



Fries & Fries Consulting

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for the Insurance Industry*

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Jack Fries

Dawn Fries

November 18, 2005

Mr. Chuck Bidek
Insurors of Tennessee
2500 21st Avenue
Suite 200
Nashville, TN 37212

Dear Chuck:

Per our discussion, attached please find an outline of the E & O audit services that I will provide. It includes the process, reports I will furnish, my fees and a confidentiality statement.

Chuck, if you need anything further, please let me know. Please have your insureds call or email me directly with any questions or to set up an audit date.

Sincerely,

Jack Fries
Fries & Fries Consulting

Attachment

Agency E & O Audits

Audit Objectives

- Provide a report to the insurer as to the state of the agency and a list of recommendations and the agency's commitment to address any deficiencies
- Provide assistance and identify things done well

Note: The Audit Is Not policing and punishing. Help the insurer feel comfortable with the audit and inform them of the insured's actions taken to address any deficiencies.

Audit Process

- Require that a pre-audit questionnaire be completed by the insured;
- Request any additional organisational documentation if needed;
- Interview all available staff members;
- Random selection of client files to be reviewed;
- Oral report given to client upon completion of review;
- Provide client with a list of primary and secondary recommendations that should be addressed by them;
- Assist in completing an Action Plan - (What will be done; Who will be responsible to see that it gets done; When the process will begin; When the process will be completed)

Documentation

Report to insurer that includes: (The Agency will receive a copy of anything sent to the insurer)

- Written report of observations
- List of Primary and Secondary Recommendations
- Copy of the Agency's Action Plan
- Written report will be provided within 30 days unless an earlier date is agreed upon in advance

Staff Interviews

Interview all staff members to ascertain their understanding of correct procedures and their responsibilities. Note any issues they raise in order to validate with management at a later date.

Note also any morale issues and search for underlying causes.

File Selection (If Applicable)

Where the system permits, I will have agency personnel select some random hard files directly from the filing system or agency management system.
NOTE: I will need to be shown the hard filing system.

Review Documentation Provided

Review documentation from the original application through current. Ensure all documents are present. Ask for any missing documentation.

Review Of Client Files

Review documentation. Look also for a standard approach for filing.

Confidentiality

I am not in the business of soliciting or selling insurance of any type. All information provided by the client is confidential and will not be shared with anyone except what is required by the E & O carrier.

Fees For An E & O Audit – (Fees are based upon the number of employees in the agency, the number of locations to be audited plus necessary travel expenses)

# of Employees	Days Required For Audit	Cost of Audit
1 to 7 Employees	1	\$1,500
8 to 15 Employees	2	\$3,000
16 to 24 Employees	3	\$4,500
25 to 35 Employees	4	\$6,000
35 to 50 Employees	5	\$7,500
Over 50 Employees	To Be Determined	To Be Determined

If there are multiple locations, additional charges will be applied depending upon distances between offices and the additional days required to visit those offices.

I will not charge for travel time, however, there will be a charge of \$.485/mile if I drive my own vehicle or the cost of airfare and a rental car if I must fly. I will stay at a local Holiday Inn, if available, or a similar type hotel. There will be a flat meal charge of \$25/day. All travel fees will be payable as incurred and will be fully disclosed.