbursement, and sends a copy of the report to the FWCJUA along with the monthly report. Once the reinsurer reimburses Travelers, Travelers sends an email to the FWCJUA advising of the reimbursement so that the FWCJUA can record the amount recovered in the LPT reimbursement account. For any activity received from other run-off service providers, the FWCJUA submits a quarterly billing to the reinsurer.

  The Controller reviews the bordereau report prepared by Travelers for accuracy. At the end of each month, the LPT general ledger accounts are reconciled based on cash received and due from the reinsurer.

- Daily Cash Receipts – The purpose of this process is to reconcile checks deposited at the end of the day. The FWCJUA does not accept cash payments. The reconciliation of checks deposited is a two-step reconciliation process as follows:

    The Underwriters review and verify applications and checks received in the FWCJUA office. Then, the Underwriters verify the check amounts for all bound applications and authorized producers.

All checks are forwarded to the Accountant or the Senior Accountant for a second review.

All applications and checks received daily and all applications and checks for bound policies are reconciled daily by an Underwriter, and reviewed by the Underwriting Supervisor. Any out of balance condition, such as rejected or withdrawn applications, must be corrected and resolved before the close of business that day.

- Monthly Cash Receipts – All checks received on new bound applications are deposited into the proper subplan or tier account. A monthly cash receipts report is provided to Travelers advising Travelers of the premium dollars the FWCJUA received each day. This allows Travelers to record the "receipts" into their policy system and to balance their recorded "receipts" with the FWCJUA's actual receipts.

  The monthly cash receipts report is prepared by the Accountant. The Senior Accountant reviews and approves the report before it is sent to Travelers. The Controller reviews the monthly service provider report to ensure that Travelers recorded the correct cash amounts in the monthly settlement report. In addition, the FWCJUA sends Travelers a daily report of bound applications and a daily report of the corresponding cash receipts. At the end of the month, Travelers reconciles the daily reports to the monthly report and advises the FWCJUA if there are any differences. A difference may result due to non-sufficient funds (NSF) checks.

- Petty Cash – The Executive Assistant retains custody of the petty cash box. All outgoing cash is approved and documented by the Executive Assistant or a Manager. The Senior Accountant reconciles the petty cash quarterly, and the Controller reviews and approves the reconciliation.

  Incoming cash generally consists of the following:

  Reimbursement to the FWCJUA by an employee for postage used by an employee.

  The remaining cash above the purchase amount is returned to the petty cash box, along with the purchase receipt and an incoming cash receipt which would be signed by the employee and the Executive Assistant.

  All outgoing cash for any expenditure is authorized and approved by the appropriate party according to management's approval authority. Therefore, the manager utilizing their approval authority must sign the petty cash receipt showing authorization and approval of the expenditure.

- Ceded Losses – At the end of each quarter, ceded losses are reviewed and appropriately recorded based on the activity during the current quarter. All entries are recorded and reviewed by individual subplan or tier.

  The Controller initially determines the entries to the general ledger, and the Senior Accountant performs a review by comparing all information to the activity reports which have been sent to the reinsurance broker. All final calculation amounts are also presented to the Operations Manager for review because the Operations Manager reports to the reinsurers.

- NSF Procedures – Both the Accounting and Underwriting Departments are involved when an application check is returned by a bank as insufficient funds. Travelers' involvement provides a third party review of this process.

  The Accountant or Senior Accountant searches for the policy information in the FLARE[3] system, gathers the supporting documentation, and updates the NSF spreadsheet. The Underwriting Department contacts the producer and requests a replacement check, which must be in the form of a cashier's check or money order and must be received within 24 to 48 hours. An Underwriter submits a cancellation request to Travelers if payment is not received within 48 hours. If a replacement cashier's check or money order is received, the Underwriter will give the payment to the Accountant with a notice that it is a replacement check.

  At the end of each month, the Accountant, or the Senior Accountant performs a reconciliation of the NSF checks outstanding with the NSF spreadsheet.

- Fixed Assets – The recording and entering of fixed assets occurs in the Fixed Asset System (FAS), which is a separate software package that does not interface with GPD. The FWCJUA's threshold regarding capitalizing an asset is $500 and the asset must have a life span of greater than one year.

  All invoices for fixed asset purchases are signed by a member of management ensuring proper coding of the fixed asset at payment. The Accountant enters the fixed asset into the FAS with verification and review by either the Senior Accountant or the Controller. The balances in the FAS system are reconciled to the proper general ledger account as part of the month-end closing procedures.

- Journal Entries – Journal entries are prepared to enter transactions into the general ledger other than cash activity. The most common journal entries are service carrier activity / Travelers, payroll, accruals, general and administration (G&A) expense allocation, reinsurance, and IBNR reserves.

  Both accountants and the Controller prepare journal entries. While one accountant prepares a journal entry, the other will be responsible for entering the journal entry into the general ledger, so there are always two individuals reviewing the entry. In addition, all account balances are reviewed and reconciled at the end of each month.

- Quarterly / Annual Financial Report – Quarterly and annual financial statements are prepared and submitted to the OIR by the Senior Accountant and the Controller who reconcile and verify all accounts and compare account balances to supporting detail reports as appropriate.

- Quarterly Premium Reconciliation / Adjustments –The FWCJUA makes two or more adjustments to premium as follows:

  > *Policies bound but not yet issued* – Policies are bound at the FWCJUA office and sent to Travelers to be issued. Therefore, some policies are not issued in the same month they are bound and effective. An adjustment to written premium is entered for the month that the policy is bound.

Premiums earned but unbilled (EBUB) – EBUB premium is an adjustment to written and earned premium relating to unknown premiums that have been earned but are unbilled at the end of a period. The Controller informed BHC that a Travelers' actuary performs an analysis and determines an estimated additional premium percentage, and the FWCJUA applies this percentage to its premiums.

EBUB is reported each year as a component of "deferred premiums, agents' balances, and installments booked but deferred and not yet due" on the assets page of the FWCJUA's Annual Statement.

Other adjustments are made for service carrier fees and commissions based on the Travelers monthly reports.

These calculations are completed by either the Controller or the Senior Accountant with the other reviewing the calculation and journal entry before posting it to the general ledger.

- <u>Service Carrier Reports</u> – The purpose of this documented process is to record the monthly data reporting package from Travelers, which consists of both paper reports and a data file of transactions that occurred during the month. All data received from Travelers is verified with the paper reports and then compiled into journal entries for entry in the FWCJUA's general ledger system and loaded into the FWCJUA's premium and loss databases for reporting purposes.

  The Senior Accountant initially reviews the package from Travelers, and loads the data file into the database. After this initial review and confirmation that all reports and data balance, the Senior Accountant prepares the necessary journal entries to be entered into the general ledger as well as updates the service carrier Excel spreadsheet. Once completed, all reports and journal entries are reviewed and approved by the Controller.

  Service Carrier Reports are described further in Part C – Procedure 15.

- <u>Servicing Carrier Interest Letter</u> – The purpose of this documented process is to provide the service providers with the interest rate to be used in computing interest due for policy settlements. The interest component may be payable to the FWCJUA or to the servicing provider as it is calculated on cash flows held by the service provider through the settlement date. The interest letters are sent to Travelers monthly and to the run-off servicing providers quarterly (as they report to the FWCJUA on a quarterly basis).

  The interest rate utilized is the 30-day T-bill rate found in the Wall Street Journal.

  The Senior Accountant prepares and sends out the interest letters. Once the settlement reports are received from the service providers, the Controller verifies that the correct interest rate is being utilized in the interest calculation.

BHC reviewed the documented process controls noted above and agrees that these controls were thorough, appropriate and are being accurately performed.

Based upon the procedures performed, BHC believes the documented process control procedures described in the FWCJUA's Accounting Policy and Procedures are adequate for the operations of the FWCJUA, and the duties of FWCJUA personnel are adequately segregated.

Documented Procedures other than Accounting Procedures:

Monitoring of Contracts
Procedures for monitoring FWCJUA contracts are described in Part A – Procedure 5.

Records Management and Retention
Documented procedures for records management, retention, retrieval, and destruction are described in Part A – Procedure 9.

Systems and Information Technology Policy
Documented procedures for systems and information technology are described in Part D – Procedure 21.

Backup of FWCJUA's Computer System
Documented procedures related to the backup of FWCJUA's computer system are described in Part D – Procedure 22.

Anti-Fraud Plan
Pursuant to Florida Statute § 626.9891, the FWCJUA has established an Anti-Fraud plan that has been filed with the OIR. Some examples of insurance fraud include the following:

- Staging phony accidents.
- Filing fraudulent claims.
- Exaggerating an injury or loss.
- Billing for services not rendered.
- Billing for unwarranted services.

Examples of workers' compensation insurance fraud include the above, and the following:

- Filing an application for workers' compensation insurance containing false, misleading, or incomplete information with the purpose of avoiding or reducing the amount of premiums.
- Intentionally understating or concealing payroll.
- Misrepresenting or concealing employee duties to avoid proper classification for premium calculation.
- Misrepresenting or concealing information pertinent to the computation and application of an experience rating factor.

The Executive Director provided BHC with a copy of the Anti-Fraud plan, and BHC reviewed this plan, which contained the following sections:

- Purpose of the Plan
- Criteria to Pursue Civil Action

- Definition of "Fraud"
- Goals and Objectives
- Special Investigative Unit (SIU)
- Criteria to Initiate an Investigation
- Criteria to Initiate a Referral Report
- Criteria to Initiate a Formal Report of Suspected Fraud
- Anti-Fraud Education and Training
- Organization Arrangement of the Anti-Fraud Personnel
- Criteria for Attorney Selection
- Reporting Requirements
- Monitoring Requirements
- Division of Fraud
- Process Summary
- Appendix A – Workers' Compensation Fraud Indicators
- Appendix B - Common Fraud Schemes and Indicators
- Appendix C - Fraud Investigation and Prevention

Based upon BHC's review of the Anti-Fraud Plan, BHC believes the documented procedures described in the FWCJUA's Anti-Fraud Plan are adequate for the operations of the FWCJUA.

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics was developed by the Audit Committee and approved by the Board to provide guidance for all Board members and employees to maintain high ethical standards of conduct and to comply fully with applicable laws and governmental regulations.

The Executive Director provided BHC with a copy of the FWCJUA's documented Code of Business Conduct and Ethics, and BHC reviewed this policy, which contained the following sections:

- Introduction
- Interpretation
- Reporting Violations and Ensuring Compliance
- Compliance with Laws and Regulations Generally
- Fair Dealings with Others
- Corporate Opportunities and Conflicts of Interest
- Use of FWCJUA Property
- Equal Employment Opportunity and Affirmative Action Policy
- General Anti-Harassment Policy
- Accuracy, Retention and Disposal of Records
- Accounting Practices
- Political Contributions
- Lobbying and Legislative Contacts
- Business with Governments and Officials
- Gratuities

BHC reviewed the minutes from the June 4, 2003 Board meeting, noting that the Code of Business Conduct and Ethics policy was adopted by the Board to become effective on July 1, 2003.

Based upon BHC's review of the Code of Business Conduct and Ethics, BHC believes the documented procedures described in the FWCJUA's Code of Business Conduct and Ethics are adequate for the operations of the FWCJUA.

Document Scanning Procedures

BHC reviewed the FWCJUA's documented procedures for scanning documents into the FWCJUA's electronic document management system (EDMS). BHC noted that the procedures included specific user instructions, instructions for searching and retrieving scanned documents, and routing instructions for sending documents to their appropriate destination. In addition, there were procedures for the process from the time mail arrives at the FWCJUA office through the scanning process.

Attached to the Document Scanning Procedures is a "virtual filing cabinet", which is a printout of the categories of documents scanned and the types of documents in each category, to assist the user in locating and retrieving documents from the EDMS.

Based upon BHC's review of the Document Scanning Procedures, BHC believes the documented procedures described in the FWCJUA's Document Scanning Procedures are adequate for the operations of the FWCJUA.

Underwriting Principles & Procedures Guide

BHC reviewed the FWCJUA's documented Underwriting Principles & Procedures Guide, an internal guide for the FWCJUA Underwriting staff, detailing underwriting procedures and step-by-step instructions for using the Underwriting module in the FLARE[3] system, including:

- Introduction
- Overview
- Key Terms
- Eligibility
- Applications for Coverage
- Application Rejection Procedures
- Application Withdrawal Procedures
- Application Binding Procedures
- Underwriting Special Situations
- Producer Authorization Procedures
- NSF Checks
- Complaint Resolution Procedure
- Employee Leasing Procedure
- Appendix

Based upon BHC's review of the Underwriting Principles & Procedures Guide, BHC believes the documented procedures described in the FWCJUA's Underwriting Principles & Procedures Guide are adequate for the operations of the FWCJUA.

Claims Handling Procedures

The FWCJUA utilizes the services of Travelers to provide claims administration services, including the settlement of claims. While Travelers follows its own claims handling procedures for FWCJUA business, as well as for its other clients, the FWCJUA follows a documented *Claims Handling Procedures* for FWCJUA staff. BHC reviewed this documented procedure, noting that the procedure contains detailed discussion of the following areas:

- Work flow from the initial claim reporting through claim settlement, including correspondence with Travelers, when appropriate.
- Serious Injury Activity Reports (SIAR) prepared by Travelers and submitted to the FWCJUA, and the FWCJUA's review of the SIARs and correspondences with Travelers.
- Updating of claims related activity in the FLARE[3] system.
- Correspondence with reinsurance intermediaries, when appropriate.
- Reporting to reinsurance intermediaries, when appropriate.
- Settlement authorization procedures.
- Claims review by the FWCJUA.
- Reinsurance salvage or subrogation recoveries (described in Part C – Procedure 16).

BHC tested the allocation of claims loss and loss adjustment expenses in Part C – Procedure 15.

Based upon the procedures performed, BHC believes the documented procedures described in the FWCJUA's Claims Handling Procedures are adequate for the operations of the FWCJUA.

Reporting Requirements

BHC reviewed the FWCJUA's documented procedures for reporting requirements noting that the document contained a summary reporting schedule showing the type of FWCJUA report, page number in the reporting requirements document for additional detail about the report, frequency to submit the report, due date of the report, and the type of storage media (hard copy or electronic). Some examples of FWCJUA reports are as follows:

- Serious Injury Activity Report
- Advance Notice of Large Premium Changes
- Advance Notice of Large Claim Payment
- Claim Settlement Proposal
- Collection Settlement Proposal
- Monthly Summary Cash Activity
- Uncollectible Premium Report
- Collections Activity Report
- Policy Data
- Detail Claim Report
- Policies Bound vs. Issued
- Monthly Policies In-force
- Over 90 Day Premium Receivable
- Quarterly Cancellation Report
- Quarterly ALAE Non-reimbursable Expenses
- Annual Management Report

Also included in the reporting requirements were record layout formats for various premium reports, loss and loss reserve reports, and policy reports.

Based upon BHC's review of the Reporting Requirements, BHC believes the documented procedures described in the FWCJUA's Reporting Requirements are adequate for the operations of the FWCJUA.

Travel & Expense Reimbursement Procedures

Documented procedures for travel and expense reimbursement are described in Part B – Procedure 12.

FWCJUA Job Descriptions

BHC reviewed the documented job description for each FWCJUA position, described in Part A – Procedure 2 and Part D – Procedure 20.

Money and Asset Management

Documented procedures for money and asset management are described in Part A – Procedure 6.

UNDOCUMENTED PROCEDURES

Escheating Procedures

BHC reviewed Florida Statute Chapter 717, "Disposition of Unclaimed Property", noting that an amount payable on check, draft, or similar instrument which has been outstanding for more than five years after the item was payable, is presumed unclaimed unless the owner, within five years, has communicated in writing with the banking or financial organization concerning it.

BHC inquired of the Executive Director whether the FWCJUA reports the escheating of unclaimed property to the Florida Bureau of Unclaimed Property (Bureau), in accordance with the statute. The Executive Director informed BHC that Travelers handles the escheating of FWCJUA uncashed claim checks or return premium checks to the Bureau, and has filed reports of unclaimed property with the Bureau. Travelers prepares a single report to the Bureau to include all unclaimed property for Travelers' clients, including the FWCJUA.

The Executive Director provided BHC with Travelers' Escheating Procedures and reports of unclaimed property for FWCJUA premium activity and FWCJUA claim activity, as well as the cover page for the April 2005 and the April 2006 filings by Travelers with the Bureau. The Executive Director included copies of a few attached pages to the April 2005 and the April 2006 filings, which showed FWCJUA unclaimed property that was also listed on the separate premium activity and claims activity reports.

BHC reviewed Travelers' Escheating Procedures noting that twice each year, checks that are outstanding in Travelers' check reconciliation system that meet Florida's escheat reporting requirements are copied to a Travelers' abandoned property system through an automated process, approximately two months before reporting to the Bureau. The system determines based on the age of the check and the type of check whether the check is ready to be reported to the Bureau. The reports are due to the Bureau each April 30th, after Florida's calendar reporting year. The information sent to the Bureau includes a hard copy and an electronic copy of the escheat report, and a check for the records that are being reported. After submitting its escheat report to the Bureau, Travelers updates its check reconciliation system to remove the escheated checks from the outstanding items.

BHC traced the FWCJUA items from the unclaimed property document filed with the Bureau to the separate premium or claims report for the FWCJUA unclaimed property, noting that the items were present in the premium or claims report, and that the premium and claims reports listed correctly the report date and page number of the unclaimed property filings, thereby confirming that these items were included with the reports filed with the Bureau. BHC noted that the reports were filed with the Bureau prior to the April 30th deadline, and the cover sheets indicated that a diskette was attached, in accordance with Travelers Escheating Procedures.

Based upon BHC's review of Travelers' documented escheating procedures and reports of unclaimed property, BHC believes that Travelers is reporting and submitting the FWCJUA eligible escheated items to the Bureau.

Payroll Procedures

BHC inquired of the Controller if procedures for payroll administration were documented, and the Controller informed BHC that the procedures were not documented, but described to BHC the undocumented procedures.

The FWCJUA utilizes the services of Paychex, Inc. (Paychex), a third party organization that provides payroll processing services and payroll related services to the FWCJUA. All FWCJUA employees are paid bi-weekly through direct deposit, and all are salaried, except for the Receptionist, who is paid on an hourly basis.

Payroll changes including name and address changes and changes in withholding amounts are approved by the Controller, and employee salary increases are approved by the employee's Supervisor and by the Executive Director, who both must sign an authorization form to be maintained in the employee's personnel file. Paychex calls the Controller each Tuesday morning before payroll processing, and the Controller gives Paychex the correct bi-weekly payroll information. The Controller informed BHC that because the FWCJUA office is relatively small, relaying the information to Paychex by telephone rather than e-mail or other method is preferred.

Paychex prepares the FWCJUA's payroll, makes the direct deposits for employees, and delivers by courier to the Controller the payroll reports and a sealed envelope for each employee, containing that employee's pay stub. The Controller reviews the payroll report for accuracy and prepares the journal entry, which is entered by the Accountant. Because the entry is prepared in total for all employees, the Accountant is not privy to the salary information for each individual FWCJUA employee. The Controller then reviews the posted journal entry for accuracy. The Controller informed BHC that she is the only individual at the FWCJUA who coordinates payroll processing with personnel at Paychex.

Employee personnel files are maintained in a locked area in the Controller's office and in the electronic document management system (EDMS). The personnel files are located in an area of the EDMS that is password protected, with access only available to the Controller, the Executive Assistant and the Executive Director.

Based upon the procedures performed, BHC believes the undocumented procedures for payroll processing are adequate for the operations of the FWCJUA, given the size of the FWCJUA. However, BHC believes segregation of duties in the review of payroll processing could be enhanced by a periodic review of the payroll reports by the Executive Director.

Recommendation: *Payroll is a significant expense of the FWCJUA. BHC recommends that the Executive Director review the payroll reports and journal entries periodically, to serve as an independent review of the monitoring by the Controller, thus enhancing segregation of duties.*

Recommendation: *BHC recommends that the FWCJUA prepare formal documentation of the FWCJUA Payroll Procedures. BHC considers documentation of Payroll Procedures to be good business practice, since payroll is a vital segment of operations.*

Succession Plan

Succession planning is the process of planning appropriate action in the event that a key person within an organization is no longer available to the organization. Scenarios that cause or contribute to a key person no longer being available may be voluntary/anticipated or involuntary/unanticipated and may include the following:

- A key employee may become disabled, or otherwise incapacitated.
- A key employee may be suddenly replaced by the Board.
- A key employee may suddenly or unexpectedly be unable or unwilling to continue their role within the organization.

A Succession Plan should identify individuals inside or outside of the organization qualified to assume the responsibilities for each key employment position, or on an interim basis, until a qualified permanent replacement can be located. A Succession Plan should strive for minimal business interruption in the event of the sudden replacement of a key employee, and should identify the names and telephone numbers of other individuals who could assist in maintaining a smooth transition plan.

BHC inquired of the Controller whether a documented Succession Plan existed and she informed BHC that no formal plan existed. The Controller stated that she is training the Senior Accountant to perform her duties, and the Program Manager is training to take over the duties of the Operations Manager, when the Operations Manager retires at the end of 2006. The Executive Director informed BHC that her duties could be assumed by a combination of the Controller, Operations Manager, and the Board Chairman. The Executive Director stated that the Board Chair and Vice Chair are currently authorized check signors, and therefore, there would be no interruption in the check disbursement cycle.

Recommendation: *FWCJUA should consider the need to develop a formal documented Succession Plan. A documented plan can minimize business interruption, should a key employee become unwilling or unable to perform his or her duties, and should clearly define the specific individuals inside or outside of the organization that are qualified to take over the duties of key employees on a temporary or permanent basis.*

Procedure 5: Review the FWCJUA's vendor contract administration. Review the documented and undocumented procedures and the method used for selection and procurement of contractual services and review the documented and undocumented procedures for contract management. Comment on the effectiveness of documented procedures and controls over the management and monitoring of vendor services.

Findings:

Requests for Proposal:

BHC inquired of the Executive Director if there were any documented processes and procedures relating to the method used for selection and procurement of contractual services. The Executive Director informed BHC that there were no documented procedures requiring the use of Requests For Proposals (RFPs) and stated that the FWCJUA uses RFPs as needed.

The Executive Director provided BHC with the following RFPs that the FWCJUA had prepared during the years 2003 through June 2006:

- Request for Collection Services – January, 2006. Response to the RFP was due on February 24, 2006.
- Request for Policy Administration and Managed Care Services – March 2005. Response to the RFP was due on May 16, 2005.

BHC reviewed the RFPs, noting that each RFP clearly defined the services requested, deliverables and due dates, and deadline for submitting responses to the RFPs. In addition, the RFPs clearly state that since the FWCJUA is not a state agency, the RFP process is not governed by the contracting procedures applicable to state agencies set forth in the Florida Statutes and the rules promulgated thereunder.

BHC reviewed the minutes from the FWCJUA's Board meetings and observed Board discussion regarding the preparation of these RFPs, Board authorization to issue these RFPs, and Board approval of the vendors selected to perform the specified services. BHC noted that the Board appointed an RFP Evaluation Committee composed of the Executive Director, Operations Manager, and an outside independent consultant to evaluate the responses to the RFP for Policy Administration and Managed Care Services. The Board also appointed an RFP Evaluation Committee composed of the Executive Director, Operations Manager, Program Manager, and the Chair of the Operations Committee to evaluate the responses to the RFP for Collection Services.

BHC noted throughout its review of minutes of Board and Committee meetings many discussions regarding whether certain contracts should be renewed, including specific occasions in which the Board discussed whether certain services should be bid with an RFP, before voting not to issue an RFP, including:

- Auditing Services – At a June 2005 Audit Committee meeting, the committee discussed whether financial auditing services for the FWCJUA should be offered for bid. After discussion, the Committee determined that there was no compelling reason to offer the engagement for bid based on, among other reasons, the current auditor's familiarity with the FWCJUA's subplans, tiers, and operations. At the June 2005 Board meeting, the Audit Committee Chair informed the Board of the Committee's discussions from the June 2005 Audit Committee meeting not to issue an RFP for the selection of a financial auditor, and the Board passed a motion to renew the contract of the current financial auditor.

- Investment Manager Services – At a June 2005 Investment Committee meeting, the Committee discussed whether investment manager services for the FWCJUA should be offered for bid. After discussion, the Committee did not see the need to formally RFP the investment manager based on the favorable fee structure, the investment manager's attention to the FWCJUA's account, and the FWCJUA's satisfaction with its relationship with the current investment manager. At the June 2005 Board meeting, the Board unanimously passed a motion to continue the relationship with the FWCJUA's investment manager.

- Actuarial Services – At a December 2005 Rate & Forms Committee meeting, the Committee discussed whether it should recommend that the Board authorize an RFP for actuarial services to be prepared in 2007 for calendar year 2008 activities. After discussion, the Committee decided that the current actuary should remain through years 2006 and 2007 due to, among other reasons, continuing complex financial challenges associated with the transition from subplans to tier rating, the current actuary's familiarity with the FWCJUA dynamics, and the statutory requirement to have actuarially sound rates in Tiers 1 & 2 by January 1, 2007. The Committee agreed to schedule for consideration an RFP process for actuarial services in 2007 for the 2008 engagement.

Management and Monitoring of Vendor Contracts

BHC requested from the Executive Director a copy of all FWCJUA contracts and agreements that were effective during the years 2003, 2004, 2005, and through June 30, 2006. The contracts provided to BHC included legal and public affairs services, collection services, policy administration and managed care services, auditing services, actuarial services, investment management services, and other services. BHC tested the payments under these contracts in Part B – Procedure 14.

BHC reviewed the FWCJUA's governing documents regarding provisions for monitoring contracts entered into by the FWCJUA with service providers and discussed with the Executive Director the management of the FWCJUA contracts.

BHC reviewed the FWCJUA's Operations Manual, noting that the Service Provider standards as specified in the Operations Manual appear to be clear, comprehensive, and adequate for the purposes of the FWCJUA.

FWCJUA's 5th Amended Bylaws specify the monitoring of various types of services, as follows:

- *Section 8.C. - Operations Committee:*
  "The Operations Committee shall have the following duties: . . . "

  > "to periodically review the performance of service providers who perform policy administration, managed care, and collection services for the FWCJUA, and to recommend to the Board for its approval such modification or alterations in the FWCJUA's business relationships with its service providers as may be reasonably necessary or appropriate."
  >
  > "to make, or cause to be made by the staff of the FWCJUA, such reports on the FWCJUA's operation (including the performance of service providers), of such scope and at such times or intervals as the committee may determine in its discretion or as may be ordered by the Board."

- *Section 8.E. - Reinsurance Committee:*
  "The Reinsurance Committee shall have the following duties: . . . "

  > "to periodically review the FWCJUA's reinsurance program and the performance of its reinsurers and reinsurance intermediaries, and to recommend to the Board for its approval such modifications to the reinsurance program as may from time to time be reasonably necessary or appropriate."

- *Section 8.F. – Rates and Forms Committee:*
  "The Rates and Forms Committee shall have the following duties: . . . "

  > "to periodically review the performance of the FWCJUA's statistical agent and any statutory rating bureau which acts on behalf of the FWCJUA, and to recommend to the Board for its approval such modifications or alterations in the FWCJUA's business relationships with such parties as may be reasonably necessary or appropriate."

The primary function of the FWCJUA's Audit Committee Charter is to assist the Board in fulfilling its financial oversight responsibilities. Among the Audit Committee's duties and responsibilities as stated in the Audit Committee Charter are:

- "Review and appraise the audit efforts of the Association's [FWCJUA's] independent auditor.
- "Review the performance of the independent auditor and approve any proposed discharge of the independent auditor by management."

As is evident from these governing documents, the Board Committees are generally responsible for the monitoring and oversight of the work of service providers pursuant to vendor contracts. The Board, however, is responsible for making final decisions to renew vendor contracts, or engage a new vendor, based on recommendation of the applicable committee.

BHC reviewed the minutes from Board Meetings and Board Committee Meetings during 2003 through June 2006, noting that the Board and Board Committees frequently discussed the performance of outside vendors.

Based upon the procedures performed, BHC believes the Board Committees and the Board appear to be effectively monitoring the use of RFPs for contractual services. BHC did not note any instances of self-dealing or conflicts of interest and believes the process selection and procurement of contractual services is adequate for the purposes of the FWCJUA.

BHC believes the documented procedures described in the FWCJUA's Operations Manual, 5th Amended Bylaws, and Audit Committee Charter for monitoring the work of vendors are sufficient, and controls over the management and monitoring of vendor services appear to be adequate. BHC believes the Board and Board Committees are effectively monitoring the performance of outside vendors in accordance with the FWCJUA's governing documents.

Procedure 6: Money and Asset Management: Review and evaluate the FWCJUA's documented and undocumented procedures for investing funds and managing assets, including as appropriate, compliance with any statutory or regulatory guidelines.

BHC reviewed Florida Statute § 627.311(5) and Chapter 625, Florida Statutes, and the FWCJUA's Plan of Operation for statutory and regulatory guidelines for investing funds and managing assets. BHC noted the following:

Florida Statutes:

- Florida Statute § 627.311(5) does not contain guidelines or procedures for investing funds and managing assets for the FWCJUA.

- Florida Statute Chapter 625, *Accounting, Investments, and Deposits by Insurers*, contains guidelines for investing funds by insurance companies, and is referenced as applicable in the FWCJUA's Plan of Operation. Chapter 625 describes the types, percentages, and ratings allowed for investments by insurance companies.

FWCJUA Plan of Operation:

- Section 8.D. of the 5th Amended Bylaws of the FWCJUA addresses the duties of the Investment Committee as follows:

  1. "To recommend to the Board for its approval whether the FWCJUA should appoint one or more persons or firms to manage the investment of the FWCJUA's assets (Investment Manager) pursuant to investment policies adopted by the Board and, if so, to recommend for its approval the appointment of one or more Investment Managers;
  2. To recommend to the Board for its approval policies and guidelines for the investment of the assets of the FWCJUA that are consistent with the requirements of Chapter 625, Florida Statutes;
  3. To periodically review the FWCJUA's investment policies and guidelines, and to recommend to the Board for its approval such amendments to the investment policies and guidelines as may from time to time be reasonably necessary or appropriate;
  4. To make, or cause to be made by the Investment Manager or the staff of the FWCJUA, such reports on the FWCJUA's investment portfolio, of such scope and at such times or intervals as the committee may determine in its discretion or as may be

ordered by the Board;

5. To review matters associated with the investment of the FWCJUA's assets; and
6. To perform such other functions as may be reasonably related to the foregoing duties."

FWCJUA's Investment Policy

BHC inquired of the Executive Director whether the FWCJUA has documented procedures for the investment of the FWCJUA's assets. The Executive Director provided BHC with the FWCJUA's current Investment Policy and a draft of a revised Investment Policy that was approved by the OIR on July 14, 2006. The modifications include, among other items, increasing the maximum percentage of the investment portfolio in obligations of a single issuer from 25% to 35%, and in obligations of the U.S. Government Agencies from 50% to 100%. Events that led to the modifications are discussed in the "Testing of Investments" section, below.

BHC reviewed the FWCJUA's Investment Policy, which contained the following sections:

- Investment Objectives
- Duties and Responsibilities
- Acceptable Portfolio Investments
- Composition of Assets
- Maturities
- Diversification
- Safekeeping

The Investment Policy contains a provision for exceptions to the policy, whereas from time to time, it may be necessary to deviate from certain policy provisions due to increased or decreased liquidity needs, or to take advantage of a particular situation or investment. Exceptions from this policy must be approved by the Investment Committee and presented to the Board at the next Board meeting.

Investment Custody and Management Services Agreement

The FWCJUA opened its investment account in August 1995. An additional investment account was opened in October 2004 for Subplan C funds (policies written between July 26, 2003 and June 30, 2004). Two additional investment accounts were opened in December 2005 for Tier 2 and Tier 3, respectively. The separate accounts maintain the separation of funds, as each subplan and tier has different characteristics and criteria, should the need for an assessment be warranted.

The FWCJUA utilizes the services of an Investment Custodian, Wachovia Capital Management Group (formerly South Trust Asset Management and South Trust Estate & Trust Company of Florida), who has provided Investment Custodial and Investment Management Services to FWCJUA pursuant to a Custody Service Agreement since 1995.

BHC reviewed the Custody Services Agreement noting that the agreement contained, among other provisions, requirements for the safekeeping of custodial property, additions, withdrawals, and investments to custodial property, reports to be provided to the FWCJUA, and compensation for services. BHC noted that the agreement contained special provisions as follows:

- All investments must be in compliance with the FWCJUA's Investment Policy;
- Authorized individuals that can initiate transactions are the Executive Director, Operations Manager, or Controller;

- The FWCJUA may, from time to time, alter the special provisions of the Custody Service Agreement upon written notice.

Investment Statement Reconciliations

BHC reviewed the FWCJUA's procedures for investment statement reconciliation as described in the FWCJUA Accounting Policy & Procedures document. The purpose of this documented process is to reconcile the investment statements from the bank to the FWCJUA's investment activity, and to create proper journal entries for cash received, acquired or disposed investments, and accruals for investment income.

The Senior Accountant reconciles and prepares all journal entries and updates all investment spreadsheets. The Controller reviews the statements and all documents prepared by the Senior Accountant. As the Controller talks with both Wachovia and SunTrust at least monthly, she is fully aware of what activity has taken place in the investment accounts.

Testing of Investments

BHC reviewed the FWCJUA's 2003 through March 31, 2006 general ledgers, noting that the FWCJUA paid Investment Administrative Fees to Wachovia or its predecessors in the following amounts:

2003	$ 21,422
2004	23,056
2005	27,847
2006 (through March 31)	7,750
Total	$ 80,075

BHC requested copies of the September 2004 and October 2005 investment reports received by the FWCJUA from the custodian bank, and the reconciliation reports for those periods prepared by the Controller to test for the FWCJUA's compliance of its investing activities with the Investment Policy. The reconciliation reports are prepared at least quarterly, and sometimes more often, depending on the volume and type of investment activity. These reports list each investment by its investment category, compare the total percentage of investments in each category to the minimum / maximum required percentages described in the FWCJUA's investment policy, and note whether the investment activity is in compliance with the investment policy.

BHC reviewed the October 2005 reconciliation report noting that the Controller identified an investment that exceeded a maximum percentage threshold, and in the interest of taking advantage of rising interest rates and maximizing investment return, exercised the Investment Policy's exception provision, in order to promulgate a change in the Investment Policy. The Controller followed proper procedure of presenting the recommended changes to the Investment Policy to the Chair of the Investment Committee, who authorized the exercise of the exception, and presented the exception directly to the Board. The Board passed the recommendation, and as stated previously, this modification was approved by the OIR on July 14, 2006.

In addition to testing for the FWCJUA's compliance of its investing activities with the Investment Policy, BHC tested FWCJUA's payments to its Investment Custodian / Manager to ensure that the payments were reasonable and in agreement with the provisions of the Custody Services

Agreement. BHC reviewed the invoices and supporting documentation for each quarterly payment to Wachovia or its predecessors during the scope period, and performed the following:

- Agreed the amount paid to the Investment Administration Fee expense in the general ledger;
- Recalculated the Investment Administration Fee using the fee schedule described in the Custody Services Agreement;
- Ensured that each voucher for payment was approved by a member of the Executive Management Team.
- Ensured that the FWCJUA's recalculation on the payment amount was attached to the invoice.

Review of Minutes from Board and Investment Committee Meetings

BHC reviewed the minutes of the 2003 through June 2006 Board and Investment Committee Meetings noting that the Investment Committee meets annually to review the FWCJUA's investment portfolio, investment strategy, the performance of the Investment Manager, and to recommend changes to the Investment Policy, if needed. The committee proposes any recommendations to the Board for consideration.

Based upon the procedures performed, BHC believes the FWCJUA's investment of funds and management of assets is adequate and is in compliance with the documented Investment Policy, Florida Statutes, and Plan of Operation. BHC noted that amounts paid by the FWCJUA to its Investment Custodian / Investment Manager were in accordance with the Custody Services Agreement. BHC believes the Controller is adequately monitoring the compliance of the investment activity with the Investment Policy, and that the Board and Investment Committee are adequately monitoring the investment of assets and the performance of the Investment Manager.

Procedure 7: Risk Management and Insurance: Assess the FWCJUA's adequacy of insurance coverages, benefits plans, bonds or other risk management programs.

Findings: BHC requested documentation of the FWCJUA's insurance coverage, benefit plans, and other risk management programs. The Executive Director provided BHC with copies of the FWCJUA's insurance policies and benefit plans, and discussed the FWCJUA's insurance coverage and other risk management programs with BHC.

Workers Compensation & Employers Liability Coverage

During 2003 through June 2006, Travelers Casualty & Surety Company provided workers' compensation and employer's liability coverage for the FWCJUA through Brown & Brown, Inc. (Brown & Brown), an insurance intermediary. BHC reviewed each annual insurance policy noting that the type of coverage, coverage limits, endorsements, exclusions, and other policy provisions appeared reasonable.

Directors & Officers (D&O) Coverage

D&O Insurance provides protection against liability from wrongful acts by Directors and Officers. A wrongful act may be any actual or alleged act, error, misstatement, misleading statement, omission, or breach of duty.

During 2003 through June 2006, Houston Casualty Company (HCC) and Landmark American

Insurance Company (Landmark) provided D&O primary insurance coverage and excess insurance coverage, respectively, through Brown & Brown, for the FWCJUA's Officers and Directors. The plan was administered by MAG Global Financial Products, LLC. BHC reviewed each annual insurance policy noting that the type of coverage, coverage limits, endorsements, exclusions, and other policy provisions appeared reasonable. BHC noted that the annual premium amount as shown on the insurance contract or supporting documentation including invoices, agreed to the amounts paid each year based on BHC's review of the FWCJUA's vendor history reports or the general ledger.

Commercial Crime Coverage (Fidelity Bond)

Commercial Crime coverage helps compensate an employer for loss of money or other property caused by the dishonest act of its bonded employees. During 2003 through June 2006, The Hartford provided commercial crime coverage for all FWCJUA employees through Brown & Brown. BHC reviewed each annual policy renewal letter, noting that premium amounts appear reasonable, authorization to renew the policy was given by the Controller, and the annual premium amount per the renewal letter agreed with the amounts paid each year to Brown & Brown based on BHC's review of the vendor history reports or the general ledger.

Commercial Package Policy

A Commercial Package Policy is designed to provide property and liability coverage in one policy. During 2003 through June 2006, Old Dominion Insurance Company (ODIC) provided commercial property and liability coverage for FWCJUA through Brown & Brown. BHC reviewed each annual insurance policy noting that the type of coverage, coverage limits, endorsements, exclusions, and other policy provisions appeared reasonable. BHC noted that the annual premium amount as shown on the insurance contract or supporting documentation including invoices, agreed to the amounts paid each year based on BHC's review of the vendor history reports or the general ledger.

The Controller informed BHC that during the scope period of this engagement, the FWCJUA did not change its coverage type or coverage limits, or encounter any significant endorsements or exclusions. The Controller stated that if these events had occurred, the Board would discuss the matter, as it has in instances prior to our scope period when coverage needed to be revised.

Benefits Plan

During 2003 through June 2006, FWCJUA offered its employees a comprehensive benefits package.

- Paid Holidays and Vacation.
- Paid Discretionary Days.
- Health Insurance – paid entirely by the FWCJUA.
- Dental Insurance – paid entirely by the FWCJUA.
- Short Term Disability Insurance (STD) – 60% of earnings, maximum of $2,500/week, 7-day elimination period. Paid entirely by the FWCJUA.
- Long Term Disability Insurance (LTD) – 60% of monthly earnings, maximum of $6,000/month, 90-day elimination period. Paid entirely by the FWCJUA.
- Life Insurance – Life and AD&D coverage equal to the employee's annual salary. Paid entirely by the FWCJUA.
- 401(k) Plan – up to 8% match.

- Flexible Spending Accounts (FSA) (2005 & 2006) – for medical and dependent care expenses.

The Controller informed BHC that these benefits are available to all employees, and the eligibility period begins on the first day of the next month following 30 consecutive days. Employee benefits are described further in Part B – Procedure 13.

Based on BHC's review of the FWCJUA's insurance coverages, benefits plans, fidelity bonds, and other risk management programs, BHC believes these programs are adequate to support the operations of the FWCJUA.

Procedure 8: Review and evaluate the FWCJUA's assessment practices to ensure compliance with Florida Statutes.

Findings: As stated in the background section of this report, the Board has the power to levy an assessment, subject to the approval of the OIR, to fund the FWCJUA's cash flow deficits. As an alternative to levying an assessment, funds from the state of Florida, Workers' Compensation Administration Trust Fund (WCATF) may be transferred to the FWCJUA upon the Board's request of the DFS and upon the approval of the Legislative Budget Commission (LBC).

The Board did not levy any assessments in fiscal years 2003, 2004, 2005, or through June 30, 2006.

BHC reviewed the Florida Statutes effective from 2002 through 2006 and the FWCJUA's Plan of Operation versions that existed from 2002 through 2006 to obtain an understanding of the FWCJUA's assessment requirements or alternatives.

During 2003 through 2005, Subplan D and Tiers 1, 2, and 3 incurred deficits.

BHC reviewed the minutes from meetings of the Board from 2003 through June 2006, noting that the Board held extensive discussions during this period regarding how to eliminate the deficits. BHC noted that the premium rates could not be raised above the capped levels set by Florida Statutes, so other alternatives were discussed.

The Board consistently agreed throughout the 2003 through June 2006 time period that a "below the line" assessment was an option that should be executed only after other alternatives had been exhausted. Requesting access to the contingency reserve was the most favorable option, followed by the purchase of a loss transfer product that could address the current deficit while possibly eliminating the need for future assessments.

BHC noted that during 2003 through June 2006, no "below the line" assessments were levied and no loss transfer products were purchased. Funds were transferred from the WCATF to the FWCJUA directly to the Subplan D fund BHC tested the amounts transferred from the WCATF to the Subplan D bank account.

BHC reviewed FWCJUA's Programs to Eliminate the Deficit as of December 31, 2003, December 31, 2004, and December 31, 2005 (for individual rating plan deficits), noting that the details contained in these programs accurately reflect the discussions noted in the minutes of the Board Meetings. BHC noted that these programs were submitted to the OIR within 90 days after the filing of the FWCJUA's audited financial statements for each respective year, in accordance with Florida Statute § 627.311(8)(e).

Based upon BHC's discussion with the Executive Director, reviews of the 2002 through 2006 Florida Statutes, the Plan of Operation, minutes from Board Meetings during 2003 through June 2006, and supporting documentation for WCATF transfers, BHC believes the FWCJUA's assessment policies and procedures are in compliance with the applicable governing documents. In addition, BHC noted that the Board's discussions of alternatives to eliminate deficits were consistent with the language contained in the Florida Statutes regarding alternatives available to eliminate deficits.

Procedure 9: Review the FWCJUA's documented and undocumented procedures for records storage and retrieval, including contracts with record storage facilities and determine if procedures for records retention and record destruction are in substantial compliance.

Findings: BHC inquired of the Executive Director whether a documented records retention or records destruction policy exists. The Executive Director provided BHC with a draft of the FWCJUA's Records Management and Retention Policy (including records destruction requirements) dated March 2005 and scheduled to be presented to the Board for review in December 2006. This draft policy is being enforced as the FWCJUA's Records Management and Retention Policy prior to the Board's review and approval.

The Executive Director informed BHC that prior to March 2005, a records management and retention policy did not exist, as the FWCJUA kept all records on site at the FWCJUA's office. The Executive Director informed BHC that additional procedures for records storage and retrieval are documented in the FWCJUA's Disaster Recovery & Emergency Preparedness Plan (DRP) described in more detail in Part D – Procedure 22.

BHC reviewed the DRP and interviewed the Executive Director, Controller, and Systems Manager regarding the FWCJUA's records storage, retrieval, and retention. The FWCJUA has purchased an electronic document management system (EDMS) that will soon allow all FWCJUA documents except for claims documentation to be stored electronically, creating a paperless environment while providing for efficient user-friendly storage and retrieval of information. The process of converting paper files to electronic format is ongoing, and FWCJUA expects the conversion to be completed by year-end 2006.

The FWCJUA's Policy Administration and Managed Care Services provider is Travelers, and Travelers' Florida office maintains a complete policy file including the original application and the Declaration Page, in accordance with NAIC standards.

Complete claim files on every FWCJUA claim is maintained at Travelers' Florida office, and electronically in Travelers' claims system. Active claim management / reinsurance notification files for serious injuries are maintained at the FWCJUA office with the reinsurance notification files retained in the EDMS.

Accounting records are maintained in the EDMS and financial transactions in the general ledger are recorded electronically and subject to the daily file backup procedures, described in Part D – Procedure 22.

The FWCJUA's Operations Manuals are maintained in the EDMS with hard copies on site at the FWCJUA.

During the scope period of this examination, FWCJUA did not utilize the services of a records storage facility, as the FWCJUA's current and prior office locations were large enough to house all of FWCJUA's records. After fully converting to the EDMS, FWCJUA records will be stored electronically and protected through the FWCJUA's file backup procedures, described in Part D – Procedure 22.

Draft of the FWCJUA Records Management and Retention Policy

BHC reviewed the draft of the FWCJUA Records Management and Retention Policy. The policy described the responsibility of FWCJUA's personnel for implementing the policy, procedures for records retention, placing a hold on legal documents, storage and retrieval of documents, and destruction of documents.

The policy contained a retention schedule listing each record type, subcategory, and retention period. Certain records including, but not limited to, Board and Committee Meeting minutes, Bylaws, Articles of Incorporation, insurance licenses, Certificates of Authority, financial statements, and correspondences with regulators are to be maintained permanently.

Based upon BHC's review of the documented procedures for records storage, retrieval, retention, and destruction, and discussions with the Executive Director, Controller, and Systems Manager regarding the EDMS, BHC believes the FWCJUA's procedures for records storage, retrieval, retention, and destruction are adequate. BHC believes the length of time for the retention of the specific types and subcategories of records appears reasonable, and the Records Management and Retention Policy appears to be comprehensive and complete.

Recommendation: *BHC recommends that prior to the Board's approval of the draft of the FWCJUA's Records Management and Retention Policy, FWCJUA's management should update the policy for the following areas:*

- *The Electronic Document Management System.*
- *The draft policy includes emphasis on off-site storage (i.e. references to document storage vendors who will shred FWCJUA documents, preservation of off-site storage facilities, procedures for packaging, bundling, and labeling hard copy records). The FWCJUA does not currently use off-site storage, and emphasizes electronic storage. The FWCJUA may choose to include provisions for off-site storage, as the need may arise. Currently, there is no document storage vendor.*
- *The destruction of the FWCJUA documents should be expanded to address the individual(s) responsible for shredding documents.*

While there may still be a need for the storage of some hard copy records, the Records Management and Retention Policy should reflect the FWCJUA's efforts to move toward a paperless environment.

PART B – FINANCIAL PERFORMANCE

Procedure 10: Review the FWCJUA's financial performance for 2003, 2004, 2005, and through June 30, 2006, and compare that performance to prior years and budget amounts. Note any unusual variances or inefficiencies.

Findings: BHC discussed the financial performance of the FWCJUA with the Executive Director and the Controller, and the Executive Director provided BHC with a spreadsheet of statutory balance sheet and income statement actual results by line item (the financial analysis) compared to the prior year's actual results for the periods ending December 31, 2003, 2004, and 2005. BHC noted in the Board minutes for 2003 through June 2006 that the financial analysis was referenced as an attachment to the Board Agenda Package for each quarter, and the Controller presented the differences between the current and prior year's actual financial results.

BHC reviewed the financial analysis, noting that the analysis contained the current year and prior year final statutory balances, including the dollar amount change and percentage change from the previous year. In addition, the financial analysis included an explanation of each line item variance.

The FWCJUA's comparisons of financial results between budget and actual amounts are described in Part B, Procedure 11.

Based upon the procedures performed, BHC believes the financial performance of the FWCJUA is consistent with BHC's understanding of the operations of the FWCJUA, and the FWCJUA is properly monitoring, analyzing and reporting significant variances. The FWCJUA's explanations for significant variances in balance sheet and income statement line items appear reasonable and consistent with BHC's understanding of the operations of the FWCJUA.

Procedure 11: Review the FWCJUA's general operating and administrative expenses for 2003, 2004, 2005, and through June 30, 2006.

Findings:

<u>General and Administrative Expense Allocation Procedures</u>

BHC obtained and reviewed a copy of the FWCJUA's General and Administrative Expense Allocation Procedures.

The FWCJUA's general and administrative (G&A) expenses are paid out of the Operating Account and expensed in the general ledger accounts. However, these expenses must be allocated back to the individual subplans/tiers. The FWCJUA utilizes the number of applications bound and the number of applications rejected during the month as its allocation base. The FWCJUA calculates a percentage for the total bound applications by subplan/tier, and applies that percentage to the total G&A expenses to calculate the amount of G&A expenses allocable to each.

This expense allocation is computed monthly after the 15th of the following month check run, so all expenses related to the month have been expensed. The Accountant handles all accounts payable and performs the calculation of the allocation. The Accountant creates journal entries to expense the G&A Allocation to each subplan/tier, and sets up a payable to the subplans/tiers and a receivable for the Operating Account, since these expenses have already been disbursed from the Operating Account. The Senior Accountant reviews the calculation for accuracy. The Controller reviews and approves the calculation and makes the necessary cash transfers using the SunTrust Online Treasury Management System. After transferring the cash, the Controller gives the Accountant an adjusting journal entry that will clear the payable and receivable outstanding.

Budget Variance Reports for General Operating and Administrative Expenses for 2003 through 2005

The Controller provided BHC with a copy of the FWCJUA's Annual Budget Variance Reports for the years 2003, 2004, and 2005. BHC reviewed the minutes from the Board from 2003 through June 2006, noting that the Annual Budget Variance Reports as well as Quarterly Budget Variance Reports were referenced as an attachment to the Board Agenda Package for each respective quarter, and the Controller presented the differences between the budget and actual financial results.

The Budget Variance Reports detail the actual dollar amounts, budget dollar amounts, variance between actual and budget dollar amounts, and percentage of actual dollar amounts to budget amounts for all revenue and expense categories. In addition, the Budget Variance Reports details all budget and actual expense line items as a percentage of earned premiums.

BHC reproduced the general and administrative expenses portion of the FWCJUA's Budget Variance Reports for 2003, 2004, and 2005 as Exhibits 3, 4, and 5, respectively.

For 2003, 2004, and 2005, BHC reviewed a total of 32 budget line items for each year, and performed a comparison between budget and actual results, using a threshold of budget line items greater than $5,000. For seven (22% of 32 line items), ten (31% of 32 line items), and seven (22% of 32 line items) account line items for 2003, 2004, and 2005, respectively, the variance percentage between budget and actual results was greater than 50% (favorable or unfavorable). BHC does not consider these variance percentages to be excessive, based on our review of the financial variance discussions in the Board minutes and our understanding of the volatile operations of the FWCJUA.

BHC reviewed the detailed general ledger trial balance for 2003, 2004, 2005, and through March 31, 2006, and scanned the general ledgers for unusual or questionable expenditures. BHC noted no expenditures that were considered unreasonable or inconsistent with our understanding of the FWCJUA. As described in Part B – Procedure 14, BHC also reviewed invoices from specific vendors.

Based upon the procedures performed, BHC believes the FWCJUA's operating and general and administrative expenses during 2003 through June 2006 are reasonable and consistent with our understanding of the operations of the FWCJUA. BHC did not note any unexplained variances, inefficiencies, questionable expenditures, or inefficient uses of cash.

Procedure 12: Review the FWCJUA's travel expenses for 2003, 2004, 2005, and through June 30, 2006.

Findings: BHC obtained and reviewed a copy of the FWCJUA's Travel and Expense Reimbursement Procedures.

- It is the policy of the FWCJUA "to reimburse Board Members and employees for all ordinary and necessary expenses incurred as a result of performing duties on behalf of the organization."
- All expenses over $25 are to be substantiated by a receipt when possible.
- Expense reports filed by the Executive Director must be approved by the Board Chair or an Officer of the FWCJUA other than the Executive Director.

- Personal travel is not reimbursable, nor is travel for a spouse, other relative, or friend, unless there is a clear business purpose for their attendance.

- The Executive Director may authorize employees who travel frequently to have a corporate credit card.
- Mileage/travel credits offered by airlines, hotels/motels and auto rental agencies may be retained by employees for their personal use.
- Business use of a personal auto is reimbursed at the current Internal Revenue Service (IRS) rate per mile. The IRS mileage rate for 2003, 2004, 2005 (January – August), 2005 (September – December), and 2006 was 36¢, 37.5¢, 40.5¢, 48.5¢ and 44.5¢ per mile, respectively.
- Lodging should be adequate but not extravagant, and an itemized bill must be submitted with an individual's expense report.
- Meals and entertainment expenses should be adequate but not extravagant.
- Personal expenses incurred because of a mandated FWCJUA work assignment are reimbursable if pre-approved by the Executive Director. Expense reports should include receipts for expenses over $25, the date, place, and essential character of the expense and the name and location of the hotel, dates of stay, and the separate amounts for charges such as lodging, meals and telephone. A restaurant receipt should show the name and location of the restaurant, the date, and the amount of the expense.
- Travel advances must be requested by completing a Request for Check, and the Executive Director must authorize the request. If it is less than $1,000, it must be signed by the Executive Director or Controller; if it is for more than $1,000, it must be signed by the Executive Director.
- Expense reports must be completed by individuals seeking reimbursement.

Testing of Travel Expenses and Reimbursements:

BHC reviewed travel expenses during the periods 2003, 2004, 2005, and through June 30, 2006 by randomly selecting travel expense transactions from the FWCJUA's general ledger incurred by the FWCJUA's personnel and Board members and requesting for review the expense reports prepared by these individuals. BHC tested these expenses for reasonableness and compliance with travel policies and procedures by performing the following:

- Determined whether the expenses incurred were reasonable.
- Determined whether the expenses incurred were classified into the proper category in the general ledger.
- Agreed travel expenses to proper posting, proper inclusion in accounts payable, and timely payment to the individual.
- Determine whether proper approvals were obtained prior to reimbursement for travel expenses.
- Determined whether correct mileage rates were utilized for the reimbursement of mileage.
- Determined whether expense reports were completed, and completed in a timely manner.

- Determined whether original receipts were included for all applicable travel and entertainment expenses, according to the Travel and Expense Reimbursement Procedures.
- Determined whether there was a clear business purpose for expenses whereby reimbursement was requested.
- Ensured that no personal expenses were included on expense reports.

Based upon the procedures performed, BHC believes that the FWCJUA travel expenses incurred during 2003, 2004, 2005, and through June 30, 2006 were reasonable and were reimbursed in accordance with the FWCJUA's Travel and Expense Reimbursement Procedures. BHC noted that proper approvals were obtained prior to reimbursement, all reimbursable expenses were for a clear business purpose, no personal expenses were included on the expense reports, and original receipts were included, where applicable.

Procedure 13: Review the FWCJUA's payroll expenses for 2003, 2004, 2005, and through June 30, 2006.

Findings: At December 31, 2003, 2004, 2005, and June 30, 2006, the FWCJUA employed 18 individuals. BHC interviewed the Controller and reviewed the year-to-date payroll summary for December 2003, 2004, 2005, and June 30, 2006. The FWCJUA utilizes the services of Paychex, Inc. (Paychex) to provide payroll processing services and payroll related services to the FWCJUA.

Testing of Payroll

BHC reviewed the year-to-date payroll summary reports for December 2003, 2004, 2005, and June 30, 2006, and spreadsheets prepared by the Controller detailing employee salaries during the scope period of this examination. BHC prepared an analysis of salary increases for FWCJUA employees during the 2003 through 2005 period, noting that staff generally received an annual 3% to 5% increase in salary, effective July 1 of each year. Staff salaries for 2006 are not included in the comparison, because those salary adjustments become effective on July 1, 2006, after the scope period of this examination.

Executive Compensation

During the 2003 through December 2005 time period, compensation for FWCJUA's Executive Staff positions was comprised of the following three components:

1. Base pay – determined by the Executive Compensation Committee with input from the Executive Director, and approved by the Board.
2. Project bonuses – paid to the Executive Staff, upon Board approval, for timely completion of specific projects/goals.
3. At risk compensation – a component of salary equal to 15% of the Executive Director's salary, and 10% each of the salaries of the other three Executive positions. This compensation will only be paid after the Executive Compensation Committee reviews the performance of the Executive Staff for the year, determines if the Executive Staff's performance merits the payment of at-risk compensation, and recommends to the Board that the FWCJUA pay this at-risk compensation to the Executive Staff. If approved by

the Board, the at-risk compensation is paid.

During 2003 through December 2005, the Executive Compensation Committee of the Board met at least annually to discuss, among other topics, appropriate compensation for the FWCJUA's four Executive Staff positions: Executive Director, Operations Manager, Program Manager, and Controller. In 2005, the Board commissioned an independent study by a consulting firm of executive compensation for organizations similar to the FWCJUA. BHC reviewed the report issued by the consulting firm, noting that in the study, the consulting firm reported executive salary data for both "non-state agency funds (organizations operating in a competitive environment whose compensation for the CEO is determined by its Board of Directors, not by State Government) and for state agency funds (salaries determined by the State Government). The study also reported on at-risk compensation for similar type organizations.

The Board decided in December 2005 to simplify the compensation package for the Executive Management team and voted to eliminate the project bonuses and at-risk compensation, and increase the base salaries of the Executive Management team. This decision was based on the independent study, discussions with the Executive Compensation Committee, and consideration of the environment in which the FWCJUA operates (The FWCJUA is neither profit nor growth oriented, and thus, it is difficult to establish key performance measurements, similar to those which are available in the private industry).

Based upon the procedures performed, BHC believes that management, the Executive Compensation Committee, and the Board are providing adequate oversight of the salaries of FWCJUA personnel.

Procedure 14: Review all FWCJUA contracts and agreements that were effective during the years 2003, 2004, 2005, and through June 30, 2006. Select a sample of payments to vendors under contracts and agreements and determine if payments were made in accordance with contract provisions.

Findings: BHC requested a copy of all FWCJUA contracts and agreements that were effective during the years 2003, 2004, 2005, and through June 30, 2006. Contracts included legal and public affairs services, collection services, policy administration and managed care services, auditing services, actuarial services, investment management services, and other services.

BHC noted that there were two one-time consulting engagements for which a contract was not prepared between the vendor and the FWCJUA. One engagement was for evaluation of an RFP for $17,500 and the other was for the preparation of an update to the Executive Compensation Plan for $1,200. BHC reviewed supporting documentation for these engagements and noted that actual payments made agreed with the supporting documentation. BHC reviewed minutes from meetings of the Board, noting that the Board was aware of these consulting engagements.

During the 2003 through 2006 time period, the FWCJUA received litigation management services from an attorney who has provided services to the FWCJUA for several years. The attorney charges a rate of $160/hour for services, but there is no contract between the attorney and the FWCJUA. BHC inquired of the Executive Director and was informed that the attorney has provided services for several years to the FWCJUA and charges a favorable rate.

The total amount paid to this attorney during 2003 through June 2006 was $76,248. BHC reviewed invoices submitted by the attorney to the FWCJUA during 2003 through 2006, noting that services provided included the following:

- Analysis of claims and settlements, and reports;
- Correspondences with the FWCJUA staff, Travelers, and other entities;
- Participation in meetings;
- Legal research; and
- Participation in claim reviews.

BHC noted that the rate charged by the attorney was correct and reviewed a correspondence from the attorney to the FWCJUA stating the billing rate, and the Operations Manager's handwritten approval of the billing rate. BHC believes the litigation management services provided to the FWCJUA appears reasonable and the attorney's billing rate appears reasonable. However, BHC believes that litigation services provided by the attorney should be documented by a written contract.

Based upon the procedures performed, BHC believes the payments made by the FWCJUA to vendors for contracted services were made in accordance with the provision of the contracts.

Recommendation: *The FWCJUA should consider obtaining a written contract with outside attorneys for litigation management services. Having signed written contracts for all services performed by outside parties is considered good business practice, and a written agreement will better equip the FWCJUA and its Board to establish oversight and the monitoring of performance under contracts.*

PART C – Payments, Allocations, Recoveries, & Financial Auditing

Procedure 15: Review the FWCJUA's documented and undocumented procedures and the method used for expense allocation, including policyholder claims losses, loss adjustment expenses, and unallocated expenses including administrative expenses, noting the accuracy and consistency of charging expenses to the appropriate categories and the accuracy of allocations in compliance with the documented and undocumented procedures. Comment on discrepancies between external reports to Receivers and internal guaranty association reports and documentation.

Findings: The FWCJUA utilizes the services of Travelers to provide claims administration services, including the settlement of claims. As the claims administrator, Travelers is responsible for the allocation of expenses including policyholder claims losses and loss adjustment expenses. The FWCJUA handles the allocation of general and administrative (G&A) expenses to individual subplans/tiers, and this function is described in Part B – Procedure 11.

Monthly Claims Settlement Reports Prepared by Travelers

BHC randomly selected a Monthly Settlement Report prepared by Travelers and the FWCJUA provided this report to BHC for analysis and testing. BHC noted that the Monthly Claims Settlement Report package contained the following:

- Cover Letter from Travelers to the FWCJUA Controller, showing the amounts due to and due from the FWCJUA by subplan/tier.

- Monthly Cash and Statistical Reports.

  FWCJUA Monthly Summary Cash Activity Report (reports for all plans combined, all plans prior to July 26, 2003, and individual subplans/tiers).

  FWCJUA Monthly Summary Statistical Report (reports for all plans combined, all plans prior to July 26, 2003, and individual subplans/tiers).

  FWCJUA Schedule of Service Carrier Allowance Rates (reports for all plans combined, all plans prior to July 26, 2003, and individual subplans/tiers).

  FWCJUA Schedule of Service Carrier Allowance Rates, Plus Deposit Adjustments (reports for all plans combined, all plans prior to July 26, 2003, and individual subplans/tiers).

- Summary of Paid Loss Activity and Outstanding Losses for Current Month for the Loss Portfolio Transfer Agreement (Accident Years 1994 – 1999).
- Occurrence Retention Monitoring Report and Excess Calculation for the Loss Portfolio Transfer Agreement (Accident Years 1994 – 1999).
- Aggregate Deductible Activity Monitoring Report for the Loss Portfolio Transfer Agreement (Accident Years 1997 – 1999).
- Aggregate Deductible Retention Monitoring Report for the Loss Portfolio Transfer Agreement (Accident Years 1997 – 1999).
- FWCJUA Collected Premiums (reports by individual subplans/tiers).
- FWCJUA Collected Premiums (reports by individual subplans/tiers, and combined for all plans prior to July 26, 2003).
- Management Waivers and other Charges Report (report by individual subplans/tiers, and combined for all plans).

Testing of Expense Allocations

Using these reports, BHC traced the amounts reported by Travelers as due to the FWCJUA and due from the FWCJUA by separate subplan/tier accounts into the FWCJUA's general ledger, noting that the amounts due to the FWCJUA or due from the FWCJUA were recorded in the proper receivable/payable accounts and the proper cash accounts for each subplan/tier.

BHC noted that the Monthly Settlement Reports are included as required reports to be submitted to the FWCJUA in the Reporting Requirements documented procedure, described in Part A – Procedure 4.

The Controller informed BHC that the Systems Manager receives through a secure online file transfer link, the electronic detailed data supporting the Monthly Settlement Reports prepared by Travelers, and notifies the Controller when the data is received. When the Controller receives the Monthly Settlement Reports from Travelers, she gives the report to the Senior Accountant, who loads the electronic data into the FLARE[3] system, which summarizes premiums, losses, loss adjustment expenses, and other data. The Senior Accountant then prepares journal entries and enters the summary data into an Excel spreadsheet to verify the totals are correct on the Monthly Settlement Reports from Travelers. The Controller reviews the work of the Senior Accountant, and informed BHC that there has only been one instance in the last nine years (the tenure of the

Controller at the FWCJUA) in which the totals did not agree between the Monthly Settlement Reports and the FWCJUA's summary spreadsheet of Travelers' detailed data.

BHC reviewed the Excel spreadsheets prepared by the Senior Accountant, noting that the totals agreed with the Monthly Settlement Reports submitted to the FWCJUA by Travelers.

The Operations Manager informed BHC that the FWCJUA is able to review through the Travelers' CARMA system certain expenses allocated by Travelers, including attorney fees, surveillance expenses, and managed care expenses. The Operations Manager stated that the FWCJUA's independent financial auditors annually test the detail of the FWCJUA claims expenses recorded by Travelers.

The Operations Manager informed BHC that Travelers is currently developing a report for the FWCJUA that will report claims expenses by expense categories and this report will assist the Operations Manager in his oversight of Travelers' expense allocations. The Operations Manager stated that the report development should be completed by the end of 2006.

Claims Audits of Travelers

The Executive Director informed BHC that Travelers has not undergone a SAS 70 Audit. SAS 70, "Reports on the Processing of Transactions by Service Organizations" is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit is performed by an independent auditor and its purpose is to evaluate and issue an opinion on the adequacy and function of the internal controls that a service organization has in place and to test the operating effectiveness of those internal controls. The nature of a SAS 70 audit may not test the specific and unique requirements of the FWCJUA but will provide the Board with critical assurances of the existence of internal controls and the operating effectiveness of those internal controls of the third party policy and claims administrator. This type of audit is common within the insurance industry and is a contractual requirement of third party administrators by other organizations similar to the FWCJUA.

The FWCJUA business serviced by Travelers is subject to periodic claim reviews at Travelers' office by a review team comprised of the FWCJUA's Operations Manager, the FWCJUA's consulting litigation manager, Travelers' Claims Manager for FWCJUA claims, Travelers' case managers, and any other experts needed. During the scope period of this examination, these claims audits were conducted twice each year, except during 2004, when the audits were conducted every quarter. The files selected for review generally include all cases with total incurred costs over $50,000, any cases open for over 110 weeks, and any unusual cases.

In addition, every quarter, a review is conducted by conference call attended by the review team listed above. During this review, all claims with total incurred costs greater than $400,000 are reviewed. The Operations Manager informed BHC that there are usually less than 20 claims that meet this criterion.

Based upon the procedures performed, BHC believes the method used for the allocation of loss adjustment expenses, unallocated expenses, and administrative expenses are in compliance with the FWCJUA's documented and undocumented procedures. BHC considers the claims reviews performed on Travelers for FWCJUA business to be adequate and performed at an appropriate frequency.

Since the FWCJUA is a joint underwriting association, not a guaranty association, the elements of Part C – Procedure 15 regarding discrepancies between external reports to Receivers and internal guaranty association reports and documentation are not applicable to the FWCJUA.

Recommendation: *The FWCJUA should consider requiring Travelers to engage an independent auditor to perform a SAS 70 audit and provide the Board with a copy of the audit report.*

Procedure 16: Review FWCJUA's documented and undocumented procedures for reporting and collecting subrogation or other types of recoveries.

Findings:

Reinsurance Recoveries

The FWCJUA's documented Claims Handling Procedures includes a section detailing the procedures for reinsurance recoveries. BHC reviewed these procedures, noting the following:

The FWCJUA maintains a reinsurance program with several reinsurance companies through a reinsurance intermediary, (the Benfield Group). The FWCJUA is responsible for keeping the reinsurer informed of any claims with the potential of becoming the reinsurer's responsibility to fund, and advising the reinsurer of any claims activity, including recoveries.

The FWCJUA maintains a claim file for certain claims, including serious injury claims, and this claim file is not a duplicate of the information retained in Travelers' original claim file. The FWCJUA claim file contains information on claims including serious injuries or accidents, claims settlement proposals and authorization letters, and other information including adjusters' notes, memorandums, or attorney case evaluations. FWCJUA maintains a separate file for any reinsurance recovery activity.

Upon receipt of a notice or check for subrogation or joint participation from a service provider or other carrier, employer, or attorney, the FWCJUA will:

- Forward the check to the Accounting Department for immediate deposit.
- Determine if the subrogation or joint participation should be returned to the reinsurers by reviewing the FWCJUA's reinsurance recovery claim file and notifying the reinsurer of the recovery, if applicable.
- If it is determined that the amount received was a valid recovery, the FWCJUA will issue a check to the reinsurance intermediary, who will then make the appropriate distribution to the reinsurers.

BHC reviewed the FWCJUA's detailed general ledger for 2004 and 2005, noting that reinsurance recovery activity was recorded in a reinsurance recovery account, the amounts were referenced as payable to the reinsurance intermediary, and the recoveries were deposited into the FWCJUA's operating account. BHC also reviewed the FWCJUA's Operating Account bank statement for December 2005, agreeing the December 2005 recoveries listed in the general ledger to deposits on the bank statement.

Collecting Outstanding Receivables

The FWCJUA utilizes the services of a third party organization to collect the FWCJUA's outstanding receivables, and the FWCJUA pays this organization a fee based on the amount of each individual account balance collected. BHC tested the amounts paid to this vendor under the contract as part of Part B – Procedure 14.

Based upon the procedures performed, BHC believes the FWCJUA's documented procedures for reporting and collecting subrogation or other types of recovery is adequate for the operations of the FWCJUA.

Procedure 17: Review audits conducted by independent accountants and evaluate the scope of the audits, the results of the audits, and note any deficiencies in the auditing process, including the qualifications of the auditors and the scope or frequency of the audits.

Findings: BHC reviewed the audit workpapers for the audit of the FWCJUA for the year ended December 31, 2005, including the audited financial statements for the years ended December 31, 2005 and 2004. The audit was performed by Thomas Howell Ferguson (THF) an independent certified public accounting firm located in Tallahassee, Florida. THF has performed the FWCJUA audit for five consecutive years and rotated the Engagement Partner for the 2005 audit. THF expressed an unqualified audit opinion on the comparative financial statements of FWCJUA.

Based upon BHC's review, BHC believes the 2005 audit of the FWCJUA was sufficient in scope, and BHC did not note any deficiencies in the auditing process. BHC further believes the audit was performed by qualified personnel and at an appropriate frequency.

PART D – IT Systems Operations and Administration, Disaster Preparedness

Procedure 18: IT/Operations – Separation of Responsibilities – With respect to systems operations, particularly cash disbursement processes, review IT responsibilities, and evaluate process controls including segregation of duties.

Findings: The FWCJUA conducts its IT functions in-house, and its IT Department consists of the Systems Manager and the Developer/Programmer.

BHC's review of FWCJUA's systems operations, including cash disbursements, is described above in Part A – Procedure 4.

The IT roles of the Systems Manager and Developer/Programmer as they pertain to the FWCJUA, including their qualifications and duties is described below in Part D – Procedures 20 through 22. The Systems Manager and Developer/Programmer are directly involved in computer support, file backup and recovery procedures, and software updates, described below in Part D – Procedures 20 through 22.

Procedure 19: Claims File Input/Output Controls – Review batch update processes, such as updates from Third Party Administrators (TPAs) or Uniform Data Standard (UDS) updates, if applicable, for appropriate controls and verification of processes. Similarly, review data extract processes and quality assurance procedures. Document and evaluate controls and quality assurance measures applied to any routine batch updates to the claims system. Beyond claims systems, determine if batch updates occur to any other system. If so, similarly evaluate controls.

Findings:

Uniform Data Standard (UDS)

The FWCJUA does not utilize UDS, a precisely defined series of data file formats and codes used by some Receivers and guaranty associations to exchange loss and unearned premium data electronically. Since FWCJUA is not a guaranty association, UDS reporting and data extract processes are not applicable.

Batch processing

Batch updates for claims processing is performed by Travelers, and review of such processing was outside the scope of this examination.

BHC inquired of the Controller and Systems Manager whether batch processing was used for any other system, and they informed BHC that other than check processing which occurs twice a month, the FWCJUA does not utilize batch processing for any other system. BHC reviewed controls and quality assurance procedures applied to batch processing to the check processing procedures in Part A – Procedure 4.

Based upon BHC's review, BHC believes the controls and quality assurance procedures in place at the FWCJUA, including controls and quality assurance procedures applied to batch processing to the check processing system, are adequate to support the operations of the FWCJUA.

Procedure 20: Assessment of IT Resources/Staffing – Through interviews and discussion with management and key staff members, assess the adequacy of IT resources. Determine if the current IT staffing level satisfactorily supports the FWCJUA's operations.

Findings: BHC discussed the adequacy of IT resources with the Executive Director, Controller, and Systems Manager and reviewed the qualifications and job descriptions of the Systems Manager and Developer/Programmer.

The Systems Manager is responsible for performing a variety of functions including programming, report design and maintenance of all computer systems as well as development and maintenance of the network infrastructure. The System Manager is also responsible for maintaining all necessary documentation of the FWCJUA's computer system and manages development projects. The Systems Manager maintains all computer software and data backups and is responsible for planning, maintaining, and implementing the Disaster Recovery Plans for all computer systems.

The Developer/Programmer is responsible for the design, analyses, and modification of programming systems including client server and web applications. The Developer/Programmer works with a full life cycle of applications including design and documentation and must possess advance programming knowledge and understand the interaction with the business processes of the FWCJUA. The Developer/Programmer performs a variety of tasks and helps maintain full IT infrastructure and support to end-users.

The Systems Manager and Developer/Programmer have been employed by the FWCJUA for approximately four years, and one year, respectively. The Systems Manager informed BHC that he and the Developer/Programmer attend training sessions or seminars as needed to maintain their level of education or skill to perform their duties at the FWCJUA. While performing fieldwork, BHC observed the Systems Manager and Developer/Programmer performing various IT duties and noted that these individuals appeared to be performing their duties efficiently and were communicating effectively with management and staff.

Based upon the procedures performed, BHC believes the IT resources including the current IT staffing level in place at the FWCJUA satisfactorily support the operations of the FWCJUA.

Procedure 21: Assessment of Adequacy of Technology Implementation – Through observations, interviews, and discussions, assess the adequacy of technology implementation to maximize operational efficiency and cost savings.

Findings: BHC discussed the adequacy of technology implementation with the Executive Director, Controller, and Systems Manager, and received a copy of the FWCJUA's Systems and Information Technology Policy. BHC reviewed this policy, noting that the policy contained the following sections:

- Acquisition and Life Cycle – describes replacement of computer equipment and selection of software vendors.
- Network Security – describes physical security, wireless access, anti-virus protection, and general security.
- Disaster Planning and Recovery – describes data backup, secondary website, electrical power, and a separate disaster recovery documents (described in Part D – Procedure 22).
- Software – describes software development, usage, installation, and updates.
- External Communication and Access – describes remote access by employees, vendors, and data encryption.
- Disposal Procedures – describes the need to erase hard drives if computer hardware is donated.
- Attachments for Data Backup and Hurricane Preparedness, described further in Part D – Procedure 22.

BHC believes this policy is adequate for the operations of the FWCJUA.

Computer Hardware

The FWCJUA's hardware environment includes an inventory of nine Dell servers (seven are currently in use), four workstation personal computers (PCs), and 14 thin clients.

A thin client is a network computer (the client) without a hard disk drive, which, in client/server applications, is designed to be especially small so that the bulk of the data processing occurs on the server. Advantages of thin clients include:

- Lower IT administration costs – Most IT administration costs are at the server.
- Easier to secure – Application data does not reside at client.
- Lower hardware costs – There are no hard disks, application memory, or powerful processors.
- Lower energy consumption – Dedicated thin clients hardware has much lower energy consumption than "thick" client PCs.
- Worthless to most thieves – Hardware is essentially useless outside a client-server environment.
- Less network bandwidth – Most network traffic is confined to the server room.

Three Dell workstations computers are utilized by the Controller, Accountant, and Developer/Programmer, respectively, and one Inspiron laptop computer is utilized by the Systems Manager. Capio and Neoware thin clients are utilized for the remaining 14 FWCJUA employees.

For its printing, copying, faxing, and scanning needs, the FWCJUA utilizes four Canon copiers with copy/fax/scanner/printer capabilities, two HP network printers, two OKI color laser printers, and two Dell black & white laser printers utilized by the Operations Manager and Controller, respectively.

Computer Software

The FWCJUA utilizes the Microsoft Windows XP operating system, Windows 2003 Server Edition, and Microsoft Office 2003. Passwords for all programs except for the Microsoft Great Plains Dynamics accounting software, discussed below, are required to be at least six characters and have at least one numeric character and at least one uppercase character. All passwords are required to be changed every 45 days, and users will receive a screen prompt prior to the password expiration.

The FWCJUA utilizes an internally developed software program, $FLARE^3$ to perform various operational functions. This program has modules for underwriting, claims, premiums, and reporting. $FLARE^3$ is a customized program modified by the FWCJUA, and the FWCJUA maintains the source code. $FLARE^3$ requires a separate password for access, beyond the password for the Windows XP Operating System, and each module has different levels of access according to the needs of the user.

The FWCJUA's accounting staff consists of the Controller, Senior Accountant, and Accountant, and these three individuals utilize the Microsoft Great Plains Dynamics accounting software. Great Plains Dynamics is an off-the-shelf software package and the FWCJUA does not possess the source code. Great Plains Dynamics requires a separate password for access, beyond the password for the Windows XP Operating System.

The FWCJUA utilizes an electronic document management system, iSynergy 3.6 (iSynergy), which is described in more detail in Part D – Procedure 22. This system allows users to recall imaged documents that have been previously scanned into the system. iSynergy is an off-the-shelf software package with some customization. FWCJUA personnel do not have access to the source code and the software vendor provides updates to the system. All employees can access this system, but there are passwords to limit access levels for different employee positions. For example, underwriting staff cannot access imaged bank statements, and accounting staff cannot access imaged policies and underwriting documents. iSynergy requires a separate password for access, beyond the password for the Windows XP Operating System.

Internet Access and Data Security

All employees have access to the Internet and FWCJUA utilizes Symantic Antivirus and e-mail and spam filters. Two firewalls provide protection from unauthorized or inappropriate activity.

FWCJUA Website

The FWCJUA maintains a website that contains the following information: history of the FWCJUA; FWCJUA financial statements; helpful information to employers and producers; notices of upcoming Board and Committee meetings; information on the Market Assistance Program; information on workplace safety; and, pricing and rate information.

There is also a secure location on the website for producers to submit applications for insurance coverage electronically.

IT Operations

Based on BHC's analysis, it appears that current IT resources including hardware, software, Internet access and IT support are adequate for the operations of the FWCJUA.

Based upon the procedures performed, BHC believes the FWCJUA's implementation of technology is adequate to support the operations of the FWCJUA, and current IT resources are in place to maximize operational efficiency and cost savings.

Procedure 22: Disaster Preparedness – Review and assess continuity of operations plans. Among other items, address the adequacy of IT preparedness, including file backup and recovery capability, off-site file storage, and systems recovery plans.

Findings:

Environmental Controls

In late 2004, the FWCJUA began a search to relocate its office to a facility that possessed sufficient, secure office space that meets disaster recovery standards as well as provide enough space to have committee and Board meetings in house. As a result, the FWCJUA relocated to its current office in November 2005. The office is on the second floor of a two-story concrete block building with the second floor consisting of a concrete slab over a steel joist floor system. The roof is a truss design with concrete barrel tile and the building has been designed to withstand 130 mph wind gusts, in accordance with the Florida Building Code.

Security is maintained by an electronic key card access system. During the hours of 7:30 A.M. through 5:30 P.M., the front door is unlocked and upon entering, a visitor has access to the reception area. Beyond the reception area requires the use of a key card.

For Board meetings or other meetings open to the public, the FWCJUA can allow visitors beyond the reception area to a common area. All other areas are restricted and can only be accessed with a key card.

Beyond the common area, is the area where the FWCJUA's staff performs their duties.

One interior room houses the FWCJUA's servers and related computer and electronic equipment. Access to this room is restricted to all key cards except for the Executive Management, the Systems Manager, and the Developer/Programmer. The room is temperature controlled and protected with a fire suppressant inert gas system.

The other interior room houses printers, copiers, scanners, and the fax machine, and access to this room is available to all FWCJUA personnel. This room is also temperature controlled and protected with a fire suppressant inert gas system. This room may be used as a "safe room" in the event of a disaster.

<u>Disaster Recovery and Emergency Preparedness Plan</u>

The Executive Director provided BHC with the FWCJUA's Disaster Recovery and Emergency Preparedness Plan (DRP). The Plan was originally formulated in 2003 and updated in 2006 after the FWCJUA occupied its new office in November 2005. The Executive Director informed BHC that this version of the DRP is undergoing revision and will be discussed at the Operations Committee Meeting on August 30, 2006. The 2006 revised plan is effective at the present time.

BHC reviewed the DRP, noting that the plan contained discussions of the following topics:

- Objectives
- Authority
- Location of Alternate Facilities
- Protecting FWCJUA Personnel
- Hurricane & Tropical Storm Threats
- Bomb & Biochemical Threats
- Loss of Power
- First Aid & Emergency Assistance
- Evacuation
- After-Hours Emergencies
- System Backup & Alternate Facilities
- Software Backup
- Data Files Backup
- Protecting & Storing Records & Assets
- Emergency Equipment Replacement Plan
- Protecting Computers and Local Area Networks
- Computer Virus Protection
- Hardware, Software, & Licenses
- Testing and Updating Disaster Recovery Plan
- Post-Disaster / Emergency Assessments
- Disaster Recovery Plan Approval
- Conclusion

Appendices to the report include the following:

- Threat Report
- Employee Contact Information
- Board Contact Information
- Systems Back-up Procedures
- FWCJUA Master Vendor Contacts & Phone Numbers
- Systems Administrator's Passwords, Access Protocols & Network Infrastructure
- Hardware & Software Inventory
- Departmental Checklists

The following items from the DRP are discussed in detail, below, along with supplemental comments based on BHC's interview of the Systems Manager:

- The DRP identifies the chain of command in the event of a disaster and the responsibilities of the management team.
- The Policy Administration and Managed Care Service Provider (Travelers) maintains its own DRP, which is not incorporated into the FWCJUA's DRP. The FWCJUA reviewed Travelers' DRP plan while evaluating Travelers' response to the March 2005 RFP for Policy Administration and Managed Care Services. The Executive Director informed BHC that the FWCJUA plans to review Travelers' DRP on an annual basis.
- Alternate facilities include:

  The FWCJUA's "safe room." BHC discussed this area with the Systems Manager, who informed BHC that this room can accommodate ten workstations.

  Homes of the Management team, for initial assembly, assessment, and assignments. Afterward, an alternate facility in Sarasota, Florida should be activated.

  Travelers' Regional office in Orlando, Florida, with accommodations at nearby hotels for personnel.

- For loss of power, the FWCJUA utilizes a generator that is capable of maintaining operations for up to 72 hours on one tank of fuel. BHC discussed the operation of the generator with the Systems Manager, who informed BHC that the generator starts automatically upon power interruption, and can operate 100% of FWCJUA's operations at 30% capacity of the generator. During fieldwork at the FWCJUA's office, BHC observed two occasions of power loss, and in both instances, the generator restored power within a few seconds. The Systems Manager informed BHC that he tests the system once a week, by automatically powering up the system with no load and noting whether the test was successful. If a test is unsuccessful, the Systems Manager would contact the vendor.
- The DRP discusses software backup and data file backup noting the following:

  The FWCJUA creates a backup copy of major software and data nightly and weekly stores these tapes in a bank vault off-site. The Systems Manager informed BHC that the bank vault is located at Bank of America. The Systems Manager has one key and there is another key located in a lockbox in the safe room. The lockbox key is maintained by the Systems Manager and the Executive Assistant.

  All software and full data back-up is duplicated nightly to tape and a secondary device and tapes are taken to the bank vault weekly. Tapes can be taken home every evening by selected management. The Systems Manager informed BHC that a backup runs automatically at approximately 7:00 P.M. nightly to a tape and to a secondary portable hard drive. The Systems Manager takes the tapes twice a week to the bank vault, or every night if a hurricane is approaching. The bank vault also stores hardware and software inventory listings and paper licenses.

  The System Manager informed BHC that the FWCJUA also utilizes the "Shadow Copy" feature of Windows 2003 to supplement its backup strategy. Shadow copies of shared folders enable the user to recover deleted or changed files that are stored on the network, by creating a "point-in-time" (snapshot) copy of changed files on a periodic basis. The shadow copy procedure runs every 12 hours. This procedure is useful for the recovery of files from smaller disasters such as the following:

  - A user accidentally deletes a file.
  - A user incorrectly modifies a file (i.e. using a template and overwriting the original by failing to "Save As" a new file).
  - A file is corrupted beyond repair.

- BHC noted that the iSynergy Document Management System enhances disaster recovery, as all FWCJUA documentation would exist in electronic format and would be included in the daily data backup process.

Testing of Data Backup

The Systems Manager informed BHC that he randomly tests data backup once a month by restoring a randomly selected file. The results of this test are not documented by the Systems Manager.

Testing of Disaster Recovery Plan

The DRP states that the FWCJUA shall periodically test the systems recovery process and that post-test evaluations should identify the following:

- What flaws did the response reveal?
- What measures could or should be taken to ensure that the response is more effective?
- Are FWCJUA personnel sufficiently and appropriately trained to deal with the problem?
- Did the FWCJUA have sufficient resources to deal with the particular emergency?
- What areas of the FWCJUA could be improved to prevent or minimize future emergencies of this nature?
- Can existing procedures be modified to clear up apparent misunderstandings?

The results of the systems recovery process are not documented.

The Systems Manager informed BHC that he tests various components of the Disaster Recovery Plan including the monthly testing of data backup, the weekly testing of the generator, and yearly verification of information with the telephone company.

Offsite Storage

The FWCJUA's volume of records does not necessitate the utilization of off-site storage. As stated previously, the FWCJUA utilizes an electronic document management system, and this system will eventually allow all FWCJUA documents to be stored electronically, creating a paperless environment while providing for efficient user-friendly storage and retrieval of information. At the time of BHC's fieldwork, the vendor payable files are essentially the only remaining documents that have not been fully converted to electronic format, but this process has begun, and the FWCJUA expects the conversion to be completed by year-end 2006. All current FWCJUA documents are being scanned into the electronic document management system on a going forward basis.

New Study on Disaster Recovery

The Executive Director provided BHC with a study conducted by the Systems Manager and Operations Manager to enhance the DRP, and the results of this study are on the agenda for the August 30, 2006 Operations Committee meeting. The focus of the new study is to evaluate the benefits of a Mobile Disaster Recovery Facility and an Off-site Hosting Facility.

A Mobile Disaster Recovery Facility is a temporary facility with pre-configured hardware (servers, workstations, telecommunications equipment (phones/fax/copier) with satellite connectivity that is delivered to a site of the customer's designation within 48 hours of request. It is a structure with an independent power source capable of housing staff for the duration of the emergency. In this case, it is a trailer.

An Off-site Hosting Facility is a vendor location housing a dedicated server capable of receiving "snap shots" of data via the Internet on a scheduled basis. The offsite server would be capable of backing up critical data – FLARE[3], accounting activity, daily operational activities, and document management information.

During the evaluation process, three mobile facility providers and three offsite hosting companies were evaluated, with estimated costs, advantages, and disadvantages taken into consideration. The Systems Manager and Operations Manager proposed to the Operations Committee at the conclusion of the study to recommend that the FWCJUA contract with a vendor in Charlotte, North Carolina to provide a completely equipped mobile disaster recovery facility to be delivered to a location of the FWCJUA's choice within 48 hours of the request, and to contract with a vendor in Dallas, Texas to provide an off-site hosting facility, using their equipment to replicate the FWCJUA's data to the hosted server in a near real-time capacity via the Internet.

Based on the procedures performed, BHC believes that the continuity of operations plans at the FWCJUA is adequate for the operations of the FWCJUA. During the performance of BHC's procedures, BHC noted that IT preparedness, file backup and recovery procedures, and system recovery plans are adequate.

Recommendation*: BHC recommends that the nightly backup be taken off-site daily, either to the bank vault or to the home of a Manager, the latter which was disclosed as an option in the DRP. The current practice of taking the back-up tape to the bank vault twice a week leaves FWCJUA exposed to a potential data loss of more than one day in the event of a sudden disaster, other than an approaching hurricane, for which the FWCJUA has planned for daily off-site data transport. Although the secondary backup may be removed at a moment's notice if a sudden disaster occurs during normal business hours, an after-hours sudden disaster could result in a potential loss of data for more than one day.*

Recommendation*: BHC recommends that the results of the monthly testing of data backup procedures by randomly restoring files should be documented to ensure that the process occurs at a specified time each month, different types of files are tested, and the results are available for review, by Management, the Operations Committee, or the Board.*

Recommendation*: BHC recommends that the results of the systems recovery process and post-test evaluations should be documented to ensure that the results are available for verification that the periodic testing is occurring at appropriate intervals and that results are appropriately communicated. BHC recommends that testing should occur at least once per year.*

***Recommendation**: BHC recommends that the FWCJUA execute its intention to review Travelers' Disaster Recovery Plan on an annual basis.*

Examination Report Submission

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.

EXHIBIT 1

Exhibit 1

FLORIDA WORKERS COMPENSATION JOINT UNDERWRITERS ASSOCIATION, INC.
ORGANIZATIONAL CHART

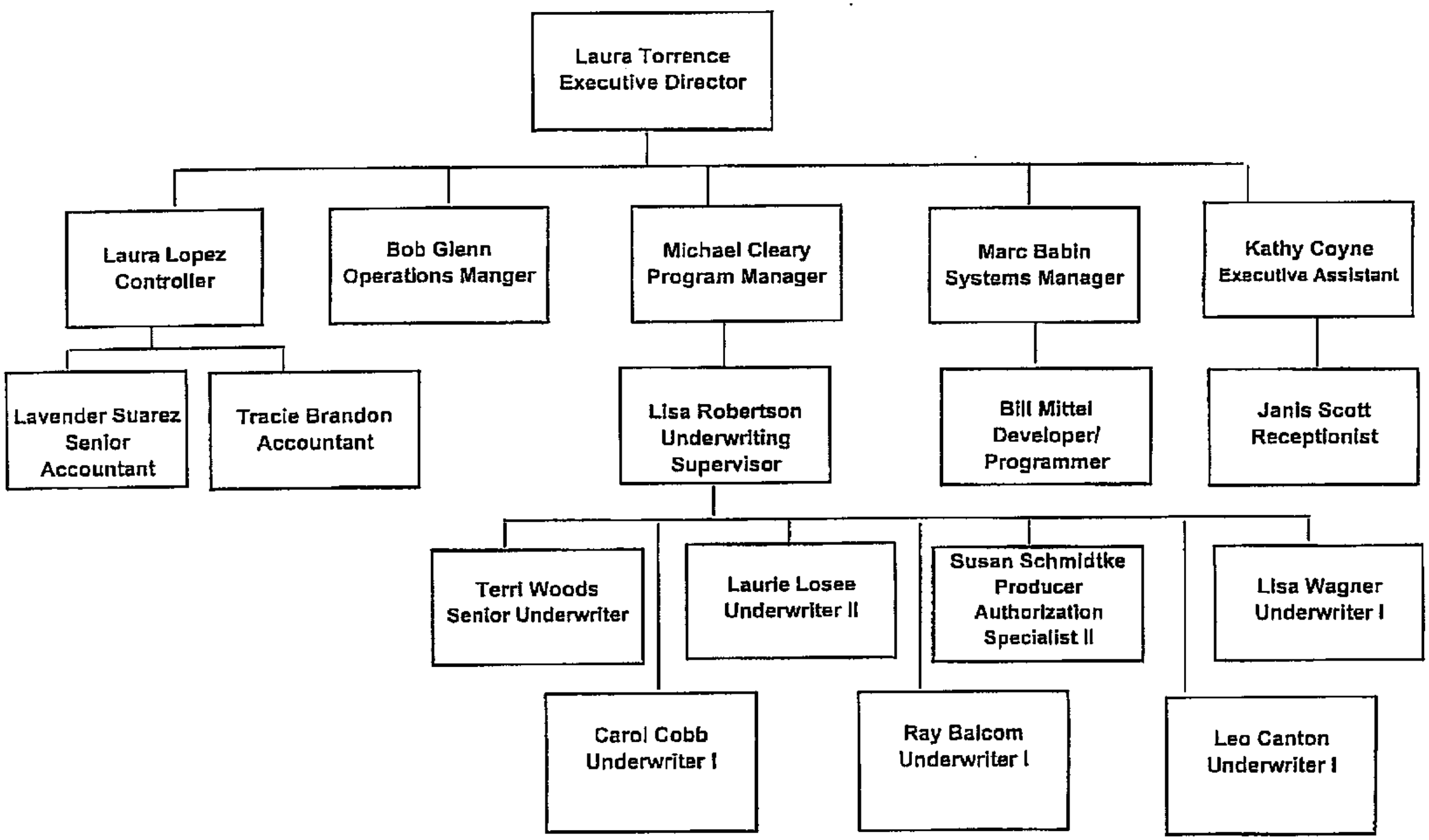

EXHIBIT 2

Exhibit 2

FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION, INC. (FWCJUA)

Analysis of Board of Governors Fiduciary Responsibilities

(NOTE: "N/A" means that the named fiduciary responsibility existed during the 2003 through June 2006 review period, but circumstances did not require its exercise).

	Fiduciary Responsibilities of the FWCJUA Board of Governors	Compliance Observed, Noted in Minutes, or Orally Confirmed?
1.	The Board of Governors (Board) shall have authority over and shall manage all of the affairs of the FWCJUA, subject to any limitation set forth in the in FWCJUA's Articles of Incorporation and Florida Statute Section 627.311(5).	YES
2.	The Board shall consist of 9 persons or corporate entities, consisting of (a) two of the 20 domestic insurers with the largest voluntary direct premium written in Florida for workers' compensation & employer's liability insurance, selected by those 20 insurers; (b) two of the 20 foreign insurers with the largest voluntary direct premium written in Florida for workers' compensation & employer's liability insurance, selected by those 20 insurers; (c) three persons appointed by, and serving at the pleasure of the Financial Services Commission of the State of Florida; and (d) one person appointed by the largest property and casualty insurance agents association in Florida as of the date of each Board election; and (e) The consumer advocate appointed under Florida Statute Section 627.0613, or the consumer advocate's designee.	YES
3.	Board members shall serve on the Board for a term of four (4) years, beginning on July 1 of the year in which regular elections are held. Board members may serve consecutive terms in office.	YES
4.	An insured Board member may, at any time, revoke in writing its designation and designate in writing another qualified person to act as its designee on the Board.	N/A
5.	An insured Board member may designate in writing an alternate designee who shall act in place of the primary designee in his or her absence.	YES
6.	The Board shall have all powers necessary or convenient to implement Florida Statute § 627.311(5), and to govern, administer, and operate the FWCJUA, including, but not limited to borrowing money.	YES
7.	The Board may authorize the FWCJUA to purchase such excess insurance or reinsurance as is consistent with the purposes of the FWCJUA and the Plan of Operation.	YES

Exhibit 2

Fiduciary Responsibilities of the FWCJUA Board of Governors		Compliance Observed, Noted in Minutes, or Orally Confirmed?
8.	The Board shall from time to time adopt policy forms, rates and rating plans appropriate to the operations of the FWCJUA and consistent with its purpose.	YES
9.	The Board shall provide an annual report to the Florida Office of Insurance Regulation (OIR) on a date specified by the OIR and containing such information as the OIR reasonably requires.	YES
10.	The Board shall be authorized to adopt policies and procedures for the FWCJUA, and these policies and procedures shall be included in an Operations Manual adopted by the Board and amended from time to time by the Board. The Operations Manual shall describe how the FWCJUA shall be managed, administered, and operated, and may be changed at any time by the Board or upon request of the OIR. The Operations Manual and all amendments or modifications shall be subject to the approval of the OIR.	YES
11.	Whenever a deficit exists, the Board shall, within 90 days, provide the OIR with a program to eliminate the deficit within a reasonable time. The deficit may be funded by any means authorized by Section 627.311(5), including the Board's request of the OIR and the Legislative Budget Commission (LBC) to transfer funds from the Florida Workers' Compensation Administrative Trust Fund (WCATF) to FWCJUA in an amount sufficient to fund the difference between the amount available and the amount needed to meet a 3-month projected cash need.	YES
12.	At least once a year, the Board shall review the rates of the FWCJUA to determine whether they are still appropriate, and shall review the costs and expenses of the FWCJUA business to determine whether they have been maintained at or below an acceptable level.	YES
13.	The Chair of the Board shall from time to time appoint the members of each Board Committee, including each committee chair, who shall be a member of the Board.	YES
14.	The Board may from time to time create additional committees which shall have such duration, authority, and duties as may be prescribed by Board, and whose members, including committee chairs, shall be appointed by the Chair of the Board.	YES
15.	Three to five members of the Board shall comprise the Audit Committee, Operations Committee, and the Executive Compensation Committee. None of the members of the Audit Committee or Operations Committee shall be employees of the FWCJUA.	YES
16.	The Board shall adopt the Audit Committee Charter and shall amend the Charter from time to time.	YES

Exhibit 2

Fiduciary Responsibilities of the FWCJUA Board of Governors	Compliance Observed, Noted in Minutes, or Orally Confirmed?
17. The Board shall comprise the majority of the three to five members serving on the following committees: Investment Committee, Reinsurance Committee, Rates and Forms Committee, Safety Committee, Producer Committee, Producer Appeals Committee, and the Market Assistance Plan (MAP) Committee.	YES
18. The Board shall, upon recommendations from the various committees listed above, approve such measures relating to the FWCJUA's operations, reinsurance needs, investment needs, rates and rating plans, deficit elimination programs, safety programs, producer guidelines, producer appeals guidelines, market assistance plans, executive compensation plans, and other measures and programs.	YES
19. The Board shall meet at least four times each year, at such places and times specified by the Chair of the Board and as described in written notices of Board meetings delivered to each Board member.	YES
20. The Board may hold special meetings of the Board within 15 days after the FWCJUA or the Board Chair receives written request by any three Board members.	N/A
21. The Board may only take action at any meeting which is properly noticed and at which a quorum of Board members is present. A quorum shall consist of a majority of Board members then in office.	YES
22. Board action taken at a Board meeting shall require a majority vote of the Board members present who have not abstained from voting on account of a conflict of interest.	YES
23. Each Board member is entitled to one vote.	YES
24. The Board shall elect one of its members to preside over the Board meeting, in the absence of the Chair and the Vice Chair.	N/A
25. Board meetings may be convened telephonically or in person. No Board member may vote by proxy.	YES
26. Board members shall avoid extravagant or excessive Board expenses. The Board shall adopted detailed policies regarding FWCJUA travel expense reimbursement.	YES
27. The Board shall take reasonable steps to conserve the assets of the FWCJUA.	YES
28. The Board may delegate to the FWCJUA's Executive Director, any duties reasonably necessary or appropriate for the day-to-day operations of the FWCJUA, unless otherwise expressly prohibited.	YES

Exhibit 2

Fiduciary Responsibilities of the FWCJUA Board of Governors	Compliance Observed, Noted in Minutes, or Orally Confirmed?
29. The Board may provide the services required by Florida Statute §627.311(5) and the Plan of Operation through staff employed by the FWCJUA, through reasonably compensated service providers who contract with the FWCJUA to provide services as specified by the Board, or through a combination of employees and service providers.	YES
30. The Board shall adopt procedures for selecting service providers, methods of determining adherence to those service standards, incentives and disincentives for service, and procedures for terminating contracts for service providers that fail or refuse to adhere to service standards.	YES
31. The Board shall adopt procedures for selecting service providers and standards for qualification as a service provider that reasonably assure that any service provider selected will continue to operate as an ongoing concern and is capable of providing the specified services in the manner required.	YES
32. The Board shall direct the preparation of all reports, analyses, and other reviews as the Board shall deem prudent or appropriate for the purposes of the FWCJUA.	YES
33. The Board shall adopt procedures for the collection of FWCJUA data suitable for use in reviewing and modifying rates of the FWCJUA, whether separate from or in conjunction with, other Insurers. The Board may execute an agreement for the employment of a third party as its statistical agent.	YES
34. The Board may solicit offers from accountants for the provision of accounting services, or may direct the FWCJUA staff to employ an accountant.	YES
35. The Board shall from time to time adopt standards for determining eligibility for coverage under the FWCJUA, consistent with the purpose of the FWCJUA.	YES
36. The Board shall adopt procedures for auditing insureds which are based on reasonable business judgment and are designed to maximize the likelihood that the FWCJUA will collect the appropriate premiums.	YES
37. The Board shall adopt a plan to establish reasonable safety programs in which insureds of the FWCJUA are required to participate.	YES
38. The Board shall adopt service standards and establish qualifications for producers who submit business to the FWCJUA.	YES
39. The Board shall adopt criteria and procedures to prohibit any producer who does not adhere to the established service standards from placing business with the FWCJUA or receiving, directly or indirectly, any producer fees for business placed with the FWCJUA.	YES

Exhibit 2

Fiduciary Responsibilities of the FWCJUA Board of Governors	Compliance Observed, Noted in Minutes, or Orally Confirmed?
40. The Board shall determine the producer fees payable to producers, which shall be set forth in the FWCJUA's rating plans.	**YES**
41. The Board shall adopt a Market Assistance Plan (MAP) to assist FWCJUA applicants and policyholders in obtaining coverage in the voluntary market.	**YES**
42. The Board shall be responsible for administering any assessments.	**N/A**
43. The Board and OIR must approve all amendments to the Amended Bylaws or any document that is a component of the Plan of Operation.	**YES**

EXHIBIT 3

Exhibit 3

FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION

Operating and General & Administrative Expenses

January 1, 2003 - December 31, 2003

	2003 Budget Expenses	2003 Actual Expenses	Variance Favorable / (Unfavorable)	Variance %
OPERATING EXPENSES				
Losses and LAE Incurred	$ 27,020,000	$ 29,477,875	$ (2,457,875)	-9.1%
Reinsurance Recoveries	(5,306,100)	(12,758,547)	7,452,447	-140.5%
Net Losses and LAE Incurred	21,713,900	16,719,328	4,994,572	23.0%
Servicing Carrier Fees	7,966,000	12,218,306	(4,252,306)	-53.4%
Commissions & Producers Fees	1,044,000	1,893,239	(849,239)	-81.3%
EBUB Expenses	-	(303,778)	303,778	100.0%
NCCI Administrative Fees	35,000	13,568	21,432	61.2%
Bad Debt Write-off / Recoveries	8,800,000	1,773,994	7,026,006	79.8%
Collection Expense	292,500	43,803	248,697	85.0%
Taxes and Assessments	4,270,000	3,941,981	328,019	7.7%
Premium Deficiency Reserve	-	3,711,435	(3,711,435)	100.0%
TOTAL OPERATING EXPENSES	$ 44,121,400	$ 40,011,876	$ 4,109,524	9.3%
GENERAL & ADMINISTRATIVE EXPENSES				
Professional Services				
Actuarial Service	$ 40,000	$ 25,192	$ 14,808	37.0%
Auditing / Taxes, Finance	72,000	74,000	(2,000)	-2.8%
Audit Fee Recovery - Travelers	(17,500)	(18,356)	856	-4.9%
Consulting - Accounting Software Updates	6,200	3,904	2,296	37.0%
Consulting - Systems	5,000	100	4,900	98.0%
Data Charges	1,000	-	1,000	100.0%
Legal	120,000	116,681	3,319	2.8%
Security & Other Services	7,044	7,179	(135)	-1.9%
Temporary Employees	3,400	2,993	407	12.0%
Total Professional Services	237,144	211,693	25,451	10.7%
General Expenses				
Rent	45,721	44,660	1,061	2.3%
Bank Charges	4,155	2,209	1,946	46.8%
Telecommunications	34,200	24,861	9,339	27.3%
Insurance	133,964	129,366	4,598	3.4%
Licenses & Fees	1,500	218	1,282	85.5%
Office Equipment & Supplies	52,536	44,449	8,087	15.4%
Utilities	5,400	6,665	(1,265)	-23.4%
Postage & Printing	41,050	25,902	15,148	36.9%
Depreciation / Amortization	122,625	120,888	1,737	1.4%
Total General Expenses	441,151	399,218	41,933	9.5%
Personnel Expenses				
Compensation	832,884	835,487	(2,603)	-0.3%
Benefits	167,358	135,987	31,371	18.7%
Payroll Tax	70,822	56,877	13,945	19.7%
Training / Education / Recruitment	17,400	4,583	12,817	73.7%
Total Personnel Expenses	1,088,464	1,032,934	55,530	5.1%
Travel & Entertainment Expenses				
Travel - Employee	12,000	13,860	(1,860)	-15.5%
Travel - Board / Committee Meeting	21,000	21,327	(327)	-1.6%
Total Travel & Entertainment Expenses	33,000	35,187	(2,187)	-6.6%
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	$ 1,799,759	$ 1,679,032	$ 120,727	6.7%
TOTAL OPERATING AND GENERAL & ADMINISTRATIVE EXPENSES	$ 45,921,159	$ 41,690,908	$ 4,230,251	9.2%

EXHIBIT 4

Exhibit 4

FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION

Operating and General & Administrative Expenses

January 1, 2004 - December 31, 2004

	2004 Budget Expenses	2004 Actual Expenses	Variance Favorable / (Unfavorable)	Variance %
OPERATING EXPENSES				
Losses and LAE Incurred	$ 57,345,125	$ 32,317,931	$ 25,027,194	43.6%
Reinsurance Recoveries	(8,260,980)	(2,524,607)	(5,736,373)	69.4%
Net Losses and LAE Incurred	49,084,145	29,793,324	19,290,821	39.3%
Servicing Carrier Fees	21,768,991	12,643,986	9,125,005	41.9%
Commissions & Producers Fees	4,702,852	882,730	3,820,122	81.2%
EBUB Expenses	-	345,259	(345,259)	100.0%
NCCI Administrative Fees	70,000	49,512	20,488	29.3%
Bad Debt Write-off / Recoveries	15,274,800	12,105,616	3,169,184	20.7%
Collection Expense	497,805	165,894	331,911	66.7%
Taxes and Assessments	5,733,000	1,629,337	4,103,663	71.6%
Premium Deficiency Reserve	-	(2,624,405)	2,624,405	100.0%
TOTAL OPERATING EXPENSES	$ 97,131,593	$ 54,991,253	$ 42,140,340	43.4%
GENERAL & ADMINISTRATIVE EXPENSES				
Professional Services				
Actuarial Service	$ 50,000	$ 109,959	$ (59,959)	-119.9%
Auditing / Taxes, Finance	106,000	100,552	5,448	5.1%
Audit Fee Recovery - Travelers	(21,500)	(26,559)	5,059	-23.5%
Consulting - Accounting Software Updates	11,200	9,921	1,279	11.4%
Consulting - Systems	7,000	856	6,144	87.8%
Data Charges	1,000	-	1,000	100.0%
Legal	120,000	201,568	(81,568)	-68.0%
Security & Other Services	9,920	7,961	1,959	19.7%
Temporary Employees	4,000	2,144	1,856	46.4%
Total Professional Services	287,620	406,402	(118,782)	-41.3%
General Expenses				
Rent	64,085	61,904	2,181	3.4%
Bank Charges	2,000	455	1,545	77.3%
Telecommunications	43,300	37,186	6,114	14.1%
Insurance	165,221	161,508	3,713	2.2%
Licenses & Fees	2,000	97	1,903	95.2%
Office Equipment & Supplies	64,711	62,589	2,122	3.3%
Utilities	9,600	7,420	2,180	22.7%
Postage & Printing	60,620	20,399	40,221	66.3%
Depreciation / Amortization	143,308	126,161	17,147	12.0%
Total General Expenses	554,845	477,719	77,126	13.9%
Personnel Expenses				
Compensation	1,065,395	1,058,178	7,217	0.7%
Benefits	211,627	162,060	49,567	23.4%
Payroll Tax	78,460	70,797	7,663	9.8%
Training / Education / Recruitment	21,000	4,404	16,596	79.0%
Total Personnel Expenses	1,376,482	1,295,439	81,043	5.9%
Travel & Entertainment Expenses				
Travel - Employee	22,250	19,797	2,453	11.0%
Travel - Board / Committee Meeting	30,700	13,437	17,263	56.2%
Total Travel & Entertainment Expenses	52,950	33,234	19,716	37.2%
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	$ 2,271,897	$ 2,212,794	$ 59,103	2.6%
TOTAL OPERATING AND GENERAL & ADMINISTRATIVE EXPENSES	$ 99,403,490	$ 57,204,047	$ 42,199,443	42.5%

EXHIBIT 5

Exhibit 5

FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION

Operating and General & Administrative Expenses

January 1, 2005 - December 31, 2005

	2005 Budget Expenses	2005 Actual Expenses	Variance Favorable / (Unfavorable)	Variance %
OPERATING EXPENSES				
Losses and LAE Incurred	$ 25,189,261	$ 15,986,926	$ 9,202,335	36.5%
Reinsurance Recoveries	(3,612,591)	(1,574,663)	(2,037,928)	56.4%
Net Losses and LAE Incurred	21,576,670	14,412,263	7,164,407	33.2%
Servicing Carrier Fees	8,674,940	12,259,373	(3,584,433)	-41.3%
Commissions & Producers Fees	2,162,500	1,880,875	281,625	13.0%
EBUB Expenses	-	306,464	(306,464)	100.0%
NCCI Administrative Fees	105,000	100,585	4,415	4.2%
Bad Debt Write-off / Recoveries	8,750,000	10,900,132	(2,150,132)	-24.6%
Collection Expense	253,125	228,903	24,222	9.6%
Taxes and Assessments	52,000	2,180	49,820	95.8%
Premium Deficiency Reserve	-	(1,087,030)	1,087,030	100.0%
TOTAL OPERATING EXPENSES	$ 41,574,235	$ 39,003,745	$ 2,570,490	6.2%
GENERAL & ADMINISTRATIVE EXPENSES				
Professional Services				
Actuarial Service	$ 50,000	$ 117,868	$ (67,868)	-135.7%
Auditing / Taxes, Finance	108,000	100,242	7,758	7.2%
Audit Fee Recovery - Travelers	(21,500)	(26,828)	5,328	-24.8%
Consulting - Accounting Software Updates	7,200	9,004	(1,804)	-25.1%
Consulting - Systems	6,000	-	6,000	100.0%
Data Charges	1,000	-	1,000	100.0%
Legal	85,000	162,942	(77,942)	-91.7%
Security & Other Services	10,100	9,011	1,089	10.8%
Temporary Employees	4,000	2,639	1,361	34.0%
Total Professional Services	249,800	374,878	(125,078)	-50.1%
General Expenses				
Rent	51,569	45,565	6,004	11.6%
Bank Charges	2,000	492	1,508	75.4%
Telecommunications	48,000	30,768	17,232	35.9%
Insurance	198,776	195,455	3,321	1.7%
Licenses & Fees	2,000	97	1,903	95.2%
Office Equipment & Supplies	66,081	61,128	4,953	7.5%
Utilities	9,600	10,204	(604)	-6.3%
Postage & Printing	30,020	27,053	2,967	9.9%
Depreciation / Amortization	153,572	83,295	70,277	45.8%
Total General Expenses	561,618	454,057	107,561	19.2%
Personnel Expenses				
Compensation	1,292,371	1,065,020	227,351	17.6%
Benefits	265,465	161,276	104,189	39.2%
Payroll Tax	99,388	73,187	26,201	26.4%
Training / Education / Recruitment	31,500	8,397	23,103	73.3%
Total Personnel Expenses	1,688,724	1,307,880	380,844	22.6%
Travel & Entertainment Expenses				
Travel - Employee	23,250	14,066	9,184	39.5%
Travel - Board / Committee Meeting	32,500	15,034	17,466	53.7%
Total Travel & Entertainment Expenses	55,750	29,100	26,650	47.8%
TOTAL GENERAL & ADMINISTRATIVE EXPENSES	$ 2,555,892	$ 2,165,915	$ 389,977	15.3%
TOTAL OPERATING AND GENERAL & ADMINISTRATIVE EXPENSES	$ 44,130,127	$ 41,169,660	$ 2,960,467	6.7%

Senate Bill sb1894er

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

ENROLLED

2007 Legislature CS for CS for CS for SB 1894

An act relating to the Florida Workers' Compensation Joint Underwriting Association, Inc.; amending s. 627.311, F.S.; providing requirements for the joint underwriting plan of insurers which operates as the association; revising the membership of the board of governors that oversees operation of the joint underwriting plan; revising restrictions on who may serve on the board; providing for the continuous review of the plan; requiring that the market-assistance plan be periodically reviewed and updated; providing guidelines for procurement of goods and services, including legal services; authorizing the use of surplus funds of former plan C; requiring that excess funds received by the plan be returned to the state; providing for the applicability of specified statutes regulating ethical standards; requiring annual statements by plan employees certifying that they do not have conflicts of interest; prescribing limits on representing persons or entities before the plan by former senior managers or officers of the plan; prohibiting any part of the plan's income from inuring to the benefit of a private individual; prohibiting employees and board members from accepting expenditures from a person or an entity; providing applicability; requiring periodic comprehensive market examinations; prescribing the disposition of

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

assets of the plan upon dissolution; requiring that the plan submit a request for an Internal Revenue Service letter concerning the plan's eligibility as a tax-exempt entity; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Subsections (5), (6), and (7) of section 627.311, Florida Statutes, are amended to read:

627.311 Joint underwriters and joint reinsurers; public records and public meetings exemptions.--

(5)(a) The office shall, after consultation with insurers, approve a joint underwriting plan of insurers which shall operate as the Florida Workers' Compensation Joint

Underwriting Association, Inc., a nonprofit entity. For the purposes of this subsection, the term "insurer" includes group self-insurance funds authorized by s. 624.4621, commercial self-insurance funds authorized by s. 624.462, assessable mutual insurers authorized under s. 628.6011, and insurers licensed to write workers' compensation and employer's liability insurance in this state. The purpose of the plan is to provide workers' compensation and employer's liability insurance to applicants who are required by law to maintain workers' compensation and employer's liability insurance and who are in good faith entitled to but who are unable to procure such insurance through the voluntary market. Except as provided herein, the plan must have actuarially sound rates that ensure that the plan is self-supporting.

(b) The operation of the plan is subject to the supervision of a 9-member board of governors. Each member

described in subparagraph 1., subparagraph 2., subparagraph 3., or subparagraph 5. shall be appointed by the Financial Services Commission and shall serve at the pleasure of the commission. The board of governors shall be comprised of:

~~1. Three members appointed by the Financial Services Commission. Each member appointed by the commission shall serve at the pleasure of the commission;~~

1.~~2.~~ Two representatives of the 20 domestic insurers, as defined in s. 624.06(1), having the largest voluntary direct premiums written in this state for workers' compensation and employer's liability insurance who~~, which~~ shall be appointed by the commission from a list of five nominees for each vacancy submitted ~~elected~~ by those 20 domestic insurers. The commission may reject all of the nominees recommended for a position and request that the insurers submit a new list of five different recommended nominees for the position who have not previously been recommended by the insurers;

2.~~3.~~ Two representatives of the 20 foreign insurers as defined in s. 624.06(2) having the largest voluntary direct premiums written in this state for workers' compensation and employer's liability insurance who~~, which~~ shall be appointed by the commission from a list of five nominees for each vacancy submitted ~~elected~~ by those 20 foreign insurers. The commission may reject all of the nominees recommended for a position and request that the insurers submit a new list of five different recommended nominees for the position who have not previously been recommended by the insurers;

3.~~4.~~ One representative of ~~person appointed by~~ the largest property and casualty insurance agents' association in this state who shall be appointed by the commission from a

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

list of five nominees for each vacancy submitted by the association. The commission may reject all of the nominees recommended for a position and request that the association submit a new list of five different recommended nominees for the position who have not previously been recommended by the association; ~~and~~

4.~~5.~~ The consumer advocate appointed under s. 627.0613 or the consumer advocate's designee; and~~.~~

5. Three other persons appointed by the commission.

Each board member shall be appointed to ~~serve~~ a 4-year term and may be appointed to ~~serve~~ consecutive terms. A vacancy on the board shall be filled in the same manner as the original appointment for the unexpired portion of the term. The Financial Services Commission shall designate a member of the board to serve as chair. ~~No board member shall be an insurer which provides services to the plan or which has an affiliate which provides services to the plan or which is serviced by a service company or third-party administrator which provides services to the plan or which has an affiliate which provides services to the plan.~~ The meetings and records ~~minutes, audits, and procedures~~ of the board of governors and plan are subject to chapters ~~chapter~~ 119 and 286, unless otherwise exempted by law.

(c) The operation of the plan shall be governed by a plan of operation that is prepared at the direction of the board of governors and approved by order of the office. The plan is subject to continuous review by the office. The office may, by order, withdraw approval of all or part of a plan if the office determines that conditions have changed since approval was granted and that the purposes of the plan require

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changes in the plan. ~~The plan of operation may be changed at any time by the board of governors or upon request of the office. The plan of operation and all changes thereto are subject to the approval of the office.~~ The plan of operation shall:

1. Authorize the board to engage in the activities necessary to implement this subsection, including, but not limited to, borrowing money.

2. Develop criteria for eligibility for coverage by the plan, including, but not limited to, documented rejection by at least two insurers which reasonably assures that insureds covered under the plan are unable to acquire coverage in the voluntary market.

3. Require notice from the agent to the insured at the time of the application for coverage that the application is for coverage with the plan and that coverage may be available through an insurer, group self-insurers' fund, commercial self-insurance fund, or assessable mutual insurer through another agent at a lower cost.

4. Establish programs to encourage insurers to provide coverage to applicants of the plan in the voluntary market and to insureds of the plan, including, but not limited to:

a. Establishing procedures for an insurer to use in notifying the plan of the insurer's desire to provide coverage to applicants to the plan or existing insureds of the plan and in describing the types of risks in which the insurer is interested. The description of the desired risks must be on a form developed by the plan.

b. Developing forms and procedures that provide an insurer with the information necessary to determine whether

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the insurer wants to write particular applicants to the plan or insureds of the plan.

c. Developing procedures for notice to the plan and the applicant to the plan or insured of the plan that an insurer will insure the applicant or the insured of the plan, and notice of the cost of the coverage offered; and developing procedures for the selection of an insuring entity by the applicant or insured of the plan.

d. Provide for a market-assistance plan to assist in the placement of employers. All applications for coverage in the plan received 45 days before the effective date for coverage shall be processed through the market-assistance plan. A market-assistance plan specifically designed to serve the needs of small, good policyholders as defined by the board must be reviewed and updated periodically ~~finalized by January 1, 1994~~.

5. Provide for policy and claims services to the insureds of the plan of the nature and quality provided for insureds in the voluntary market.

6. Provide for the review of applications for coverage with the plan for reasonableness and accuracy, using any available historic information regarding the insured.

7. Provide for procedures for auditing insureds of the

plan which are based on reasonable business judgment and are designed to maximize the likelihood that the plan will collect the appropriate premiums.

8. Authorize the plan to terminate the coverage of and refuse future coverage for any insured that submits a fraudulent application to the plan or provides fraudulent or grossly erroneous records to the plan or to any service

provider of the plan in conjunction with the activities of the plan.

9. Establish service standards for agents who submit business to the plan.

10. Establish criteria and procedures to prohibit any agent who does not adhere to the established service standards from placing business with the plan or receiving, directly or indirectly, any commissions for business placed with the plan.

11. Provide for the establishment of reasonable safety programs for all insureds in the plan. All insureds of the plan must participate in the safety program.

12. Authorize the plan to terminate the coverage of and refuse future coverage to any insured who fails to pay premiums or surcharges when due; who, at the time of application, is delinquent in payments of workers' compensation or employer's liability insurance premiums or surcharges owed to an insurer, group self-insurers' fund,

commercial self-insurance fund, or assessable mutual insurer licensed to write such coverage in this state; or who refuses to substantially comply with any safety programs recommended by the plan.

13. Authorize the board of governors to provide the goods and services required by the plan through staff employed by the plan, through reasonably compensated service providers who contract with the plan to provide services as specified by the board of governors, or through a combination of employees and service providers.

a. Purchases that equal or exceed $2,500 but are less than or equal to $25,000, shall be made by receipt of written quotes, telephone quotes, or informal bids, whenever practical. The procurement of goods or services valued over

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$25,000 are subject to competitive solicitation, except in situations in which the goods or services are provided by a sole source or are deemed an emergency purchase, or the services are exempted from competitive-solicitation requirements under s. 287.057(5)(f). Justification for the sole-sourcing or emergency procurement must be documented. Contracts for goods or services valued at or over $100,000 are subject to board approval.

b. The board shall determine whether it is more cost-effective and in the best interests of the plan to use legal services provided by in-house attorneys employed by the plan rather than contracting with outside counsel. In making such determination, the board shall document its findings and shall consider the expertise needed; whether time commitments exceed in-house staff resources; whether local representation is needed; the travel, lodging, and other costs associated with in-house representation; and such other factors that the board determines are relevant.

14. Provide for service standards for service providers, methods of determining adherence to those service standards, incentives and disincentives for service, and procedures for terminating contracts for service providers that fail to adhere to service standards.

15. Provide procedures for selecting service providers and standards for qualification as a service provider that reasonably assure that any service provider selected will continue to operate as an ongoing concern and is capable of providing the specified services in the manner required.

16. Provide for reasonable accounting and data-reporting practices.

17. Provide for annual review of costs associated with the administration and servicing of the policies issued by the plan to determine alternatives by which costs can be reduced.

18. Authorize the acquisition of such excess insurance or reinsurance as is consistent with the purposes of the plan.

19. Provide for an annual report to the office on a date specified by the office and containing such information as the office reasonably requires.

20. Establish multiple rating plans for various classifications of risk which reflect risk of loss, hazard grade, actual losses, size of premium, and compliance with loss control. At least one of such plans must be a preferred-rating plan to accommodate small-premium policyholders with good experience as defined in sub-subparagraph 22.a.

21. Establish agent commission schedules.

22. For employers otherwise eligible for coverage under the plan, establish three tiers of employers meeting the criteria and subject to the rate limitations specified in this subparagraph.

a. Tier One.--

(I) Criteria; rated employers.--An employer that has an experience modification rating shall be included in Tier One if the employer meets all of the following:

(A) The experience modification is below 1.00.

(B) The employer had no lost-time claims subsequent to the applicable experience modification rating period.

(C) The total of the employer's medical-only claims subsequent to the applicable experience modification rating period did not exceed 20 percent of premium.

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(II) Criteria; non-rated employers.--An employer that does not have an experience modification rating shall be included in Tier One if the employer meets all of the following:

(A) The employer had no lost-time claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(B) The total of the employer's medical-only claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan did not exceed 20 percent of premium.

(C) The employer has secured workers' compensation coverage for the entire 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(D) The employer is able to provide the plan with a loss history generated by the employer's prior workers' compensation insurer, except if the employer is not able to produce a loss history due to the insolvency of an insurer, the receiver shall provide to the plan, upon the request of the employer or the employer's agent, a copy of the employer's loss history from the records of the insolvent insurer if the loss history is contained in records of the insurer which are in the possession of the receiver. If the receiver is unable to produce the loss history, the employer may, in lieu of the loss history, submit an affidavit from the employer and the employer's insurance agent setting forth the loss history.

(E) The employer is not a new business.

(III) Premiums.--The premiums for Tier One insureds shall be set at a premium level 25 percent above the comparable voluntary market premiums until the plan has

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sufficient experience as determined by the board to establish an actuarially sound rate for Tier One, at which point the board shall, subject to paragraph (e), adjust the rates, if necessary, to produce actuarially sound rates, provided such rate adjustment shall not take effect prior to January 1, 2007.

b. Tier Two.--

(I) Criteria; rated employers.--An employer that has an experience modification rating shall be included in Tier Two if the employer meets all of the following:

(A) The experience modification is equal to or greater than 1.00 but not greater than 1.10.

(B) The employer had no lost-time claims subsequent to the applicable experience modification rating period.

(C) The total of the employer's medical-only claims subsequent to the applicable experience modification rating period did not exceed 20 percent of premium.

(II) Criteria; non-rated employers.--An employer that does not have any experience modification rating shall be included in Tier Two if the employer is a new business. An employer shall be included in Tier Two if the employer has less than 3 years of loss experience in the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan and the employer meets all of the following:

(A) The employer had no lost-time claims for the 3-year period immediately preceding the inception date or renewal date of the employer's coverage under the plan.

(B) The total of the employer's medical-only claims for the 3-year period immediately preceding the inception date

or renewal date of the employer's coverage under the plan did not exceed 20 percent of premium.

(C) The employer is able to provide the plan with a loss history generated by the workers' compensation insurer that provided coverage for the portion or portions of such period during which the employer had secured workers' compensation coverage, except if the employer is not able to produce a loss history due to the insolvency of an insurer, the receiver shall provide to the plan, upon the request of the employer or the employer's agent, a copy of the employer's loss history from the records of the insolvent insurer if the loss history is contained in records of the insurer which are in the possession of the receiver. If the receiver is unable to produce the loss history, the employer may, in lieu of the loss history, submit an affidavit from the employer and the employer's insurance agent setting forth the loss history.

(III) Premiums.--The premiums for Tier Two insureds shall be set at a rate level 50 percent above the comparable voluntary market premiums until the plan has sufficient experience as determined by the board to establish an actuarially sound rate for Tier Two, at which point the board shall, subject to paragraph (e), adjust the rates, if necessary, to produce actuarially sound rates, provided such rate adjustment shall not take effect prior to January 1, 2007.

c. Tier Three.--

(I) Eligibility.--An employer shall be included in Tier Three if the employer does not meet the criteria for Tier One or Tier Two.

(II) Rates.--The board shall establish, subject to paragraph (e), and the plan shall charge, actuarially sound rates for Tier Three insureds.

23. For Tier One or Tier Two employers which employ no nonexempt employees or which report payroll which is less than the minimum wage hourly rate for one full-time employee for 1 year at 40 hours per week, the plan shall establish actuarially sound premiums, provided, however, that the premiums may not exceed $2,500. These premiums shall be in addition to the fee specified in subparagraph 26. When the plan establishes actuarially sound rates for all employers in Tier One and Tier Two, the premiums for employers referred to in this paragraph are no longer subject to the $2,500 cap.

24. Provide for a depopulation program to reduce the number of insureds in the plan. If an employer insured through the plan is offered coverage from a voluntary market carrier:

a. During the first 30 days of coverage under the plan;

b. Before a policy is issued under the plan;

c. By issuance of a policy upon expiration or cancellation of the policy under the plan; or

d. By assumption of the plan's obligation with respect to an in-force policy,

that employer is no longer eligible for coverage through the plan. The premium for risks assumed by the voluntary market carrier must be no greater than the premium the insured would have paid under the plan, and shall be adjusted upon renewal to reflect changes in the plan rates and the tier for which the insured would qualify as of the time of renewal. The insured may be charged such premiums only for the first 3

years of coverage in the voluntary market. A premium under this subparagraph is deemed approved and is not an excess premium for purposes of s. 627.171.

25. Require that policies issued and applications must include a notice that the policy could be replaced by a policy issued from a voluntary market carrier and that, if an offer of coverage is obtained from a voluntary market carrier, the

policyholder is no longer eligible for coverage through the plan. The notice must also specify that acceptance of coverage under the plan creates a conclusive presumption that the applicant or policyholder is aware of this potential.

26. Require that each application for coverage and each renewal premium be accompanied by a nonrefundable fee of $475 to cover costs of administration and fraud prevention. The board may, with the prior approval of the office, increase the amount of the fee pursuant to a rate filing to reflect increased costs of administration and fraud prevention. The fee is not subject to commission and is fully earned upon commencement of coverage.

(d)1. The funding of the plan shall include premiums as provided in subparagraph (c)22. and assessments as provided in this paragraph.

2.a. If the board determines that a deficit exists in Tier One or Tier Two or that there is any deficit remaining attributable to any of the plan's former subplans and that the deficit cannot be fully funded by using policyholder surplus attributable to former subplan C or, if the surplus in the former subplan C does not fully fund the deficit ~~without the use of deficit assessments~~, the board shall request the office to levy, by order, a deficit assessment against premiums charged to insureds for workers' compensation insurance by

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insurers as defined in s. 631.904(5). The office shall issue the order after verifying the amount of the deficit. The assessment shall be specified as a percentage of future premium collections, as recommended by the board and approved by the office. The same percentage shall apply to premiums on all workers' compensation policies issued or renewed during the 12-month period beginning on the effective date of the assessment, as specified in the order.

b. With respect to each insurer collecting premiums that are subject to the assessment, the insurer shall collect the assessment at the same time as the insurer collects the premium payment for each policy and shall remit the assessments collected to the plan as provided in the order issued by the office. The office shall verify the accurate and timely collection and remittance of deficit assessments and shall report such information to the board. Each insurer collecting assessments shall provide such information with respect to premiums and collections as may be required by the office to enable the office to monitor and audit compliance with this paragraph.

c. Deficit assessments are not considered part of an insurer's rate, are not premium, and are not subject to the premium tax, to the assessments under ss. 440.49 and 440.51, to the surplus lines tax, to any fees, or to any commissions. The deficit assessment imposed shall become plan funds at the moment of collection and shall not constitute income to the insurer for any purpose, including financial reporting on the insurer's income statement. An insurer is liable for all assessments that the insurer collects and must treat the failure of an insured to pay an assessment as a failure to pay

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premium. An insurer is not liable for uncollectible assessments.

d. When an insurer is required to return unearned premium, the insurer shall also return any collected assessments attributable to the unearned premium.

e. Deficit assessments as described in this subparagraph shall not be levied after July 1, 2012 ~~2007~~.

3.a. All policies issued to Tier Three insureds shall be assessable. All Tier Three assessable policies must be clearly identified as assessable by containing, in contrasting color and in not less than 10-point type, the following statement:

"This is an assessable policy. If the plan is unable to pay its obligations, policyholders will be required to contribute on a pro rata earned premium basis the money necessary to meet any assessment levied."

b. The board may from time to time assess Tier Three insureds to whom the plan has issued assessable policies for the purpose of funding plan deficits. Any such assessment shall be based upon a reasonable actuarial estimate of the amount of the deficit, taking into account the amount needed to fund medical and indemnity reserves and reserves for incurred but not reported claims, and allowing for general administrative expenses, the cost of levying and collecting the assessment, a reasonable allowance for estimated uncollectible assessments, and allocated and unallocated loss adjustment expenses.

c. Each Tier Three insured's share of a deficit shall be computed by applying to the premium earned on the insured's policy or policies during the period to be covered by the assessment the ratio of the total deficit to the total premiums earned during such period upon all policies subject to the assessment. If one or more Tier Three insureds fail to pay an assessment, the other Tier Three insureds shall be liable on a proportionate basis for additional assessments to fund the deficit. The plan may compromise and settle individual assessment claims without affecting the validity of or amounts due on assessments levied against other insureds. The plan may offer and accept discounted payments for assessments which are promptly paid. The plan may offset the amount of any unpaid assessment against unearned premiums which may otherwise be due to an insured. The plan shall institute legal action when necessary and appropriate to collect the assessment from any insured who fails to pay an assessment when due.

d. The venue of a proceeding to enforce or collect an assessment or to contest the validity or amount of an assessment shall be in the Circuit Court of Leon County.

e. If the board finds that a deficit in Tier Three exists for any period and that an assessment is necessary, the board shall certify to the office the need for an assessment. No sooner than 30 days after the date of such certification, the board shall notify in writing each insured who is to be assessed that an assessment is being levied against the insured, and informing the insured of the amount of the assessment, the period for which the assessment is being levied, and the date by which payment of the assessment is due. The board shall establish a date by which payment of the

assessment is due, which shall be no sooner than 30 days nor later than 120 days after the date on which notice of the assessment is mailed to the insured.

f. Whenever the board makes a determination that the plan does not have a sufficient cash basis to meet 6 ~~3~~ months of projected cash needs due to a deficit in Tier Three, the board may request the department to transfer funds from the Workers' Compensation Administration Trust Fund to the plan in an amount sufficient to fund the difference between the amount available and the amount needed to meet a 6-month ~~3-month~~ projected cash need as determined by the board and verified by the office, subject to the approval of the Legislative Budget Commission. If the Legislative Budget Commission approves a transfer of funds under this sub-subparagraph, the plan shall report to the Legislature the transfer of funds and the

Legislature shall review the plan during the next legislative session or the current legislative session, if the transfer occurs during a legislative session. This sub-subparagraph shall not apply until the plan determines and the office verifies that assessments collected by the plan pursuant to sub-subparagraph b. are insufficient to fund the deficit in Tier Three and to meet 6 ~~3~~ months of projected cash needs.

4. The plan may offer rating, dividend plans, and other plans to encourage loss prevention programs.

(e) For rates and rating plans effective on or after January 1, 2008, the plan shall establish and use its rates and rating plans, and the plan may establish and use changes in rating plans at any time, but no more frequently than two times per any rating class for any calendar year. By ~~December 1, 1993, and~~ December 1 of each year thereafter, except as provided in subparagraph (c)22., the board shall establish and

use actuarially sound rates for use by the plan to assure that the plan is self-funding while those rates are in effect. Such rates and rating plans must be filed with the office within 30 calendar days after their effective dates, and shall be considered a "use and file" filing. Any disapproval by the office must have an effective date that is at least 60 days from the date of disapproval of the rates and rating plan and must have prospective effect only. The plan shall ~~may not~~ be subject to any order by the office to return to policyholders any portion of the rates disapproved by the office. The office may not disapprove any rates or rating plans unless it demonstrates that such rates and rating plans are excessive, inadequate, or unfairly discriminatory.

(f) No later than June 1 of each year, the plan shall obtain an independent actuarial certification of the results of the operations of the plan for prior years, and shall furnish a copy of the certification to the office. If, after the effective date of the plan, the projected ultimate incurred losses and expenses and dividends for prior years exceed collected premiums, accrued net investment income, and prior assessments for prior years, the certification is subject to review and approval by the office before it becomes final.

(g) Whenever a deficit exists, the plan shall, within 90 days, provide the office with a program to eliminate the deficit within a reasonable time. The deficit may be funded through increased premiums charged to insureds of the plan for subsequent years, through the use of policyholder surplus attributable to any year, including policyholder surplus in former subplan C as authorized in subparagraph (d)2., through the use of assessments as provided in subparagraph (d)2., and

through assessments on assessable policies as provided in subparagraph (d)3. Any entity that was a policyholder of former subplan C is not subject to any assessments that are attributable to deficits in former subplan C.

(h) Any premium or assessments collected by the plan in excess of the amount necessary to fund projected ultimate incurred losses and expenses of the plan and not paid to insureds of the plan in conjunction with loss prevention or dividend programs shall be retained by the plan for future use. Any state funds received by the plan in excess of the amount necessary to fund deficits in subplan D or any tier shall be returned to the state.

(i) The decisions of the board of governors do not constitute final agency action and are not subject to chapter 120.

(j) Policies for insureds shall be issued by the plan.

(k) The plan created under this subsection is liable only for payment for losses arising under policies issued by the plan with dates of accidents occurring on or after January 1, 1994.

(l) Plan losses are the sole and exclusive responsibility of the plan, and payment for such losses must be funded in accordance with this subsection and must not come, directly or indirectly, from insurers or any guaranty association for such insurers.

(m) Senior managers and officers, as defined in the plan of operation, and members of the board of governors are subject to the provisions of ss. 112.313, 112.3135, 112.3143, 112.3145, 112.316, and 112.317. Senior managers, officers, and board members are also required to file such disclosures with the Commission on Ethics and the Office of Insurance

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Regulation. The executive director of the plan or his or her designee shall notify each newly appointed and existing appointed member of the board of governors, senior manager, and officer of their duty to comply with the reporting requirements of s. 112.345. At least quarterly, the executive director of the plan or his or her designee shall submit to the Commission on Ethics a list of names of the senior managers, officers, and members of the board of governors who are subject to the public disclosure requirements under s. 112.3145. Notwithstanding s. 112.313, an employee, officer, owner, or director of an insurance agency, insurance company, or other insurance entity may be a member of the board of governors unless such employee, officer, owner, or director of an insurance agency, insurance company, other insurance entity, or an affiliate provides policy issuance, policy administration, underwriting, claims handling, or payroll audit services. Notwithstanding s. 112.3143, such board member may not participate in or vote on a matter if the insurance agency, insurance company, or other insurance entity would obtain a special or unique benefit that would not apply to other similarly situated insurance entities. ~~Each joint underwriting plan or association created under this section is not a state agency, board, or commission. However, for the purposes of s. 199.183(1) only, the joint underwriting plan is a political subdivision of the state and is exempt from the corporate income tax.~~

(n) On or before July 1 of each year, employees of the plan shall sign and submit a statement to the plan attesting that they do not have a conflict of interest as defined in part III of chapter 112. As a condition of employment, all prospective employees shall sign and submit a

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conflict-of-interest statement to the plan. ~~Each joint underwriting plan or association may elect to pay premium taxes on the premiums received on its behalf or may elect to have the member insurers to whom the premiums are allocated pay the premium taxes if the member insurer had written the policy. The joint underwriting plan or association shall notify the member insurers and the Department of Revenue by January 15 of each year of its election for the same year. As used in this paragraph, the term "premiums received" means the consideration for insurance, by whatever name called, but does not include any policy assessment or surcharge received by the joint underwriting association as a result of apportioning losses or deficits of the association pursuant to this section.~~

(o) Any senior manager or officer of the plan who is employed by the plan as of January 1, 2008, regardless of the date of hire, and who subsequently retires or terminates employment may not represent another person or entity before the plan for 2 years after retirement or termination of employment from the plan.

(p) No part of the income of the plan may inure to the benefit of any private person.

(q) Notwithstanding ss. 112.3148 and 112.3149 or other provision of law, an employee or board member may not knowingly accept, directly or indirectly, any expenditure or gift from a person or entity, or an employee or representative of such person or entity, which has a contractual relationship with the plan or is under consideration for a contract. An employee or board member who fails to comply with paragraph (m) or this paragraph is subject to penalties provided under s. 112.317.

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(r) This section does not prohibit the plan from providing insurance coverage to any employer with whom a former employee of the plan is affiliated or employing or reemploying any former employee of the plan in a part-time, full-time, temporary, or permanent capacity, so long as such employment does not violate any provision of part III of chapter 112.

(s) ~~(o)~~ Neither the plan nor any member of the board of governors is liable for monetary damages to any person for any statement, vote, decision, or failure to act, regarding the management or policies of the plan, unless:

1. The member breached or failed to perform her or his duties as a member; and

2. The member's breach of, or failure to perform, duties constitutes:

a. A violation of the criminal law, unless the member had reasonable cause to believe her or his conduct was not unlawful. A judgment or other final adjudication against a member in any criminal proceeding for violation of the criminal law estops that member from contesting the fact that her or his breach, or failure to perform, constitutes a violation of the criminal law; but does not estop the member from establishing that she or he had reasonable cause to believe that her or his conduct was lawful or had no reasonable cause to believe that her or his conduct was unlawful;

b. A transaction from which the member derived an improper personal benefit, either directly or indirectly; or

c. Recklessness or any act or omission that was committed in bad faith or with malicious purpose or in a manner exhibiting wanton and willful disregard of human

rights, safety, or property. For purposes of this sub-subparagraph, the term "recklessness" means the acting, or omission to act, in conscious disregard of a risk:

(I) Known, or so obvious that it should have been known, to the member; and

(II) Known to the member, or so obvious that it should have been known, to be so great as to make it highly probable that harm would follow from such act or omission.

(t) ~~(p)~~ No insurer shall provide workers' compensation and employer's liability insurance to any person who is delinquent in the payment of premiums, assessments, penalties, or surcharges owed to the plan or to any person who is an affiliated person of a person who is delinquent in the payment of premiums, assessments, penalties, or surcharges owed to the plan. For purposes of this paragraph, the term "affiliated person" of another person means:

1. The spouse of such other natural person;

2. Any person who directly or indirectly owns or controls, or holds with the power to vote, 5 percent or more of the outstanding voting securities of such other person;

3. Any person who directly or indirectly owns 5 percent or more of the outstanding voting securities that are directly or indirectly owned or controlled, or held with the power to vote, by such other person;

4. Any person or group of persons who directly or indirectly control, are controlled by, or are under common control with such other person;

5. Any officer, director, trustee, partner, owner, manager, joint venturer, or employee, or other person performing duties similar to persons in those positions, of such other persons; or

6. Any person who has an officer, director, trustee, partner, or joint venturer in common with such other person.

(u) ~~(q)~~ Effective July 1, 2004, the plan is exempt from the premium tax under s. 624.509 and any assessments under ss. 440.49 and 440.51.

(v) The Office of Insurance Regulation shall perform a comprehensive market conduct examination of the plan periodically to determine compliance with its plan of operation and internal operating policies and procedures.

(w) Upon dissolution, the assets of the plan shall be applied first to pay all debts, liabilities, and obligations of the plan, including the establishment of reasonable reserves for any contingent liabilities or obligations, and all remaining assets of the plan shall become property of the state and shall be deposited in the Workers' Compensation Administration Trust Fund. However, dissolution may not take effect as long as the plan has financial obligations outstanding unless adequate provision has been made for the payment of financial obligations pursuant to the documents authorizing the financial obligations.

(6) Each joint underwriting plan or association created under this section is not a state agency, board, or commission. However, for the purposes of s. 199.183(1) only, the joint underwriting plan created under subsection (5) is a political subdivision of the state and is exempt from the corporate income tax.

(7) Each joint underwriting plan or association may elect to pay premium taxes on the premiums received on its behalf or may elect to have the member insurers to whom the premiums are allocated pay the premium taxes if the member insurer had written the policy. The joint underwriting plan or

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association shall notify the member insurers and the Department of Revenue by January 15 of each year of its election for the same year. As used in this paragraph, the term "premiums received" means the consideration for insurance, by whatever name called, but does not include any policy assessment or surcharge received by the joint underwriting association as a result of apportioning losses or deficits of the association pursuant to this section.

(8) ~~(6)~~ As used in this section and ss. 215.555 and 627.351, the term "collateral protection insurance" means commercial property insurance of which a creditor is the primary beneficiary and policyholder and which protects or covers an interest of the creditor arising out of a credit transaction secured by real or personal property. Initiation of such coverage is triggered by the mortgagor's failure to maintain insurance coverage as required by the mortgage or other lending document. Collateral protection insurance is not residential coverage.

(9) ~~(7)~~(a) The Florida Automobile Joint Underwriting Association created under this section shall be deemed to have appointed its general manager as its agent to receive service of all legal process issued against the association in any civil action or proceeding in this state. Process so served shall be valid and binding upon the insurer.

(b) Service of process upon the association's general manager as the association's agent pursuant to such an appointment shall be the sole method of service of process upon the association.

Section 2. No later than January 1, 2008, the Florida Workers' Compensation Joint Underwriting Association, Inc., shall submit a request to the Internal Revenue Service for a

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letter ruling or determination on the plan's eligibility as a tax-exempt entity.

Section 3. This act shall take effect July 1, 2007.

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CODING: Words ~~stricken~~ are deletions; words underlined are additions.

DRAFT JUNE 30, 2007 FINANCIAL AUDIT

The Audit Committee shall receive the draft June 30, 2007 financial audit and shall consider its finalization for presentation to the Board.

By way of background, legislation effective July 1, 2007 requires that the FWCJUA submit a request to the Internal Revenue Service for a letter ruling or determination on the plan's eligibility as a tax-exempt entity. Given such, staff recommended to the Board that an audit of the FWCJUA's financial statement be commissioned to document the "probable" closing of the FWCJUA as a taxable entity as of June 30, 2007. Accordingly, at its June 12, 2007 meeting during a discussion on implementation issues related to the passage of the legislation, the Board resolved to engage Thomas Howell Ferguson to file the private letter request for tax exempt status and to perform the financial audit and prepare the tax return for the period ending June 30, 2007.

It is Thomas Howell Ferguson's opinion that the attached FWCJUA statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Florida Workers' Compensation Joint Underwriting Association, Inc. as of June 30, 2007, and the results of its operations and its cash flows for the six month period then ended and in conformity with accounting practices prescribed or permitted in the codified NAIC's Statements of Statutory Accounting Principles and related interpretations as prescribed and permitted by the Office of Insurance Regulation.

Attached for the Committee's consideration are the following documents prepared by Thomas Howell Ferguson:

1. Statutory Financial Statements for period ended June 30, 2007
2. Report to the Audit Committee

The Committee shall review Thomas Howell Ferguson's audit report and direct its finalization for presentation to the Board of Governors at its December 11th meeting.

Statutory Basis Financial Statements
and Other Financial Information

Florida Workers' Compensation Joint Underwriting Association, Inc.

For the six month period ended June 30, 2007
with Report of Independent Auditors

Florida Workers' Compensation Joint Underwriting Association, Inc.

Statutory Basis Financial Statements and Other Financial Information

For the six month period ended June 30, 2007

Contents

Report of Independent Auditors

The Board of Governors
Florida Workers' Compensation Joint
Underwriting Association, Inc.

We have audited the accompanying statement of admitted assets, liabilities and surplus - statutory basis of the Florida Workers' Compensation Joint Underwriting Association, Inc. (the Association), as of June 30, 2007, and the related statutory basis statements of operations, changes in surplus and cash flows for the six month period then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Florida Workers' Compensation Joint Underwriting Association, Inc. as of June 30, 2007, and the results of its operations and its cash flows for the six month period then ended, on the basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The accompanying consolidating information included in other financial information as of and for the six month period ended June 30, 2007, is presented for purposes of additional analysis and is not a required part of the statutory basis financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Governors and management of the Florida Workers' Compensation Joint Underwriting Association, Inc. and for filing with the Florida Office of Insurance Regulation and should not be used for any other purpose.

November 12, 2007

Florida Workers' Compensation Joint Underwriting Association, Inc.

Statement of Admitted Assets, Liabilities and Surplus - Statutory Basis

June 30, 2007

Admitted assets	
Cash and invested assets:	
Bonds	$ 62,076,828
Short-term investments	7,145,880
Cash and cash equivalents	30,127,544
Total cash and invested assets	99,350,252
Premiums in course of collection	9,735,690
Premiums and installments booked but deferred and not yet due	3,748,347
Reinsurance recoverables on paid losses	248,258
Electronic data processing equipment, net	131,381
Accrued investment income	839,656
Other admitted assets	412,022
Total admitted assets	$ 114,465,606
Liabilities and surplus	
Liabilities:	
Loss and loss adjustment expense reserves	$ 36,388,608
Unearned premiums	11,378,758
Accounts payable and accrued expenses	6,711,892
Commissions due and accrued servicing carrier fees	2,372,302
Federal income taxes payable	2,411,676
Deposit premium liability	4,097,018
Advance premiums	193,989
Provision for reinsurance	818,286
Retroactive reinsurance ceded	(5,269,815)
Total liabilities	59,102,714
Surplus:	
Unassigned surplus	49,268,184
Special surplus from retroactive reinsurance contract	6,094,708
Total surplus	55,362,892
Total liabilities and surplus	$ 114,465,606

See accompanying notes.

Florida Workers' Compensation Joint Underwriting Association, Inc.

Statement of Operations - Statutory Basis

For the six month period ended June 30, 2007

Underwriting income:	
Premiums earned, net	$ 11,072,552
Underwriting expenses:	
Losses and loss adjustment expenses incurred, net	(4,269,082)
Underwriting, acquisition, and other expenses	3,197,483
Total underwriting expenses	(1,071,599)
Net underwriting income	12,144,151
Net investment income	2,438,158
Realized capital losses	(40,153)
Other income (loss):	
Excess WCATF funds	(2,462,000)
Other income	150,636
Retroactive reinsurance loss	(90,000)
Income before federal income taxes	12,140,792
Federal income taxes	3,411,676
Net income	$ 8,729,116

See accompanying notes.

Florida Workers' Compensation Joint Underwriting Association, Inc.

Statement of Changes in Surplus - Statutory Basis

	Unassigned Surplus	Special Surplus	Total
Balance at December 31, 2006	$ 42,699,380	$ 6,094,708	$48,794,088
Change in nonadmitted assets	1,689,490	-	1,689,490
Change in net deferred income taxes	(3,261,516)	-	(3,261,516)
Change in provision for reinsurance	(588,286)	-	(588,286)
Net income	8,729,116	-	8,729,116
Balance at June 30, 2007	$ 49,268,184	$ 6,094,708	$55,362,892

See accompanying notes.

Florida Workers' Compensation Joint Underwriting Association, Inc.

Statement of Cash Flows - Statutory Basis

For the six month period ended June 30, 2007

Operating activities	
Premiums collected, net of reinsurance	$ 8,426,617
Losses and loss adjustment expenses paid	(3,394,101)
Underwriting, acquisition, and other expenses paid	(2,235,058)
Net investment income received	2,472,300
Federal income taxes paid	(11,465,096)
Other cash applied	(2,311,364)
Net cash used in operating activities	(8,506,702)
Investing activities	
Proceeds from sales, maturities, and redemption of investments	36,920,677
Cost of investments acquired	(31,385,661)
Net cash provided by investing activities	5,535,016
Financing activities	
Retroactive reinsurance payments received	16,696
Other sources	1,672,264
Net cash provided by financing activities	1,688,960
Net decrease in cash	(1,282,726)
Cash at beginning of period	38,556,150
Cash at end of period	$ 37,273,424
Cash consists of the following:	
Cash and cash equivalents	$ 30,127,544
Short-term investments	7,145,880
	$ 37,273,424

See accompanying notes.

1. Nature of Operations and Significant Accounting Policies

Florida Workers' Compensation Joint Underwriting Association, Inc. (the Association) was established on December 30, 1993, pursuant to Florida Statutes Section 627.311, to provide workers' compensation and employer's liability insurance coverage to qualified risks in the state of Florida as specified in the statute. The Association operates under the supervision and approval of a 9-member Board of Governors. By statute, the Board of Governors is to be comprised of two representatives from the 20 domestic insurers defined in Florida Statutes Section 624.06(1), two representatives from the 20 foreign insurers defined in Florida Statutes Section 624.06(2), three members appointed by the Financial Services Commission, the consumer advocate appointed under Florida Statutes Section 627.0613, and one representative from the state's largest property and casualty agents' association. At June 30, 2007, there were no vacancies on the Board.

The Association was established to provide workers' compensation and employer's liability insurance to employers located in the state of Florida who are required by law to maintain workers' compensation and employer's liability insurance and who in good faith are entitled, but unable to purchase such insurance through the voluntary insurance markets.

The Association is authorized to assess certain policyholders, subject to the approval of the Office of Insurance Regulation (the Office), amounts necessary to support operations. The Association is exempt, by statute, from state of Florida corporate income taxes, premium taxes and intangible taxes, and assessments from the Division of Workers' Compensation and the Florida Workers' Compensation Insurance Guaranty Association. The Association is not exempt from federal income taxes.

Effective July 26, 2003, legislation was adopted that resulted in significant changes to the Association's rating structure. The rating structure recognized the establishment of individual policy subplans that prescribed terms of eligibility, coverages, and rating methodology. One subplan, Subplan D, issued fully assessable policies that were capped at 125% of the voluntary market rates. The legislation created four subplans that were to be maintained and accounted for separately.

Effective July 1, 2004, legislation was adopted that implemented a tier plan rating system that replaced the subplan rating system discussed in the previous paragraph. The tier plan rating system provides for limitations on rates for Tier Plans 1 and 2 and assessments, if necessary, against all workers' compensation insureds in the state of Florida to fund its cash flow deficits, if any. Tier 3 is to charge actuarially sound rates with assessments against policyholders if rates are insufficient to fund a deficit, if necessary. Effective January 1, 2007, Tier Plans 1, 2, and 3 are to charge actuarially sound rates with assessments against policyholders if rates are insufficient to fund deficits, if necessary.

1. Nature of Operations and Significant Accounting Policies (continued)

Should funding for Subplan D, Tier 1 or Tier 2 be insufficient, then the funds from the state of Florida, Workers' Compensation Administration Trust Fund (WCATF) may be transferred to the Association upon the approval of the Office, the Florida Department of Financial Services (the Department), and the Legislative Budget Commission.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Florida Office of Insurance Regulation (the Office). Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The more significant variations from GAAP are as follows:

- Investments in bonds or debt securities are reported at amortized cost or market value based on their NAIC rating; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a component of other comprehensive income for those designated as available-for-sale.

- Fair values of certain investments in bonds are based on values specified by the NAIC rather than on actual or estimated market values. Changes between cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to other comprehensive income.

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet at net realizable values.

- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.

1. Nature of Operations and Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Cash, cash equivalents and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

- Gains from retroactive reinsurance contracts are reported as special surplus and are not reported as unassigned surplus until amounts recovered exceed the consideration paid. Subsequent adjustments to the initial gain are recorded in income or loss in the year of change. Under GAAP, such gains are deferred and recognized in income using the interest method over the period the underlying reinsured claims are paid.

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Written premiums are based on amounts estimated by underwriters at the time of policy issuance. Any adjustment to recorded estimates resulting from subsequent information is reflected in operations in the period in which such adjustments are known or estimable.

Premiums are recorded as earned on a monthly pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Acquisition costs, including commissions and servicing carrier fees are charged to operations as incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less and certificates of deposit with maturities of one year or less.

1. Nature of Operations and Significant Accounting Policies (continued)

Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO).

Bonds not backed by other loans are stated at amortized cost using the interest method. Loan-backed bonds and structured securities are stated at amortized cost using the interest method including anticipated prepayments at the date of purchase.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

Realized capital gains and losses are determined using the specific identification basis. Changes in admitted asset carrying amounts of investments are credited or charged directly to unassigned surplus.

Electronic Data Processing (EDP) Equipment

The Association's EDP equipment is reported at cost, less accumulated depreciation of $219,121 at June 30, 2007. EDP equipment is depreciated on a straight-line basis over a period not exceeding three years.

Total depreciation expense on all capitalized assets charged to operations in 2007 was $86,031.

Reinsurance

Reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Association does not discount its loss and LAE reserves.

1. Nature of Operations and Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves (continued)

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Income Taxes

The Association calculates its federal income tax liability based upon the statutory rates in effect during the year. In accordance with Florida Statutes Section 627.311(4)(m), the Association is exempt from state income taxes.

Effective July 1, 2007, legislation was adopted requiring the Florida Workers' Compensation Joint Underwriting Association to submit a request to the Internal Revenue Service, no later than January 1, 2008, for a letter ruling on the Association's eligibility as a tax-exempt entity. It is management's intent to obtain a private letter ruling from the Internal Revenue Service exempting the Association from federal income tax as an entity that is an integral part of the state of Florida. Accordingly, these financial statements do not include any provision for deferred income taxes.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

2. Investments

The amortized cost and SVO market value of bonds at June 30, 2007, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	SVO Market Value
U.S. Government and government agencies	$ 2,339,490	$ 107	$ (23,610)	$ 2,315,987
Public utilities	784,630	-	(4,100)	780,530
Corporate bonds	13,806,720	587	(120,122)	13,687,185
Mortgage-backed securities:				
U.S. government agencies	45,145,988	750	(233,076)	44,913,662
Total	$62,076,828	$ 1,444	$ (380,908)	$61,697,364

A summary of the aggregate SVO market values of bonds with unrealized losses segregated by time period for which the bonds have been in an unrealized loss position at June 30, 2007, is as follows:

	SVO Market Value	Unrealized Losses
Less than 12 months	$ 33,532,717	$ (99,951)
Greater than 12 months	27,326,907	(280,957)
	$ 60,859,624	$ (380,908)

A summary of the amortized cost and SVO market value of bonds at June 30, 2007, by contractual maturity, is as follows:

	Amortized Cost	SVO Market Value
Due in less than one year	$ 7,060,388	$ 7,022,783
Due after one year through five years	9,870,452	9,760,919
Mortgage-backed securities	45,145,988	44,913,662
Total	$ 62,076,828	$ 61,697,364

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2. Investments (continued)

Proceeds from sales or maturities of investments during the six month period ended June 30, 2007 were $36,920,677. There were realized gains of $6,675 and realized losses of $46,828 in the six month period ended June 30, 2007.

In the six month period ended June 30, 2007, the Association pledged a $400,000 bond to the U.S. Department of Labor for the authorization to write USL&H coverage.

Major categories of the Association's net investment income for the six month period ended June 30, 2007, are summarized as follows:

Bonds	$ 1,485,270
Short-term investments and cash	965,689
Interest on servicing carrier balances	2,055
Total investment income	2,453,014
Investment expenses	(14,856)
Net investment income	$ 2,438,158

3. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balance for losses and LAE, net of reinsurance recoverables at June 30, 2007.

	(in thousands)
Loss and LAE reserves at beginning of period	$ 44,652
Losses and LAE incurred related to:	
Current period	4,133
Prior years	(8,402)
	(4,269)
Losses and LAE paid related to:	
Current period	(1,183)
Prior years	(2,811)
	(3,994)
Loss and LAE reserves at end of period	$ 36,389

During 2007, net incurred losses and LAE attributable to insured events of prior years decreased by $8,401,886, as a result of re-estimation of unpaid losses and LAE. These decreases are generally a result of ongoing analysis of recent loss development trends. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

4. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Association with increased capacity to write larger risks and maintain its exposure to loss within its capital resources.

The Association remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

For the six month period ended June 30, 2007, the Association's excess of loss reinsurance agreements generally provide coverage for each loss occurrence in excess of $350,000 up to $30,000,000. The Association purchased 50% of the first excess layer. Therefore, the Association retains $675,000 of the first $1,000,000 in losses. In addition, the coverage provided under the agreements is subject to an annual aggregate deductible of 1.25% of subject premium.

In 2007, the Association reported a gain of $23,939 in its operations as a result of a commutation with Quanta Reinsurance. This gain is included in losses and loss adjustment expenses incurred on the statement of operations. The commuted agreement provided coverage of 15% of $9 million in excess of $1 million on losses occurring from January 1, 2005 to December 31, 2005.

In 2000, the Association ceded all reserves for losses and LAE expenses as of August 1, 2000 for accident years 1994-1999 to Munich Reinsurance America (formerly, American Re-Insurance Company) under the terms of a loss portfolio transfer agreement. The recorded reserves for losses and LAE, net of reinsurance, were $29,908,675. The Association's premium to the reinsurer was $23,328,171. This resulted in the recording of a contra liability for the losses transferred in the amount of $29,908,675. The resulting gain of $6,094,708 ($6,580,504 less $485,795 for the annual reserve adjustment) was reported on the statement of operations as retroactive reinsurance gain and in the balance sheet as special surplus from retroactive reinsurance contract. During 2007, there was a decrease of $90,000 in the estimated ultimate incurred losses and LAE ceded under the retroactive reinsurance contract, which is recorded in the accompanying statement of operations as a decrease in losses and LAE incurred and a retroactive reinsurance loss.

The effects of reinsurance on premiums written and earned for the six month period ended June 30, 2007, are as follows:

	Written	Earned
Direct premiums	$ 8,990,722	$ 13,147,982
Assumed premiums	-	-
Ceded premiums	(4,150,860)	(2,075,430)
Net premiums	$ 4,839,862	$ 11,072,552

4. Reinsurance (continued)

At June 30, 2007, unsecured reinsurance recoverables on paid and unpaid losses and LAE, ceded premiums payable, and unearned premiums by reinsurer that were equal to or greater than 3% of surplus, are as follows:

SCOR Reinsurance Company	$ 2,768,300
St. Paul Re/St. Paul Fire and Marine Insurance	2,292,028
American Reinsurance	3,496,642
Hannover Re	2,921,191
Everest	2,096,040
Total	$ 13,574,201

Reinsurance recoverables on paid and unpaid losses and LAE at June 30, 2007, were $248,258 and $20,286,109, respectively.

5. Income Taxes

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) at June 30, 2007, are as follows:

Gross DTAs	$ -
Gross DTLs	-
Net DTAs	-
Nonadmitted DTAs	-
Admitted net DTAs	$ -
Decrease in nonadmitted DTAs	$ (1,707,347)

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provision for income taxes incurred for the six month period ended June 30, 2007 is:

Current period income tax expense	$ 3,411,676
Prior year under (over) accrual	-
Current income taxes (benefit) incurred	$ 3,411,676

5. Income Taxes (continued)

The changes in the main components of DTAs are as follows:

DTAs Resulting from Book/Tax Differences	June 30, 2007	December 31, 2006	Change
Unpaid losses and LAE	$ -	$ 1,919,666	$ (1,919,666)
Unearned premiums	-	1,560,551	(1,560,551)
Nonadmitted assets	-	1,463,369	(1,463,369)
Capital losses	-	25,277	(25,277)
Total DTAs	$ -	$ 4,968,863	$ (4,968,863)
Nonadmitted DTAs	$ -	$ 1,707,347	$ (1,707,347)

The change in gross DTAs of $4,968,863 is the change in net deferred income taxes before the consideration of nonadmitted DTAs.

D. Reconciliation of federal income tax rate to actual effective rate:

	2007 Amount	Effective Tax Rate
Provision computed at statutory rate	$ 4,127,869	34.00 %
Change in nonadmitted assets	1,463,369	12.05
Other adjustments	2,789,301	22.98
Total	$ 8,380,539	69.03 %
Federal and foreign income tax	$ 3,411,676	28.10 %
Change in net deferred income tax	4,968,863	40.93
Statutory income taxes	$ 8,380,539	69.03 %

6. Assessments and Distributions

Under Section 627.311, effective July 1, 2004, the Association is exempt from the premium tax under Section 624.509 and any assessments under Sections 440.49 and 440.51. Pursuant to Section 631.904 of the Florida Statutes, the Association is exempt from assessments of the Florida Workers' Compensation Insurance Guaranty Association. Accordingly, no provision for assessments or premium tax has been included in the financial statements.

7. Commitments and Contingencies

The Association is a defendant in certain legal proceedings arising out of the conduct of the Association's business, principally from claims made under insurance policies. These actions are considered by the Association in estimating liabilities for loss reserves. In the opinion of management, the ultimate outcome of these legal proceedings will not have a material adverse effect on the financial position or results of operations of the Association.

8. Servicing Carrier Fees and Producer Fees

During 1994 and up to May 1995, the Association participated in servicing carrier agreements with seven insurance companies to provide the Association with underwriting, policy management and issuance, and claims adjusting services. These servicing carrier agreements provided for compensation to the insurance companies of 20% of gross direct collectible written premiums that covers reimbursement of loss adjustment expenses associated with the claims. Accordingly, loss adjustment expenses are not recorded in the accompanying statutory basis financial statements for losses incurred prior to June 1995. However, if the insurance companies incur unusual expenses in handling a unique claim situation or complex litigation, they may petition the Board of Governors for special reimbursement of these unusual expenses from the Association. In the opinion of management, any liability that may ultimately result from such unusual loss adjustment expenses will not have a material adverse effect on the financial position or results of operations of the Association.

These servicing carrier agreements terminated on May 31, 1995, and subsequent to this date, a separate servicer agreement was executed with a single carrier. Under this agreement, the compensation rate to the servicing carrier varies with incremental premium levels. Effective July 26, 2003, servicing carrier fee expense is comprised of 2 layers. The servicing carrier fee rate on direct written premium from subplans A, B and C is 16.3%. The servicing carrier fee rate on direct written premium from subplan D is 32.6% plus a flat fee of $425 per policy. Prior to July 26, 2004 and for 2003, the agreement was based on 16.1% of premiums collected subject to a minimum of $607,500. Effective July 1, 2004, with the creation of the tiers, the servicing carrier fee begins at 21.8% and adjusts down to 18.7% based on the premium collected during the annual period. The servicing carrier fee is subject to a minimum of $1,185,266. Certain loss adjustment expenses are reimbursable over and above the 16.1%. Accordingly, the accompanying financial statements include loss adjustment expenses for claims incurred after May 1995. Effective January 1, 2006, the servicing carrier fee rate begins at 20.7% and adjusts down to 18.5% based on premiums collected. These rates are effective for policy years 2006 through 2008. Certain loss adjustment expenses are reimbursable over and above the 20.7%.

The amount expensed under these agreements for the six month period ended June 30, 2007 was $1,453,781. Additionally, licensed producers in the state of Florida are authorized to write business on behalf of the Association. These producers are paid producer fees based on a graduated scale.

9. Fair Values of Financial Instruments

The following methods and assumptions were used by the Association in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

Cash and Short-Term Investments – The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Investment Securities – The fair values for fixed maturity securities are based on market values which approximate those prescribed by the Securities Valuation Office of the NAIC or quoted market prices, where available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services or, in the case of private placements, are estimated by discounting expected future cash flows using current market rates applicable to the coupon rate, credit quality, and maturity of the investments.

Reinsurance Recoverables – The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

10. Employee Benefits

The Association has a 401(k) retirement plan for active employees. The Association matches, up to a maximum, amounts contributed by the employees. The Association's 401(k) plan had no unfunded amounts at June 30, 2007. The Association made contributions to the plan during the six month period ended June 30, 2007, in the amount of $34,521.

11. Third Party Administrators

Prior to July 1, 1995, the Association wrote and serviced its business through the use of seven third party administrators. Currently, Travelers Property Casualty in Hartford, Connecticut (EIN 06-0566090) is the only active administrator with the other six in run-off activity. None of the servicers hold an exclusive contract and all are licensed to write workers compensation business. The servicers are granted the authority to underwrite, bind policies, collect premiums and adjust and pay claims.

12. Leases

The Association leases office space and equipment under lease agreements that expire at various intervals over the next five years and are subject to renewal options at market rates prevailing at the time of the renewal. Rental expense for all leases was $87,939 for the six month period ended June 30, 2007. At June 30, 2007, future minimum payments under leases are as follows:

2008	$	179,573
2009		184,421
2010		189,415
2011		191,564
2012		181,893
	$	926,866

13. Florida Workers' Compensation Administrative Trust Fund (WCATF) Transfers

The Association is required to file a funding request with the Department that demonstrates its cash requirements for funding the Subplan D losses. These transfers are recognized in the period approved by the Department. The Association did not receive any transfers during the six month period ended June 30, 2007. At June 30, 2007, the Association recorded a liability of $5,159,000, related to unused transfers received from the WCATF. This amount is included in accounts payable and accrued expenses on the statement of admitted assets, liabilities and surplus.

Other Financial Information

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Admitted Assets, Liabilities and Surplus by Rating Plan - Statutory Basis

June 30, 2007

	Prior to July 26, 2003	Subplans Effective July 26, 2003	Tiers Effective July 1, 2004	Inter-plan Balances	Total
Admitted assets					
Cash and invested assets:					
Bonds	$ 23,283,178	$ 3,623,600	$ 35,170,050	$ -	$ 62,076,828
Short-term investments	5,074,439	782,702	1,288,739	-	7,145,880
Cash and cash equivalents	5,380,781	9,513,497	15,233,266	-	30,127,544
Total cash and invested assets	33,738,398	13,919,799	51,692,055	-	99,350,252
Premiums in course of collection	878,638	(333)	8,857,385	-	9,735,690
Premiums and installments booked but deferred and not yet due	445	16	3,747,886	-	3,748,347
Reinsurance recoverables on paid losses	248,258	-	-	-	248,258
Electronic data processing equipment, net	131,381	-	-	-	131,381
Accrued investment income	318,288	62,198	459,170	-	839,656
Other admitted assets	1,011,527	24,571	653,439	(1,277,515)	412,022
Total admitted assets	$ 36,326,935	$ 14,006,251	$ 65,409,935	$ (1,277,515)	$ 114,465,606
Liabilities and surplus					
Liabilities:					
Losses and loss adjustment expense reserves	$ 7,488,581	$ 6,805,144	$ 22,094,883	$ -	$ 36,388,608
Unearned premiums	-	-	11,378,758	-	11,378,758
Accounts payable and accrued expenses	1,754,519	5,231,786	636,422	(910,835)	6,711,892
Commissions due and accrued servicing carrier fees	172,213	10,758	2,189,331	-	2,372,302
Federal income taxes payable	-	97,065	2,681,291	(366,680)	2,411,676
Deposit premiums liability	710,748	196,971	3,189,299	-	4,097,018
Advance premiums	-	-	193,989	-	193,989
Provision for reinsurance	-	-	818,286	-	818,286
Retroactive reinsurance ceded	(5,269,815)	-	-	-	(5,269,815)
Total liabilities	4,856,246	12,341,724	43,182,259	(1,277,515)	59,102,714
Surplus:					
Unassigned surplus	25,375,981	1,664,527	22,227,676	-	49,268,184
Special surplus from retroactive reinsurance contract	6,094,708	-	-	-	6,094,708
Total surplus	31,470,689	1,664,527	22,227,676	-	55,362,892
Total liabilities and surplus	$ 36,326,935	$ 14,006,251	$ 65,409,935	$ (1,277,515)	$ 114,465,606

See accompanying notes.

Schedule 2

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Operations by Rating Plan - Statutory Basis

Period ended June 30, 2007

	Prior to July 26, 2003	SubPlans Effective July 26, 2003	Tiers Effective July 1, 2004	Inter-plan Balances	Total
Underwriting income:					
Premiums earned, net	$ 57,217	$ (131,340)	$ 11,146,675	$ -	$ 11,072,552
Underwriting expenses:					
Losses and loss adjustment expenses incurred, net	(755,450)	(827,631)	(2,686,001)	-	(4,269,082)
Underwriting, acquisition, and other expenses	726,308	(230,439)	2,701,614	-	3,197,483
Total underwriting expenses	(29,142)	(1,058,070)	15,613	-	(1,071,599)
Net underwriting income	86,359	926,730	11,131,062	-	12,144,151
Net investment income	759,274	345,889	1,332,995	-	2,438,158
Realized capital losses	(35,252)	(4,959)	58	-	(40,153)
Other income (loss)	150,636	(2,462,000)	-	-	(2,311,364)
Retroactive reinsurance loss	(90,000)	-	-	-	(90,000)
Income before federal income taxes	871,017	(1,194,340)	12,464,115	-	12,140,792
Federal income taxes	(66,212)	196,597	3,281,291	-	3,411,676
Net income	$ 937,229	$ (1,390,937)	$ 9,182,824	$ -	$ 8,729,116

See accompanying notes.

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Admitted Assets, Liabilities and Surplus (Deficit) by Subplan - Statutory Basis

June 30, 2007

	Subplan A	Subplan C	Subplan D1	Subplan D2	Total Subplans Effective July 26, 2003
Admitted assets					
Cash and invested assets:					
Bonds	$ -	$ 3,623,600	$ -	$ -	$ 3,623,600
Short-term investments	-	782,702	-	-	782,702
Cash and cash equivalents	72,656	3,810,882	5,629,959	-	9,513,497
Total cash and invested assets	72,656	8,217,184	5,629,959	-	13,919,799
Premiums in course of collection	-	(333)	-	-	(333)
Premiums and installments booked but deferred and not yet due	-	16	-	-	16
Accrued investment income	-	62,198	-	-	62,198
Other admitted assets	468	-	24,103	-	24,571
Total admitted assets	$ 73,124	$ 8,279,065	$ 5,654,062	$ -	$ 14,006,251
Liabilities and surplus (deficit)					
Liabilities:					
Losses and loss adjustment expense reserves	$ 297	$ 1,932,314	$ 4,709,016	$ 163,517	$ 6,805,144
Unearned premiums	-	-	-	-	-
Accounts payable and accrued expenses	12	14,674	5,162,601	54,499	5,231,786
Commissions due and accrued servicing carrier fees	-	-	10,758	-	10,758
Federal income taxes payable	-	97,065	-	-	97,065
Deposit premiums liability	-	13,590	177,528	5,853	196,971
Advance premiums	-	-	-	-	-
Provision for reinsurance	-	-	-	-	-
Retroactive reinsurance ceded	-	-	-	-	-
Total liabilities	309	2,057,643	10,059,903	223,869	12,341,724
Surplus (deficit):					
Unassigned surplus (deficit)	72,815	6,221,422	(4,405,841)	(223,869)	1,664,527
Special surplus from retroactive reinsurance contract	-	-	-	-	-
Total surplus (deficit)	72,815	6,221,422	(4,405,841)	(223,869)	1,664,527
Total liabilities and surplus (deficit)	$ 73,124	$ 8,279,065	$ 5,654,062	$ -	$ 14,006,251

See accompanying notes.

Schedule 4

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Operations by Subplan - Statutory Basis

Period ended June 30, 2007

	Subplan A	Subplan C	Subplan D1	Subplan D2	Total Subplans Effective July 26, 2003
Underwriting income:					
Premiums earned, net	$ -	$ 76	$ (131,416)	$ -	$ (131,340)
Underwriting expenses:					
Losses and loss adjustment expenses incurred, net	4	(761,284)	(10,096)	(56,255)	(827,631)
Underwriting, acquisition, and other expenses	245	(7,292)	(223,391)	(1)	(230,439)
Total underwriting expenses	249	(768,576)	(233,487)	(56,256)	(1,058,070)
Net underwriting income	(249)	768,652	102,071	56,256	926,730
Net investment income (expense)	1,797	199,886	144,726	(520)	345,889
Realized capital losses	-	(4,959)	-	-	(4,959)
Other income	-	-	(2,551,822)	89,822	(2,462,000)
Income before federal income taxes	1,548	963,579	(2,305,025)	145,558	(1,194,340)
Federal income taxes	(468)	197,065	-	-	196,597
Net income	$ 2,016	$ 766,514	$ (2,305,025)	$ 145,558	$ (1,390,937)

See accompanying notes.

Schedule 5

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Admitted Assets, Liabilities and Surplus by Tier - Statutory Basis

June 30, 2007

	Tier 1	Tier 2	Tier 3	Total Tiers Effective July 1, 2004
Admitted assets				
Cash and invested assets:				
Bonds	$ 4,499,679	$ 15,581,784	$ 15,088,587	$ 35,170,050
Short-term investments		643,497	645,242	1,288,739
Cash and cash equivalents	3,330,325	5,094,654	6,808,287	15,233,266
Total cash and invested assets	7,830,004	21,319,935	22,542,116	51,692,055
Premiums in course of collection	1,898,612	4,289,165	2,669,608	8,857,385
Premiums and installments booked but deferred and not yet due	708,242	1,629,833	1,409,811	3,747,886
Accrued investment income	53,206	200,062	205,902	459,170
Other admitted assets	318,777	123,707	210,955	653,439
Total admitted assets	$ 10,808,841	$ 27,562,702	$ 27,038,392	$ 65,409,935
Liabilities and surplus				
Liabilities:				
Losses and loss adjustment expense reserves	$ 1,718,435	$ 11,369,699	$ 9,006,749	$ 22,094,883
Unearned premiums	2,746,634	3,985,643	4,646,481	11,378,758
Accounts payable and accrued expenses	43,163	236,548	356,711	636,422
Commissions due and accrued servicing carrier fees	501,443	996,128	691,760	2,189,331
Federal income taxes payable	585,837	1,229,806	865,648	2,681,291
Deposit premiums liability	723,853	2,092,557	372,889	3,189,299
Advance premiums	38,404	128,862	26,723	193,989
Provision for reinsurance	-	818,286	-	818,286
Total liabilities	6,357,769	20,857,529	15,966,961	43,182,259
Surplus:				
Unassigned surplus	4,451,072	6,705,173	11,071,431	22,227,676
Total surplus	4,451,072	6,705,173	11,071,431	22,227,676
Total liabilities and surplus	$ 10,808,841	$ 27,562,702	$ 27,038,392	$ 65,409,935

See accompanying notes.

Schedule 6

Florida Workers' Compensation
Joint Underwriting Association, Inc.

Consolidating Schedule of Operations by Tier - Statutory Basis

Period ended June 30, 2007

	Tier 1	Tier 2	Tier 3	Total Tiers Effective July 1, 2004
Underwriting income:				
Premiums earned, net	$ 2,517,852	$ 4,810,702	$ 3,818,121	$ 11,146,675
Underwriting expenses:				
Losses and loss adjustment expenses incurred, net	(1,735)	(1,506,638)	(1,177,628)	(2,686,001)
Underwriting, acquisition, and other expenses	470,713	1,199,387	1,031,514	2,701,614
Total underwriting expenses	468,978	(307,251)	(146,114)	15,613
Net underwriting income	2,048,874	5,117,953	3,964,235	11,131,062
Net investment income	210,610	556,839	565,546	1,332,995
Realized capital losses	-	29	29	58
Income before federal income taxes	2,259,484	5,674,821	4,529,810	12,464,115
Federal income taxes	685,837	1,479,806	1,115,648	3,281,291
Net income	$ 1,573,647	$ 4,195,015	$ 3,414,162	$ 9,182,824

See accompanying notes.

Thomas Howell Ferguson P.A.
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To the Audit Committee
Florida Workers' Compensation Joint Underwriting Association, Inc.

This letter is intended to inform the Audit Committee of the Florida Workers' Compensation Joint Underwriting Association, Inc. (the Association) about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Audit Committee.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditor's Responsibility Under Generally Accepted Auditing Standards

Our audit of the financial statements of the Association for the six month period ended June 30, 2007, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include loss and loss adjustment expense reserves.

Loss and loss adjustment expense reserves represent the estimated unpaid ultimate net cost of all reported and unreported losses incurred through June 30, 2007. Loss and loss adjustment expense reserves are determined based on individual case-basis valuations, various statistical analyses, and industry data. The Association's recorded reserves are reviewed by an independent actuary whose report was obtained and reviewed. We have reconciled the data provided to the actuary to the Association's accounting information. This estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

The Audit Committee may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

There were adjustments as a result of the audit for EDP equipment, reinsurance premiums, provision for reinsurance, and federal income taxes. These adjustments were recorded in the audited statutory basis financial statements. These adjustments increased total surplus and total investment income approximately $865,000 and $92,000, respectively, and decreased total admitted assets, total liabilities, and total expenses approximately $434,000, $1.3 million, and $110,000, respectively.

Uncorrected Misstatements

There were no uncorrected misstatements to the original trial balance presented to us to begin our audit.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Association. The Association did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

The consolidating information included in other financial information as of and for the six month period ended June 30, 2007, is presented for purposes of additional analysis and is not a required part of the statutory basis financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Thomas Howell Ferguson P.A.

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Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Association.

This report is intended solely for the information and use of the Audit Committee, Board of Governors, and management and is not intended to be and should not be used by anyone other than the specified parties.

November 12, 2007

FEDERAL INCOME TAX EXEMPTION FILING UPDATE

The Committee shall receive an update on the federal income tax exemption filing from Andy Gray of Thomas Howell Ferguson to include the need to recognize a 2007 out-of-budget expense of $10,000 for the filing fee.

No Committee action is required on this agenda item.

PROCUREMENT

The Committee shall be updated on the procurement requirements that became effective July 1, 2007 as a result of the enactment of Senate Bill 1894 and shall consider the future auditor appointment process.

As a result of SB 1894, the FWCJUA is now subject to the following specific procurement requirements:

1. Purchases that equal or exceed $2,500 but are less than or equal to $25,000, shall be made by receipt of written quotes, telephone quotes, or informal bids, whenever practical.
2. The procurement of goods or services valued over $25,000 are subject to competitive solicitation, except in situations in which the goods or services are provided by a sole source or are deemed an emergency purchase, or the services are exempted from competitive-solicitation requirements under section 287.057(5)(f), Florida Statutes. Justification for the sole-sourcing or emergency procurement must be documented.
3. Contracts for goods or services valued at or over $100,000 are subject to board approval.

The following services are exempted from competitive-solicitation requirements under section 287.057(5)(f), Florida Statutes:

1. Artistic services.
2. Academic program reviews.
3. Lectures by individuals.
4. Auditing services.
5. Legal services, including attorney, paralegal, expert witness, appraisal, or mediator services.
6. Health services involving examination, diagnosis, treatment, prevention, medical consultation, or administration.
7. Services provided to persons with mental or physical disabilities by not-for-profit corporations which have obtained exemptions under the provisions of section 501(c)(3) of the United States Internal Revenue Code or when such services are governed by the provisions of Office Management and Budget Circular A-122. However, in acquiring such services, the agency shall consider the ability of the vendor, past performance, willingness to meet time requirements, and price.
8. Medicaid services delivered to an eligible Medicaid recipient by a health care provider who has not previously applied for and received a Medicaid provider number from the Agency for Health Care Administration. However, this exception shall be valid for a period not to exceed 90 days after the date of delivery to the Medicaid recipient and shall not be renewed by the agency.
9. Family placement services.
10. Prevention services related to mental health, including drug abuse prevention programs, child abuse prevention programs, and shelters for runaways, operated by not-for-profit corporations. However, in acquiring such services, the agency shall consider the ability of the vendor, past performance, willingness to meet time requirements, and price.
11. Training and education services provided to injured employees pursuant to section 440.491(6), Florida Statutes.
12. Contracts entered into pursuant to section 337.11, Florida Statutes. *(Note: This section addresses the contracting authority of the department of public transportation related to the construction and maintenance of all roads designated as part of the State Highway System or the State Park Road System or of any roads placed under its supervision by law. It also provides the department with authority to enter into contracts for the construction and maintenance of rest areas, weigh stations, and other structures, including roads, parking areas, supporting facilities and associated buildings used in connection with such facilities.)*
13. Services or commodities provided by governmental agencies.

Attached for the Committee's review is the procurement policy that was developed and implemented to comply with the provisions of the new law.

The Committee shall provide direction with respect to the procurement of auditing services for year-end 2008 and beyond.

Procurement Policy & Procedures

Purpose: The objective of this policy is to ensure that competition is used to the extent practical and that proper justification is obtained when competition is not utilized. The goal is to find the best balance of minimizing costs to the FWCJUA for goods and services while allowing reasonable response and flexibility.

The FWCJUA is not subject to procurement under Florida Statutes, Chapter 287.

Segregation of Duties: Initiation of a purchase usually begins with one of the managers. The initiating manager discusses with the Administration Manager what good and/or service is needed and completes the proper procurement initiation documentation *(Appendix C).* The Administration Manager then follows the procedures outlined in regards to procurement, based on the value of the good and/or service. Once all required documentation is obtained, the purchase is ordered. When an order of goods arrives, the packing slip is compared with the order form for verification that all goods ordered were received. The packing slip is given to accounting to be matched up with the invoice. Approval of the invoice is signed by the initiating manager and one or more managers based on the amount of the invoice per the Purchase Authorizations Policy *(Appendix B).* The accounting department will require all documentation before payment of an invoice.

Purchases Category Levels:

Category 1: Purchases less than $2,500 shall be reviewed with consideration given to any quotes received, whenever practical. Although quotes are not required on these purchases, it is suggested that comparison shopping be completed for the best price and/or item.

- Purchases of goods (an individual invoice)
- Annual contract / agreement price for a service

Category 2: Purchases that equal or exceed $2,500 but are less than or equal to $25,000 shall be made by receipt of written quotes, telephone quotes, or informal bids, whenever practical and any additional procedures for reasonable due diligence.

- For goods (an individual invoice), each purchase requires at least two (2) price quotes.
- For services, each purchase requires at least two (2) price comparisons, with the ability to remain with a service provider for five (5) years without a full price review unless service or price is unacceptable.

Category 3: Purchases over $25,000 are subject to competitive solicitation, except in situations in which the goods or services are provided by a sole source or are deemed an emergency purchase, or the services are exempted from competitive solicitation requirements under section 287-057 (5)(f), Florida Statutes. Sole sourcing or emergency procurement must be fully documented. *(Refer to Appendix A for the FWCJUA's Sole Source Providers)*

Category 4: Purchases for goods or services valued at or over $100,000 are subject to Board approval.

Approval of Purchases of Goods & Services: Overall expenses of the FWCJUA are initially approved by the Board through the Business Plan and Forecast at the beginning of each calendar year. This approved forecast shall be deemed sufficient approval from the Board of

Governors regarding these expenses. Purchases of goods and services outside of the Budgeted Forecast are taken to the Board for approval of the 'out-of-budget' expense and documented as such. Purchases of goods & services, within the approved Budgeted Forecast, are then approved by the authorized managers according to their appropriate approval levels as indicated by the Purchase Authorizations Policy *(Appendix B).*

Purchase amounts correlate to the actual amount of the purchase for goods (a single invoice) or the annual contract / agreement price for services. As a large portion of the FWCJUA purchasing is for services related to the operations of the FWCJUA, these services will be considered based on their annual pricing. Agreements / contracts for services will be selected for a five (5) year period with an annual review evaluating quality of service. Therefore annual contract / agreement for services can be renewed if within five (5) years of selection contingent on acceptable service standards and pricing. However, every five (5) years, the appropriate procurement review must be completed unless it is a sole source provider.

Generally the types of FWCJUA purchases for good and services fall into the following categories:

Office Services – generally are service contracts or agreements and therefore will be evaluated on an annual price basis. After selection, the vendor may be utilized for five (5) years with an annual quality of service review. After five (5) years of use, the appropriate pricing review must be completed. (cleaning, a/c maintenance, generator, fire suppression, phone system, phone service, electrical service, couriers, security, plants, coffee, paper shredder, safety deposit box, paychex, 401K administrator, flexible spending administrator, etc.)

Office Equipment – generally a combination of a good and service which is most likely purchased with a lease agreement. As it is preferred to have a term of five (5) years, lease terms may be required for a longer period. If a longer term is required, the lease must be approved by Executive Management. Written quotes are required for a lease term longer than five (5) years and must contain a cancellation clause. (copiers, postage machine)

Office Supplies – generally are purchases of goods utilized in the office. Each individual invoice amount must be properly evaluated and approved according to the appropriate procurement category requirements. (paper, pens, toner cartridges, envelopes, checks, break room supplies, etc.)

Insurances – annual contracts for insurance coverage. Pricing and coverage options are reviewed annually before purchase, however due to the tight insurance market for a small employer, availability and coverage may be limited to just a few carriers. (property & casualty, D&O, fidelity bond, workers' compensation, medical/dental insurance, disability and life insurances)

Hardware & Software – generally a combination purchase of a good and a service warranty. Each invoice amount must be properly evaluated and approved according to the appropriate category requirements. Sole sourcing may be a consideration as will want to purchase goods that are compatible with existing equipment. (computer equipment, warranties, software)

Service Providers – generally are service contracts and agreements and therefore will be considered on their annual price. Service provided will most likely fall into a category 2 through a category 4 type purchase. Price will define which category; however selection will be based on a number of criteria. (policy administration, claims servicing, actuarial, auditing, tax, collections, bank, investment manager, general counsel, rating bureau, reinsurance broker)

Definitions:

Competitive Solicitation – means an invitation to bid, a request for proposals, an invitation to negotiate, or any other means deemed appropriate at the sole discretion of the FWCJUA to acquire competitive quotes for goods or services.

Emergency Purchase - An emergency is defined as a situation which endangers the health, safety, or welfare of the association and/or its employees and policyholders, and is brought about by an unexpected event or circumstances beyond the association's control. In addition, an emergency purchase will be defined to include situations which may cause negative financial impact to the association or policyholders if immediate action is not taken (for example in the situation of a natural disaster or implementation of a statutory change or preservation and protection of property). Therefore, the competitive solicitation process shall be waived due to the time constraints and a written statement outlining the conditions and circumstances requiring the emergency purchase be submitted as documentation for the purchase. An emergency purchase will be initiated by the Executive Director in consultation with the Chair, Vice Chair, or Operations Committee Chair (as available). The emergency purchase shall be limited to those goods and services necessary to meet the emergency.

Exempt Services – under section 287-057 (5)(f), Florida Statutes, the following are not subject to the competitive solicitation requirements:

1. Artistic Services.
2. Academic program reviews.
3. Lectures by individuals.
4. Auditing services.
5. Legal services, including attorney, paralegal, expert witness, appraisal, or mediator services.
6. Health services involving examination, diagnosis, treatment, prevention, medical consultation, or administration.
7. Services provided to persons with mental or physical disabilities by not-for-profit corporations which have obtained exemptions under the provisions of s.501(c)(3) of the United States Internal Revenue Code or when such services are governed by the provisions of Office of Management and Budget Circular A-122. However, in acquiring such services, the agency shall consider the ability of the vendor, past performance, willingness to meet time requirements, and price.
8. Medicaid services delivered to an eligible Medicaid recipient by a health care provider who has not previously applied for and received a Medicaid provider number from the Agency for Health Care Administration. However, this exception shall be valid for a period not to exceed 90 days after the date of delivery to the Medicaid recipient and shall not be renewed by the agency.
9. Family placement services.
10. Prevention services related to mental health, including drug abuse prevention programs, child abuse prevention programs, and shelters for runaways, operated by not-for-profit

corporations. However, in acquiring such services, the agency shall consider the ability of the vendor, past performance, willingness to meet time requirements, and price.

11. Training and education services provided to injured employees pursuant to section 440.491 (6), Florida Statutes.

12. Contracts entered into pursuant to section 337.11, Florida Statutes. *(Note: This section addresses the contracting authority of the department of public transportation related to the construction and maintenance of all roads designated as part of the State Highway System or the State Park Road System or of any roads placed under its supervision by law. It also provides the department with authority to enter into contracts for the construction and maintenance of rest areas, weigh stations, and other structures, including roads, parking areas, supporting facilities and associated buildings used in connection with such facilities.)*

13. Services or commodities provided by governmental agencies.

Good – a tangible item with purchasing category defined by the amount of an individual invoice.

Invitation to Bid – a written solicitation for competitive bids. It may be used when the association is capable of specifically defining the scope of work for which a contractual service is required or when the association is capable of establishing precise specifications defining the actual goods required. A written solicitation includes a solicitation that is electronically posted.

Invitation to Negotiate – a written solicitation for competitive replies to select one or more vendors with which to commence negotiations for the procurement of goods or services. It may be used when the association determines that negotiations may be necessary to receive the best value. A written solicitation includes a solicitation that is electronically posted.

Leases – commonly used for office equipment like copiers and the postage machine. Lease terms required may be for a longer period than the five (5) years the FWCJUA has designated; however, the lease must be approved by Executive Director if a longer term is required. Written quotes are required for a lease longer than five (5) years and must contain a cancellation clause. Leases for real property, office space and storage units require advance review and approval of the Board.

Quote – a written or verbal offer for goods or services.

Request for Proposals - a written solicitation for competitive proposals. It may be used when it is not practicable for the association to specifically define the scope of work for which the goods or service is required and when the association is requesting that a vendor propose a good or service to meet the specifications of the solicitation document. A written solicitation includes solicitation that is electronically posted.

Selection Criteria – A number of criteria will be considered when deciding upon the good or service to purchase. Price is a factor but not always the deciding factor. The criteria that the FWCJUA may consider include, but are not limited to, the following: ability, service, past performance, compatibility, reliability, quality, ease of use, availability, and price. The selection criteria which are used during the selection process will be a documented part of the evaluation process and become part of the procurement file.

Service – an intangible benefit which will be valued as an annual cost.

Service / Maintenance Agreements – the FWCJUA will decide how to handle these agreements on an individual case basis. There are basically two options: 1) assumed risk where no agreement exists and therefore, the FWCJUA assumes the risk / cost for repair or replacement and 2) a maintenance agreement where the FWCJUA contracts with a vendor for preventative maintenance visits and repairs when issues arise. This determination should take into consideration the maintenance repair costs compared to the agreement costs, as well as the value, age, condition and critical use of the equipment. The decision regarding the option choice will be documented in the procurement file.

Sole Source – when a good or service is available from only one vendor or the necessary good to be purchased is the only good that is compatible with existing equipment. This includes a uniquely qualified vendor who provides specialized services as determined by a reasonably thorough analysis of the marketplace. The FWCJUA maintains a list of vendors in Appendix A that it has determined to be sole source providers, and therefore, competitive pricing / competitive solicitation documentation would not be a required part of the procurement file.

Written Solicitation – an advertised offer in a newspaper of general circulation when such public notice is deemed to be in the best interest of the FWCJUA. The written solicitation includes solicitation that is electronically posted.

<u>Considerations:</u> Only an officer of the corporation can sign agreements and/or contracts which financially commit the FWCJUA.

Further, procurement of goods and services must comply with the FWCJUA's Conflict of Interest and Code of Conduct policies. It shall be a breach of ethical standards for any employee to accept, solicit, or agree to accept a gratuity of any kind for personal gain in connection with any contract for goods or services. Current or potential vendors are prohibited from offering an employee a gratuity of any kind for the employee's personal gain to influence the development of a contract or potential contract for commodities or services. The term gratuity does not include informational or promotional materials such as books, reports, pamphlets, pens, calendars, periodicals or other such unsolicited materials.

The FWCJUA, at its sole discretion, shall determine whether a response meets or exceeds specifications. The FWCJUA reserves the right to reject any and all quotes/bids/proposals and such reservation shall be made part of the file.

When multiple responses are equal in all respects, the FWCJUA will give preference to its current vendors provided they are performing satisfactorily.

When only one quote/bid/proposal is received for the purchase of a good or service, the initiating manager will review the quote/bid/proposal to determine the reasons, if any, why only one was received. If it is determined that a second request is in the best interest of the FWCJUA, then a second request will be initiated. If it is determined that a second request is not in the best interest of the FWCJUA, then the circumstances should be documented and it is acceptable to proceed with the purchase.

In the event, no quotes/bids/proposals are received; the FWCJUA may negotiate the purchase of the good or service at the most favorable terms.

Appendix A: Sole Source Providers

Comcast Communications – Cable Internet Service

Dell Computers – hardware and software provider

FPL – Florida Power & Light

Milliman – Subplan D Cash Flow Model

NCCI, Inc. – National Council on Compensation Insurance, Inc. – rating bureau

Appendix B: Purchase Authorizations

FLORIDA WORKERS' COMPENATION JOINT UNDERWRITING ASSOCIATION, INC.
PURCHASE AUTHORIZATIONS POLICY

EFFECTIVE MARCH 2007

CHECK SIGNING

CHECK AMOUNT	# OF SIGNERS REQUIRED	AUTHORIZED SIGNERS	SIGNER COMBINATION REQUIREMENTS
Any Amount	Two (2)	Laura Torrence Michael Cleary Chair (Charlie Clary)	Any two (2) authorized signers (Facsimile signatures permitted for payroll purposes only)

INVOICES & CHECK REQUESTS

INVOICE AMOUNT	# OF SIGNERS REQUIRED	AUTHORIZED SIGNERS	SIGNER COMBINATION REQUIREMENTS
$0.00 - $1,000.00	One (1)	Laura Torrence Michael Cleary Laura Reay Lopez Marc Babin Kathy Coyne Lisa Robertson	Any Authorized Signer
$1,000.01 - $5,000.00	One (1)	Laura Torrence Michael Cleary Laura Reay Lopez	Any Authorized Signer
$5,000.01 & Over	Two (2)	Laura Torrence Michael Cleary Laura Reay Lopez	Any Authorized Signer

EXPENSE REPORTS

EXPENSE REPORTS FOR:	# OF SIGNERS REQUIRED	APPROVAL AUTHORITY (*Preference Listed in Order*)
Board Members & all others not specifically mentioned in this table	One (1)	Laura Torrence
Laura Torrence	One (1) Officer	Laura Reay Lopez Michael Cleary Chair (Charlie Clary)
Michael Cleary	One (1)	Laura Torrence Laura Reay Lopez
Laura Reay Lopez	One (1)	Laura Torrence Michael Cleary
Marc Babin Kathy Coyne Lisa Robertson	One (1)	Laura Torrence Michael Cleary Laura Reay Lopez
Employee	One (1) ***Preferably Direct Supervisor***	Laura Torrence Michael Cleary Laura Reay Lopez Marc Babin Kathy Coyne Lisa Robertson

Appendix C: Procurement Initiation Documentation

Requested Good and/or Service: ____________________

Purchase Category Level: ____________________

Quotes Considered:

Vendor Selected: ____________________

Details of Purchase: ____________________

Initiating Manager Approval: ____________________

Administration Manager Approval: ____________________

Additional Manager Approval (if needed): ____________________

Date: ____________________

Accounting: All documentation received? ____________________

AUDIT COMMITTEE CHARTER CHECKLIST

The Audit Committee shall review its third and fourth quarter responsibilities for the financial reporting period ending December 31, 2007 as prescribed in the Audit Committee Charter Procedures Checklist. The Committee's third and fourth quarter responsibilities which require discussion are summarized below:

1) Provide orientation training for new committee members.

2) Review the audit committee charter to determine whether its responsibilities are adequately described.

3) Discuss the committee's communication and performance expectations with management and independent auditors.

4) Discuss any significant risks faced by the Association in the current environment. Provide information to the Committee on the Association's structure, controls and types of transactions.

5) Evaluate whether management exhibits and fosters a culture and environment that promotes high-quality financial reporting, including addressing adequacy and effectiveness of internal control issues as well as approval and monitoring of special or complex transactions.

6) Receive update from management about reports received from regulators and their responses to those reports.

7) Review quality control procedures of the independent auditor over the audit function. Review planned scope of the independent auditors, results of their work, changes in the planned scope, the extent of control testing to be performed, and the extent and appropriateness of the coordination of their activities.

8) Determine that the independent auditors are appropriately compensated to provide well-trained, highly experience personnel required to perform the necessary procedures for a high-quality audit. Establish a process for the appointment, compensation and oversight of the independent auditors. Also, establish a process for pre-approving the audit and non-audit services to be provided by the independent auditors. When warranted, termination and reappointment of a replacement auditor.

9) Inquire about the independent auditors' quality control safeguards and independence. Inquire as to the results of the independent auditors' latest peer reviews, as well as the status of significant litigation or disciplinary actions by regulatory bodies.

10) Discuss any significant risks faced by the Association in the current environment.

11) Receive update from management about reports received from regulators and their responses to those reports.

12) Distribute and discuss the Association's financial results and the consistency of reported and planned results. Review significant balance sheet changes or changes in trends or important financial statement relationships.

13) Review Association's accounting principles and practices and compare to industry norms. Review any new or proposed accounting and auditing topics affecting the company.

14) Provide meaningful and focused updates to the Board of Governors after each committee meeting. Annual Report to the full Board of Governors on the audit committee functions during the year with their completion following the audit charter checklist.

A copy of the Audit Committee Charter Procedures Checklist is attached.

The Committee shall address its third and fourth quarter responsibilities as prescribed in the Audit Committee Charter Procedures Checklist.

Florida Workers' Compensation Joint Underwriting Association, Inc.
Audit Committee Charter Procedures Checklist
For the financial reporting period ended December 31, 2007

Understanding Roles and Responsibilities	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
1. Review the audit committee charter to determine whether its responsibilities are adequately described.			X					
2. Discuss the committee's communication and performance expectations with management and independent auditors.				X				
3. Engage internal and external resources as the committee determines necessary to carry out its duties.					X			
4. Establish direct access to the independent auditors.					X			
5. Establish a process to respond to any reports from the corporate attorneys regarding material violations of laws or breaches of fiduciary duties.					X			
6. Develop a meeting planner to make sure that the committee meets its responsibilities as outlined in its Charter.	X	X	X	X	X			Date selection postponed due to reseating of the Board.
7. Prepare minutes for all meetings and circulate in draft form to members prior to being finalized.	X	X	X	X	X			Minutes are prepared and included in the next Audit committee meeting agenda for approval.
8. Provide orientation training for new committee members.					X			A brief introduction will be provided at the Nov. 30 meeting with more depending upon new committee member request.

Understanding the Business	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
1. Provide information to the Committee on the Association's structure, controls and types of transactions.	X	X	X	X	X			2006 favorable audit findings were discussed.

Florida Workers' Compensation Joint Underwriting Association, Inc.
Audit Committee Charter Procedures Checklist
For the financial reporting period ended December 31, 2007

Understanding the Business (cont.)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
2. Communicate the types of significant risks faced by the Association in the current environment including:								At the 3/27/07 meeting the only significant risk commented on was the pending legislation.
• Competitive trends.	X	X	X	X				
• Significant customers and suppliers.					X			
• Regulatory requirements	X	X	X	X				
3. Evaluate whether management exhibits and fosters a culture and environment that promotes high-quality financial reporting, including addressing internal control issues.	X	X	X	X				Discussed at the 3/27/07 meeting as a result of the 2006 audit; THF was unaware of any issues
4. Determine how management is assessing the adequacy and effectiveness of internal controls.	X	X	X	X				THF noted there were no internal controls issues noted.
5. Discuss with the independent auditors any significant improvement recommendations in internal controls and whether management has adequately addressed them.		X						THF made no internal control recommendations as a result of the 2006 Financial Audit.
6. Assess whether the Association has an appropriate business continuity plan and whether that plan has been tested.					X			The FWCJUA is continuously updating the business continuity and disaster recovery plan document.
7. Discuss with the independent auditors whether they noted any instances of employee fraud, questionable or illegal payments, or violations of laws or regulations.		X						THF advised that they noted no instances of such in their 2006 Financial Audit.
8. Obtain an understanding of management's compensation structure and whether the current structure could increase the possibility of inappropriate behavior to maximize compensation.					X			Audit Chair sits on Executive Compensation Committee which meets several times a year.
9. Assess whether there are adequate controls over the approval and monitoring of special or complex transactions.	X	X	X	X				THF advised that there are adequate controls over such transactions.

Florida Workers' Compensation Joint Underwriting Association, Inc.
Audit Committee Charter Procedures Checklist
For the financial reporting period ended December 31, 2007

Understanding the Business (cont.)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
10. Receive update from management about reports received from regulators and their responses to those reports.					X			Market Conduct Exam received in June 2007 was very favorable with no compliance issues found and with minor recommendations made.
11. Receive an update from the general counsel on legal and regulatory matters that may have a material effect on the financial statements.	X				X			At the March meeting, Maida had nothing to report regarding regulatory or legal updates which would affect the current financials of the FWCJUA.

Oversight of Financial Reporting Process	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
1. Distribute and discuss the Association's financial results and the consistency of reported and planned results.	X	X	X	X				2006 Annual discussed at the March Board Meeting and 1st quarter 2007 presented at the June Board Meeting.
2. Review significant balance sheet changes or changes in trends or important financial statement relationships.	X	X	X	X				2006 Annual discussed at the March Board Meeting and 1st quarter 2007 presented at the June Board Meeting.
3. Review Association's accounting principles (including changes in them) and practices and compare to industry norms.				X	X			This review was completed during 2006 and again with the passage of SB1894 resulting in the implementation of one new policy & procedure for procurement.
4. Review management's process for identifying related party transactions.					X			Not applicable at this time.
5. Review any new or proposed accounting and auditing topics affecting the company.				X	X			Mid-year reinsurance premium entries booked as a result of the June 30, 2007 audit.
6. Question management and the auditors about how they assess the risk of material misstatement, what the significant risks are, and how they respond to identified risks.		X						Discussed at the 3/27/07 meeting and THF advised that no material misstatements were found as a result of the 2006 Financial Audit.
7. Challenge management and the auditors to identify the difficult areas (e.g. significant estimates and judgments) and to fully explain how they each made their judgments in those areas.		X						Discussed at the 3/27/07 meeting - the most significant estimate is loss reserves and the decision is made by the Board with guidance from the FWCJUA's external actuaries.

Oversight of Financial Reporting Process (cont.)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
8. Review proposed significant, complex, and/or unusual transactions and their financial statement effects.		X			X			Not applicable at this time.
9. Obtain an understanding of why management did not correct audit differences that were identified and what the effect would be on the financial statements if those differences were corrected in the current period.		X						Discussed at the 3/27/07 Meeting and No Audit Difference were found.
10. Review actuarial analysis report and have opportunity to confer independently with actuary.	X							The entire Board decides the loss reserves to be booked on the financials after review presented by Milliman and each Board member has direct access to the FWCJUA's actuary.

Oversight of Audit Function	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
1. Inquire as to the results of the independent auditors' latest peer and internal reviews, as well as the status of significant litigation or disciplinary actions by regulatory bodies.			X					
2. Review quality control procedures of the independent auditor over the audit function			X					
3. Review planned scope of the independent auditors, results of their work, changes in the planned scope, the extent of control testing to be performed, and the extent and appropriateness of the coordination of their activities.			X					
4. Determine that the independent auditors are appropriately compensated to provide well-trained, highly experience personnel required to perform the necessary procedures for a high-quality audit.			X					

5. Establish a process for the appointment, compensation and oversight of the independent auditors. Also, establish a process for pre-approving the audit and non-audit services to be provided by the independent auditors. When warranted, termination and reappointment of a replacement auditor.			X		X			At the Board's June 12th meeting, THF was confirmed for the 12/31 and 6/302007 audits as well as the non-audit service of compiling the tax exempt filing for th IRS to be filed on or before 1/1/2008.

Audit Committee Communication	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	As Needed	Done by: (initials)	Completed	Comments
1. Provide meaningful and focused updates to the Board of Governors after each committee meeting.	X	X	X	X	X			Audit Results were presented to the Board at their June meeting.
2. Provide an opportunity for the independent auditors to be available to the full Board of Governors at least annually to review the results of the audit.		X						THF presented the results of the audit to the Board in June and is available for other meetings as the Board desires.
3. Meet at least annually to assess management's effectiveness and communicate the results of that assessment.		X						The Chair of the Committee commented staff on doing a good job this past year.
4. Inquire of the auditors about management's corrective actions regarding control deficiencies identified.		X						Discussed at the 3/27/07 meeting however no control deficiencies were identified.
5. Inquire of the auditors about pressure by management to accept less than high-quality financial reporting.		X						THF advised of no pressure from management.
6. Inquire about the independent auditors' quality control safeguards and independence.			X					
7. Provide vehicle for employees or others to have direct access to audit committee to report concerns. Annually all Board Members, Officers and Employees will read and sign the Code of Conduct and/or Conflict of Interest Statements.				X	X			Updated Business Conduct Letter with new Committee members and handed out to all employees on 11/16/07 - a copy of the letter is attached.
8. Annual Report to the full Board of Governors on the audit committee functions during the year with their completion following the audit charter checklist.				X				

Florida Workers' Compensation Joint Underwriting Association, Inc.
Audit Committee Charter Quarterly Duties

The Audit Committee duties have been broken down into quarters, however we anticipate having 3 meetings of the Committee each year. **1st and 2nd** quarter duties will be discussed at the **March** meeting after completion of the audit. **3rd** quarter duties will be discussed at the **July/August** meeting for the mid year review. **4th** quarter duties will be discussed at the **October/November** meeting prior to the preliminary audit and internal controls review.

Quarterly Duties & Responsibilities	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Develop meeting planner	X	X	X	X
Prepare minutes for all meetings	X	X	X	X
Provide information on controls & transactions	X	X	X	X
Communicate significant risks	X	X	X	X
Evaluate management's exhibits	X	X	X	X
Assess effectiveness of internal controls	X	X	X	X
Assess controls over complex transactions	X	X	X	X
Discuss financial results	X	X	X	X
Review significant balance sheet changes	X	X	X	X
Provide updates to Board of Governors	X	X	X	X
Review actuarial analysis report	X			
Update from General Counsel	X			
Discuss recommendations with auditors		X		
Discuss questionables with auditors		X		
Question about material misstatements		X		
Challenge the difficult areas		X		
Review significant transactions & I/S affects		X		
Obtain understanding of audit differences		X		
Auditors available to the full Board of Governors		X		
Assess management's effectiveness		X		
Inquire about management's corrective actions		X		
Inquire about pressure from management		X		
Review quality control procedures		X	X	
Review scope of audit		X	X	
Results of independent auditors' peer review			X	
Appointment of auditor			X	
Determine if auditors are appropriately compensated			X	
Inquire about auditors' quality control			X	
Review Audit Committee Charter			X	
Describe procedure for communication			X	
Annual report to the Board of Governors			X	
Discuss performance expectations				X
Review accounting principles				X
Review new/proposed accounting topics				X

Florida Workers Compensation Joint Underwriting Association, Inc.

P.O. Box 48957, Sarasota, FL 34230-5957
• Tel (941) 378-7400 • Fax (941) 378-7405 • www.fwcjua.com

To: All Employees

From: FWCJUA

Date: 16 November 2007

Re: Business Conduct Issues

In maintaining compliance with Sarbanes-Oxley, the FWCJUA would like to provide a direct line of communication from it employees to 'management' in regards to business conduct issues. Maintaining high standards means conducting business ethically and legally. Unethical, illegal, or irresponsible acts can cause serious loss or harm to a company, its employees, and its customers. This is why it is everyone's responsibility to help prevent these activities.

Some common examples of this type of behavior are:

- Accounting and auditing irregularities
- Theft and Fraud
- Conflicts of Interest
- Destroying, altering, or falsifying company records
- Disclosure of proprietary information
- Misuse of company assets
- Harassment / Discrimination
- Bribery
- Threats to personal safety
- Creating or ignoring safety hazards
- Violations of governmental compliance regulations
- Vandalism or sabotage

If you have any concerns, please contact your supervisor, Audit Committee or the FWCJUA's auditors. You have direct access to the Audit Committee Board Members or FWCJUA's auditors if you would feel more comfortable talking to someone 'outside' the company.

Audit Committee Board Members:

Fred Bennett – Chair
Phone: 813-470-5009
Fax: 813-470-5082
Email: Fred.Bennett@lykes.com

Bob Milligan
Phone: 850-413-5980
Fax: 850-487-0453
Email: bob.milligan@fldfs.com

Beth Vecchioli
Phone: 850-224-1585
Fax: 850-222-0398
Email: bvecchioli@carltonfields.com

FWCJUA Auditors:

Andy Gray
Phone: 850-521-3161
Fax: 850-668-8199
Email: agray@thf-cpa.com

Bill Ferguson
Phone: 850-521-3171
Fax: 850-668-8199
Email: WAF@thf-cpa.com

11/16/2007 – Passed out Business Conduct Letter to all Employees

	Signature	Date Rec'd
Laura Torrence	______________________	__________
Michael Cleary	______________________	__________
Laura Lopez	______________________	__________
Marc Babin	______________________	__________
Kathy Coyne	______________________	__________
Lisa Robertson	______________________	__________
Tracie Brandon	______________________	__________
Larry Cage	______________________	__________
Leo Canton	______________________	__________
Susan Schmidtke	______________________	__________
Janis Scott	______________________	__________
Lavender Suarez	______________________	__________
Lisa Wagner	______________________	__________
Terri Woods	______________________	__________
Stacy Young	______________________	__________