

- Personal Leave
- Routine Health Care Leave
- 401(k) Deferred Compensation Plan
- Long-term Disability
- Bereavement Leave
- Jury Duty Leave
- Military Leave
- On-the-Job Injury Leave
- Section 125 Cafeteria Plan

Compliance with ALA. ADMIN. CODE 482-1-121 (2003)

The Company is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which, in part, prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without written consent from the Commissioner of Insurance. The Company requires all applicants for employment to sign forms concerning the Violent Crime and Law Enforcement Act of 1994 stating that they have or have not been convicted of a felony. However, the Company does not monitor current employees on an on-going basis. ALA. ADMIN. CODE 482-1-121 (2003), Guideline 1, states that: "Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

Other Compensation Issues

It was noted that Rosalie F. Renfrow was hired as a management trainee in September 2002. Ms. Renfrow is the daughter of Raymond Rudolph Renfrow, Jr., a director, officer and stockholder of the Company and Anne Daugeette Renfrow, a director of the Company. Ms. Renfrow's monthly salary for 2002, 2003 and 2004 was \$1,900, \$2,000 and \$2,300, respectively, with her salary being increased in September of each year. Ms. Renfrow is also receiving a monthly automobile allowance. This allowance was \$300 per month in January and February 2003 and increased to \$550 per month for the remainder of the examination period. Ms. Renfrow did not keep regular business hours at the Company - it was noted by examiners that she was routinely not in the office.

The Company's President/CEO stated that Ms. Renfrow is a full-time salaried employee in training for upper management. Her hours vary and are not tracked on a time sheet. Ms. Renfrow has her insurance license and is currently selling out of the Company. Her position was created along with three other new positions in the Agency department as a natural part of the company evolution and growth. Ms.

Renfrow also assists with the production of the Company's Monthly Sales Bulletin and other promotional materials and programs. She is currently taking LUTC and CLU courses to further her knowledge of the insurance industry. The President/CEO also stated that no other employee can give a complete account of Ms. Renfrow's daily activity. Ms. Renfrow reports only to her father.

The Company feels that Ms. Renfrow's presence insures continuity in future company management by the Dauge family. The President/CEO stated that if Ms. Renfrow quit, the Company would have to hire someone in the future to insure continuity in home office management. This employee would be compensated according to their experience and training level. Their salary, benefits, etc., may or may not be comparable to Ms. Renfrow's. The Company also feels that Ms. Renfrow needs flexibility in her schedule since she is actively working as an agent. It was noted that the total of premiums from policies written by Ms. Renfrow since her 2002 employment date amount to \$10,054.

Company management is not avoiding the appearance of impropriety. If Ms. Renfrow is being developed for a managerial position, she needs a defined job and training program. Due to nepotism within the Company, the Company's President should either actively supervise the training (before it happens, while it is happening, and after the fact) or delegate it where possible. Ms. Renfrow should report to the manager of each department in which she is training. The examiners find it highly unusual that a recent college graduate would be allowed to set their own schedule while receiving a full-time management salary.

The preceding report of examination noted an issue with nepotism and this issue stands to harm the Company due to potential shareholder and/or policyholder lawsuits. It is imperative that the Company avoid the appearance of impropriety with the payment of salaries to family members. Ms. Renfrow should maintain working hours comparable to other employees of the Company and report to someone other than her father, Mr. Raymond Renfrow, in order to avoid internal control weaknesses and the appearance of improprieties.

Automobile Expenses

The examiner reviewed all 2003 receipts supporting automobile expenses. There were three employees receiving an automobile allowance who were also charging automobile expenses to the Company. The automobile expenses for these three employees totaled \$3,894. The examiner requested copies of the 1099 Forms where these amounts were reported to the Internal Revenue Service. The Company's Executive Vice President/Treasurer stated that 1099 Forms are provided for the car allowance only and related automobile expenses such as gas, maintenance and repairs are categorized as

travel expenses, and there is no 1099 issued. The Company did not provide clear evidence for the business purpose for all of these travel expenses. ALA. CODE § 27-27-29(a) (1975) states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

The Company should maintain documentation indicating the business purpose of reimbursed travel expenses.

Cell Phone Expenses

A review of the monthly cellular telephone billings determined that the Company pays for two cell phones that are used by family members of an Officer/Director of the Company.

Directors' Fees

It was noted that employees of the Company, who are also Directors, are receiving Directors' fees in addition to their compensation as employees of the Company. This is a highly unusual practice, and it gives the appearance of impropriety since only family members are receiving these fees in addition to their salaries.

Travel Expenses

It was noted that the Company invites guests, including key employees, officers, directors, consultants, their spouses and children, to its Company conventions. Officers, employees and directors do not receive a 1099 Form, as they have responsibilities and work at the conventions. For spouses, children and consultants, the Company is either reimbursed or these amounts are reported as income on a 1099 Form. It was also noted that on some occasions, the Company has absorbed some of the costs for non-employees attending Company functions, conferences and business trips, as guests of the Company. In most cases, the guests have furnished their own transportation and shared a room with a Company employee; however, the Company paid some meals and miscellaneous expenses.