

Proposal to Serve

State of West Virginia  
Offices of the Insurance Commissioner

June 30, 2012

RFQ Number: INS12015  
Firm Name: Gibbons & Kawash, A.C.  
Contacts: John D. Galloway, Director  
Robert R Denyer, Director  
300 Chase Tower  
707 Virginia Street, East  
Charleston, WV 25301  
(304) 345-8400

Shareholder: *Robert R Denyer*  
Date: *May 30, 2012*



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May 30, 2012

Offices of the Insurance Commission  
1124 Smith Street  
Charleston, WV 25305-0540

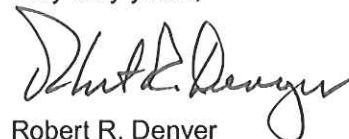
We are pleased to present our credentials to serve as the independent auditors of the Offices of the West Virginia Insurance Commission (the OIC). We will perform an audit of the OIC's financial statements as of and for the year ended June 30, 2012, with the option of two consecutive one-year renewals. Our audit will be performed in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have committed an engagement team with extensive experience serving governmental and similar entities. As a client of our firm, you can be sure of our total commitment to provide timely, responsive and quality service.

Providing audit services to state and local governments is an important part of our practice and one in which we have extensive expertise. We have experience auditing 18 State of West Virginia component units. Our experience during the past five years includes 41 audits of 15 State of West Virginia component units. These component units individually range in size up to \$3 billion in assets and \$1.6 billion in revenue. Should we be appointed to serve as auditors, the OIC will receive high quality professional services from auditors that will plan, conduct, and report on the audit with competence, integrity, objectivity, and that are independent of the OIC in all respects. The engagement team for the OIC has provided technical assistance to six State of West Virginia entities for 43 successful submissions for GFOA's Certificate of Achievement for Excellence in Financial Reporting program.

Our membership in the BDO Seidman Alliance provides our firm with access to some outstanding technical resources. We will be assisted in our audit of the OIC by a BDO, USA LLP partner who will serve as a technical resource during the planning, development of audit approach, and reporting segments of the audit. We will also be assisted by two BDO Seidman Alliance firms. Hogan Taylor will consult with us regarding evaluation of information technology controls and Actuarial Risk Management will serve Gibbons & Kawash as consulting actuaries. Both of these firms bring strong credentials to our engagement team.

We have structured this proposal to communicate our experience and qualifications to effectively and efficiently respond to the requirements and expectations of the Commission. We would be pleased to provide any additional information and formally present our proposal upon your request. If you have any questions, please do not hesitate to contact me at 304-345-8400.

Very truly yours,

Robert R. Denyer  
Director

State of West Virginia  
Offices of Insurance Commissioner

Technical Audit Proposal

RFP No. INS12015

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## ATTACHMENT A - VENDOR RESPONSE SHEET

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Provide a response regarding the following: firm and staff qualifications and experience in completing similar projects; references; copies of any staff certifications or degrees applicable to this project; proposed staffing plan; descriptions of past projects completed entailing the location of the project, project manager name and contact information, type of project, and what the project goals and objectives were and how they were met.

### ◦ Vendor Response:

#### FIRM QUALIFICATIONS AND EXPERIENCE

##### Gibbons & Kawash, A.C.'s Practice

Gibbons & Kawash, A.C. is a regional accounting corporation based in Charleston, West Virginia, with a staff of over 40 professionals who provide accounting, assurance, business advisory, and tax services to a broad spectrum of clients throughout West Virginia and surrounding states.

We direct significant resources to serving the needs of governmental entities, and recognize this focus as a major factor in our past success and a key element in our strategy for continued growth. Within the public sector practice group, we have developed several highly specialized service niches, including audits of state government agencies and nonprofit organizations. Gibbons & Kawash, A.C.'s foremost goal is to provide **superior quality service**. Everything else is secondary to that goal. The primary focus of our service approach is to exceed client expectations. This approach has helped Gibbons & Kawash, A.C. build its extensive governmental practice.

Gibbons & Kawash, A.C. is a member of the three AICPA audit quality centers, including the Governmental Audit Quality Center. We are a registered firm with the Public Company's Accounting Oversight Board (PCAOB) and issue reports in accordance with PCAOB standards, as well as U.S. generally accepted auditing standards.



We have experience auditing 19 State of West Virginia component units. Our experience during the past three years includes 41 audits of 16 State of West Virginia component units. These component units range in size up to \$3 billion in assets and \$1.6 billion in revenue. **In addition, we performed audits of the State of West Virginia Workers' Compensation Fund in conjunction with KPMG for the fiscal years ended June 30, 1997, 1998, and 1999.**

##### Governmental Services Practice

Within the public sector practice group, we have developed several highly specialized service niches, including audits of state government agencies and OMB Circular A-133 audits of governments and nonprofit organizations.

This practice includes five partners, a manager, and five senior auditors who have extensive experience serving government clients. The core engagement team for the audit of the OIC has been selected from this pool of highly qualified professionals. The team's public sector experience includes cities, authorities, and State of West Virginia agencies and component units. The team has assisted clients in earning and maintaining GFOA certificates in addition to conducting financial and compliance audits and audits conducted under the Single Audit Act Amendments of 1996 and OMB Circular A-133. The specific supervisory engagement team to be employed during the audit of the OIC is discussed in Section II.

##### Quality Control

Gibbons & Kawash, A.C. is a member of the Center for Public Company Audit Firms (the Center) and the Government Audit Quality Center (the Center) of the American Institute of Certified Public



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Accountants. The Centers have established a self-regulatory process which includes requirements for periodic peer reviews of member firms.

These reviews, which are performed by knowledgeable independent CPAs from other firms, periodically evaluate and test systems of quality control of member firms. Our system of quality control provides assurance that we maintain, on a continuing basis, the highest professional standards to which we are committed. Our most recent external quality control review, which was completed on November 30, 2006, was performed by Rea & Associates, Inc. and is included as Appendix D. Their opinion was unqualified and no letter of comment was issued. This quality control review included governmental audit engagements.

The firm's system of quality control is governed by our comprehensive Quality Control Document which is included as Appendix E.

There have been no field reviews of any Gibbons & Kawash, A.C. audits by federal or state agencies during the past three years. All audits for which desk reviews have been completed have been accepted.

### An Independent Member Of The

Gibbons & Kawash, A.C. is an independent member of the BDO Seidman Alliance, a nationwide association of local and regional accounting and consulting firms. Membership enables us to access a level of expertise in specialties which are usually available only from large national and international CPA firms, without the high overhead costs.

As a member, we have access to vast resources and technical expertise, outstanding audit, tax and consulting professionals, and the specialty niche expertise of BDO USA, LLP. BDO USA, LLP, one of the nation's leading accounting and consulting firms, serves clients through 39 offices and more than 400 alliance firm locations across the United States.

As an independent member of the BDO Seidman Alliance, we offer the resources of a national firm, yet we remain autonomous so you are assured of a local presence of highly trained and knowledgeable experts with your needs in the forefront.

### Continuing Professional Education

One of the best measures of a firm's commitment to its audit practice is the depth of specialized training provided to its professionals. Gibbons & Kawash, A.C. has developed a comprehensive professional development program to help our professionals enhance their proficiency in serving the unique needs of governmental entities. Our program includes intensive internal training, using course materials developed by the AICPA and our own experienced managers, as well as attendance at national conferences addressing specialized industry topics. All of our auditors must complete 40 hours of continuing education each year, with no less than 24 hours every two years in topics specifically related to governmental accounting and auditing. Some recent courses attended by our professionals include the following:

- Audit Risk SAS 103-114 Implementation
- GASB Statement No. 40: Disclosing Investment Risk
- Solving Complex Single Audit Issues for Governmental and Nonprofit Organizations
- Accounting and Auditing Workshop
- GASB 34 and Other Governmental Accounting and Auditing Issues
- Preparing a Comprehensive Annual Financial Report

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- Tax Issues of Exempt Organizations
- Governmental and Nonprofit Accounting
- Auditing Local Governments Efficiently and Effectively

### **Litigation And Insurance**

Gibbons & Kawash, A.C. has had no litigation directed against it since its inception and has no pending or threatened litigation or regulatory complaints against the firm. We evaluate our level of insurance coverage annually and maintain a prudent amount of coverage, which equals or exceeds the amounts required in the Request for Proposal.

### **Expertise In Computerized Systems**

#### ***Computerizing the Audit***

At Gibbons & Kawash, A.C. we embrace technology as a collection of tools for maximizing audit efficiency and effectiveness, not as a substitute for the skill and professional judgment of an experienced audit team. We provide our auditors with state-of-the-art technological resources and training to ensure their primary focus is on in-depth research, analysis, and judgment matters, and to minimize the time spent "number crunching." Our investment in paperless engagement management technology has allowed our auditors to achieve unprecedented levels of efficiency, while remote access to our online library provides our auditors with the advanced research capabilities they need to resolve any accounting or auditing issue which might arise from any location. Our vast array of software and on-line resources includes:



**Prosystemfx Engagement** - Electronic Audit Documentation software utilized to prepare, review, store, and maintain the resulting audit documentation. The use of this audit process allows the audit team to concentrate on evaluating audit evidence opposed to the traditional clerical tasks that are inherent in a paper based documentation environment.



**Checkpoint** - Our subscription to this on-line service provides our professionals the most current accounting and auditing literature, including instant access to *Government Auditing Standards*, federal regulations, and all accounting pronouncements issued by the Government Accounting Standard Board.

**Single Audit Compliance Program Creator** - Our auditors can generate a customized single audit compliance program for any client in a matter of seconds using this valuable on-line resource.

**Audit Sampling** - Software used to implement a statistical sampling method which is highly efficient and relatively easy to apply.



**RIA Checkpoint - Tax Research** - Our subscription to this on-line service allows instance access to federal and state tax codes, regulations, publications, and court cases.



**IDEA Data Analysis Software** - Our powerful data extraction and analysis tool that allows us to extend our auditing capabilities. This software allows us to quickly identify significant or unusual transactions in a large population or allow us to analyze 100% of a population in an effective and efficient manner.

### **Computerized System Analysis**

To demonstrate our commitment to the U.S. Comptroller General's efforts to emphasize the importance of internal control and computer controls in particular, Gibbons & Kawash, A.C. utilizes an experienced information technology specialist from Hogan Taylor, LLP to assist our experienced

## ATTACHMENT A - VENDOR RESPONSE SHEET

auditors in performing evaluations of auditee's controls over computerized systems. We use a detailed system evaluation process that includes documentation of computer controls through the use of system schematics and flow charting. From this documentation, we will determine the controls that are effective and design tests of these controls as appropriate in completing our audit of the financial statements. We will make recommendations to develop and implement any controls we identify as deficient or not in place.

### **Encryption**

All data on Gibbons & Kawash, A.C. computers, including our workpapers in our computerized audit documentation management system, is encrypted using a 256-bit algorithm. The data encryption ensures that in the unlikely event that one of our computers were to be lost or stolen, your data and our workpapers would be unreadable to anyone other than Gibbons & Kawash, A.C. personnel.

### **Statistical Auditing Techniques**

Gibbons & Kawash, A.C. utilizes an easy-to-use approach to statistical sampling in auditing that has been thoroughly field-tested and adapted for use on all audits. We will use statistically valid sampling techniques whenever it is considered to be cost-effective.

### **Prior Engagements with The State Of West Virginia**

Engagements performed in the last five years with the State of West Virginia are as follows:

	<u>Scope of Work</u>	<u>Years Served</u>	<u>Engagement Partner</u>	<u>Total Hours</u>	<u>Principal Client Contact</u>	<u>Phone Number</u>
West Virginia Parkways, Economic Development and Tourism Authority	GAS	2010, 2009, 2008, 2007	John D. Galloway	350	Greg Barr	304-926-1900
West Virginia Housing Development Fund	GAS/ OMB - A133	2011, 2010, 2009, 2008, 2007	John D. Galloway	600	Erica Boggess	304-345-6475
West Virginia Consolidated Public Retirement Board	GAS	2011, 2010, 2009 2008, 2007	John D. Galloway	625	Darden Greene	304-558-3570
West Virginia Board of Treasury Investments	GAS	2011, 2010, 2009 2008, 2007	Robert E. Adams	500	Glenda Probst	304-340-1578
West Virginia Infrastructure and Jobs Development Council	GAS	2011, 2010, 2009, 2008, 2007	Robert R. Denyer	275	Chris E. Jarrett	304-558-3612
West Virginia Water Development Authority	GAS	2011, 2010, 2009, 2008, 2007	Robert E. Adams	275	Chris E. Jarrett	304-558-3612
West Virginia Drinking Water Treatment Revolving Loan Fund	GAS/ OMB - A133	2011, 2010, 2009, 2008, 2007	Robert E. Adams	90	Chris E. Jarrett	304-558-3612
West Virginia Alcohol Beverage Control Administration	GAS	2011, 2010,	Robert E. Adams	200	Julia Jones	304-356-5500
West Virginia Racing Commission	GAS	2011, 2010, 2009, 2008, 2007	John D. Galloway	250	Joe Moore	304-558-2150
West Virginia Jobs Investment Trust	GAS	2011, 2010, 2009, 2008, 2007	John D. Galloway	100	Andrew Zulauf	304-345-6200
West Virginia Solid Waste Management Board	GAS	2011, 2010, 2009, 2008, 2007	Robert R. Denyer	100	Dick Cooke	304-926-0448
School Building Authority of West Virginia	GAS	2011, 2010, 2009, 2008, 2007	John D. Galloway	175	Garry Stewart	304-558-2541

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West Virginia Lottery	GAS	2011, 2010, 2009, 2008, 2007	Robert R. Denyer	400	Jim Toney	304-558-0500
West Virginia Economic Development Authority	GAS	2005, 2004, 2003	Robert R. Denyer	350	David Warner	304-558-3650

**During the years ended June 30, 1997, 1998, and 1999, Gibbons & Kawash, A.C. audited the Unemployment and Workers' Compensation Divisions of the West Virginia Bureau of Employment Programs in partnership with KPMG Peat Maverick, LLP.**

Gibbons & Kawash, A.C. also has extensive experience auditing the schedules and information required by FARS for all of the above entities. We have communicated and worked with FARS personnel to develop and resolve numerous financial reporting issues.

Gibbons & Kawash, A.C. has provided technical assistance to the following state agencies in connection with obtaining the GFOA Certificate of Achievement for Excellence in Financial Reporting:

- West Virginia Department of Transportation, Division of Highways (10)
- West Virginia Parkways, Economic Development and Tourism Authority (9)
- West Virginia Lottery (11)
- West Virginia Prepaid College Tuition Fund (1)
- West Virginia Housing Development Fund (6)
- West Virginia Board of Treasury Investments (5)



### Similar Engagements with Other Governmental Entities

Similar engagements with other governmental entities performed in the last five years are as follows:

	Scope of Work	Years Served	Engagement Partner	Total Hours	Principal Client Contact	Phone Number
Kanawha County Commission	A-133	2011, 2010, 2008, 2007	Robert E. Adams	800	Jennifer Sayre	304-357-0117
Kanawha Valley Regional Transportation Authority	A-133	2011, 2010, 2009, 2008, 2007	John D. Galloway	350	Scott Menefee	304-343-3840
Central West Virginia Regional Airport Authority	A-133	2011, 2010, 2009, 2008, 2007	John D. Galloway	250	Kimberly Lewis	304-344-8033

List project goals and objectives contained in Section 2.4:

**Section 2.4.1:** The OIC desires the auditing firm to express an opinion on the fair presentation of financial statements in conformity with generally accepted accounting principles.

#### ◦ Vendor Response:

Gibbons & Kawash, A.C. will audit the financial statements of the West Virginia Offices of the Insurance Commission (OIC) for the year ending June 30, 2012, with an option to audit each of the two (2) subsequent fiscal years.

Gibbons & Kawash, A.C. will perform the audits in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits continued in *Government Auditing Standards* (2007 revision) issued by the Comptroller General of the United States, and other applicable laws, rules, regulations and policies.

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Gibbons & Kawash, A.C. will conduct an audit of the OIC's financial statements with the objective of expressing an opinion on the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. In addition, we will prepare all supporting schedules required by the Department of Administration for the preparation of the State's Comprehensive Annual Financial Report (CAFR).

**Section 2.4.2:** The auditing firm will be required to prepare all supporting schedules required by the Department of Administration for the preparation of the State's Comprehensive Annual Financial Report (CAFR).

◦ **Vendor Response:**

Gibbons & Kawash, A.C. will prepare all supporting schedules required by the Department of Administration for the preparation of the State of West Virginia's CAFR. Gibbons & Kawash, A.C. has extensive experience working with the Department of Administration's Financial Accounting and Reporting Section (FARS) in providing such information for the State of West Virginia agencies, departments and component units that we have audited.

Gibbons & Kawash, A.C. has completed over 75 audits in which the financial statements are incorporated in the State of West Virginia's Comprehensive Annual Financial Report (CAFR).

**Section 2.4.3:** The auditing firm shall also be responsible for assisting in the implementation of required supplementary information required by the Governmental Accounting Standards Board (GASB) as mandated by generally accepted auditing standards.

◦ **Vendor Response:**

The scope of our audit will include the consideration of the required supplementary information (RSI) that is required by generally accepted accounting principles. Gibbons & Kawash, A.C. will assist the OIC staff in the preparation of the RSI. RSI is information that supplements the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to OIC's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

We expect the following information to be included as RSI in the OIC's financial statements:

- Management's Discussion and Analysis
- Supplemental Revenue and Reserve Development Information
- Supplemental Reconciliation of Claims Liabilities by Type of Contract Information
- Supplemental Revenue and Reserve Development Information – Access WV
- Supplemental Reconciliation Claims Liabilities by Type of Contract Information – Access WV
- Budgetary Comparison Schedule – Operating Fund



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**Section 2.4.4:** The auditing firm will provide technical assistance to the OIC accounting staff in the preparation of financial statements, reports, and documents necessary for compliance with the Comprehensive Annual Financial Report of the State of West Virginia and the requirements of the West Virginia Financial Accounting and Reporting Section of the Department of Administration. The audit and technical assistance must be performed in accordance with the provisions contained below.

- **Vendor Response:**

Gibbons & Kawash, A.C. will provide technical assistance to the OIC staff in the preparation of the information listed above and in accordance with the provisions contained below.

### *2.4.4.1 Independence*

The OIC seeks an independent and objective auditing firm.

- **Vendor Response:**

#### **INDEPENDENCE**

The credibility of the audit results is critical for oversight by the OIC and in meeting public expectations. Gibbons & Kawash, A.C. carefully evaluates all services provided to audit clients to ensure that the very detailed requirements for independence of *Government Auditing Standards* applicable to individual auditors and audit firms are satisfied. We are independent under the requirements of *Government Auditing Standards* and generally accepted auditing standards with respect to the OIC, the State of West Virginia and its component units, and will carefully guard and maintain our independence during the course of any audit services provided to the OIC and State of West Virginia.

In conjunction with providing audit and technical assistance services to the OIC, we will review the independence of all personnel within the firm assigned to this engagement to ensure that they are independent of the OIC and the State of West Virginia and its component units. Additionally, engagement partners, managers and other supervisory staff, audit seniors, and specialists may need to be changed if these personnel leave the firm. Changes for this reason or other reasons will only be made with the express prior written permission of the OIC. In all cases, OIC will be informed in writing of any changes and reserves the right to approve or reject replacements based on their qualifications, experience, or performance. Other persons will be changed at the discretion of Gibbons & Kawash, A.C. provided that replacements have substantially the same or better qualifications or experience. The OIC reserves the right to request staff changes throughout the term of the contract. We will also notify the OIC in writing if any other matters come to our attention during the engagement, which may impair our independence.

Gibbons & Kawash, A.C. has no relationship with any known major vendors or contractors to the OIC and related systems. In addition, Gibbons & Kawash, A.C. agrees to give the OIC written notice of any professional relationships entered into during the period of this agreement with any major contractors as defined in West Virginia code Section 29-22-23.

We affirm to the best of our knowledge and belief that neither the firm, nor any of its members, employees, or subcontractors presently have any interest and shall not acquire any interest, direct or indirect, which would conflict or compromise in any manner or degree with the performance of its services hereunder. We further covenant that during the period of the contract, we shall periodically inquire of our members, employees and any subcontractors, concerning such interests. Any such interest discovered shall be promptly presented in detail to the OIC.

2.4.4.2 Engagement partner, managers, other supervisory staff, audit seniors, and specialties may need to change if those personnel leave the firm, are promoted or are assigned to another office.

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These personnel may also be changed for these or other reasons with the express prior written permission of the OIC. It is also possible that personnel associated with a subcontractor may be assigned to another duties or leave the subcontracted firm. However, in either case, OIC must be informed in writing of these changes and retain the right to approve and reject replacements based upon their qualifications, experience, or performance.

Other personnel may be changed at the discretion of the proposer, provided that replacements have substantially the same or better qualifications or experience.

It is required that the successful bidder possesses comprehensive knowledge of the insurance industry and workers' compensation. The OIC reserves the right to request staff changes through the term of the contract.

### **ENGAGEMENT TEAM**

The ultimate quality of our professional services to the OIC depends on our ability to provide an experienced and capable client service team. We have selected a group of individuals experienced in serving governmental entities. See Section III and Appendix C for relevant continuing professional education for each member of the engagement team.

Your client service team will include:

#### **Engagement Director**

John D. Galloway, CPA, is an audit director in Gibbons & Kawash, A.C.'s audit practice with 18 years of specialized audit experience with governmental entities and OMB Circular A-133 audits. John will serve as the engagement director responsible for the audit. In this role John will assume primary responsibility for the successful completion of the audit and will maintain contact with senior management of the OIC throughout the engagement to ensure that services and resources are provided to the OIC in a timely, professional manner.

John will also provide technical expertise to the audit team on accounting, auditing and financial reporting matters and perform certain on-site review and supervision procedures. John serves as the audit director for eight State of West Virginia component unit audits ranging in size up to \$2.4 billion in assets. His experience also includes assisting two entities with 19 successful submissions under the GFOA's Certificate of Achievement program.

#### **Engagement Quality Control Review Director**

Robert R. Denyer, CPA, a director with Gibbons & Kawash, A.C. with over 30 years experience in serving governmental clients, will serve as independent review partner. The role of the engagement quality control review director is an essential element of Gibbons & Kawash, A.C.'s quality control program over the delivery of services to a client. Bob will be available to consult with the audit team on accounting, auditing and reporting matters and provide technical expertise. Bob will be charged with the final review of the financial statements to evaluate the following criteria: clarity of presentation; adequacy of disclosures required by generally accepted accounting principles; and appropriateness of the auditors' report. Bob also has substantial experience with the GFOA's Certificate of Achievement for Excellence in Financial Reporting program having assisted five entities with over 24 successful submissions for the certificate. His extensive experience with 15 State of West Virginia entities, including 3 years auditing the Workers' Compensation Fund in conjunction with KPMG, will be of substantial benefit on this engagement.

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### Consulting Partner

Barb Woltjer, CPA is a partner in the Grand Rapids office of BDO. She has been with BDO since 1988, and has spent the past 22 years providing professional services to the insurance industry, including a number of publicly held property and casualty insurance groups. Currently Barb spends 100% of her time focused on the insurance industry. Barb has substantial experience performing audit of workers compensation carriers. Barb also serves as one of the BDO's national coordinators for the insurance industry and has assisted in the development of BDO's audit programs and other internal tools used for the industry. In addition, Barb coordinates and sponsors our national insurance staff training course. She is professionally affiliated with the Insurance Accounting and Systems Association.

### Audit Manager

Robert Henson, CPA, is an audit manager with 8 years of experience. He currently manages audits of seven State of West Virginia component units ranging in size from \$340 million in assets to \$1.4 billion in revenues. The State of West Virginia component units audited by Rob collectively include a myriad of investments, revenue bonds and general obligation bonds, loans receivable, and revenue bonds receivable. His experience also includes assisting two entities with 12 successful submissions under the GFOA's Certificate of Achievement program.

### Senior Auditor

Robert Alatis, CPA, is a senior auditor with three years of experience. His experience includes in-charge responsibility on several component unit audits of the State of West Virginia.

The certified public accountants on your Gibbons & Kawash client service team are licensed to practice as certified public accountants in West Virginia and will be assigned to this engagement. Any changes to the engagement team will only be made with the prior approval of the OIC.

### Information Technology Specialist

Kevin Hearn, CPA, CISA, is a senior manager with BDO Seidman Alliance member firm Hogan Taylor, LLP (HT) in Tulsa, Oklahoma. Kevin has over 18 years of experience providing audit and information technology services and will be responsible for overseeing the EDP internal control review. He has performed service organization control reports for a wide range of clients in various industries including financial services, insurance (including claim management), and business process outsourcing. During the last few years, Kevin has also been significantly involved in assisting companies with their internal control evaluations required by the Sarbanes-Oxley Act. Kevin provides support for HT's financial statement audits by reviewing and evaluating our clients' internal control structures. Kevin graduated from Oklahoma State University with B.S. in Accounting. In addition to his CPA certification, Kevin is a Certified Information Systems Auditor (CISA) and a member of the AICPA, OSCP, Information Systems Audit Control Association (ISACA) and the Institute of Internal Auditors (IIA).

### Consulting Actuaries

#### **Expertise of Consulting Actuarial Staff**

Actuarial Risk Management (ARM) will serve on the engagement team as consulting actuaries for the audit of the OIC. Their consulting actuaries, who routinely work in conjunction with BDO family audit teams across the U.S., possess the actuarial credentials, industry experience requirements and review expertise needed to adequately discharge these responsibilities.



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### About Actuarial Risk Management

ARM has been an independent member of the BDO Seidman Alliance since 2006, and provides risk management and actuarial services to BDO and BDO Alliance firms in a similar role as the Big-4 accounting firms with their own dedicated staff. ARM covers all industries in the private sector with employee related risks, like retirement and medical cover, to those employer related risks that are self-insured, like workers compensation, medical malpractice, general liability and the like. ARM also supports public sector agencies at the local and state levels too that also contend with similar risk exposures as the private corporate entities. ARM has specialty experience too with insurance company underwriting and capital management needs. ARM's objective is to provide independent practical advice and creative solutions to complex risk problems facing insurance, business, and government entities.

ARM's multidiscipline team blends experts from industry, academia, regulatory and corporate worlds. ARM brings the latest technological tools, ranging from globally recognized modeling projection software for our insurance clients to proprietary claims analysis tools for both health care payors and providers along with those clients with self-insured programs.

### Services

#### Actuarial Valuation Services

The centerpiece of traditional actuarial consulting services is the annual actuarial valuation of the a risk program, like workers compensation. For these types of valuation, ARM gathers information about the programs then analysis the experience to develop a set of reasonable and appropriate balance sheet program liabilities. These results are summarized in a formal report to a client after which ARM provides any necessary clarifications or insight into the methods, assumptions and results under review by an auditor or regulator.

#### Actuarial Audits and Reviews

ARM provides a range of actuarial audit and review services. ARM has supported the audits of private and public sector organizations of all sizes and jurisdictions, both local and nationally/internationally. ARM brings an audit support team steeped in auditor experience developed from Big-4 positions.

#### Actuarial Experience Studies

The key to producing accurate valuations is to ensure assumptions underpinning the valuation are sound and historically relevant to the entity with the program. In the case of OIC, the assumptions under review will be assessed to determine if creditable experience studies for the basis of assumption development where possible. Such studies are vital for exploring past effects of death, disability, and other impairments with the population exposed to the risk program.

### Consulting Actuaries

The consulting actuaries that would comprise the review team for OIC are as follows:

<u>Consulting Actuary</u>	<u>Industry Experience</u>	<u>Actuarial Credentials</u>
Charles C. Emma	25 years	FCAS, MAAA
Sarah Peterson	20 years	FCAS, MAAA
Corwin K. ZASS	15 years	ASA, MAAA, FCA

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We have also enclosed biographical sketches in Appendix D for each of these consulting actuaries. These biographical sketches note the relevant actuarial credentials and industry work experience. The review team will be led by Charles (Chuck) Emma, who will serve as the lead actuary, while Corwin Zass will provide project oversight to the audit team. Appendix D includes information about ARM's practice, including client references.

### **BDO RESOURCES**

Barb Woltjer works in the Grand Rapids, Michigan office, which contains many of the Firm's technical experts, including those for the insurance industry. BDO provides national resources to serve the insurance industry through the substantial insurance experience of approximately 15-20 partners and senior managers across the nation, including several workers' compensation carriers. A 2009 A.M. Best Special Report ranked BDO as the sixth largest auditor of insurance companies based on net written premiums.

### **ABOUT HOGAN TAYLOR, LLP**

#### **FIRM BACKGROUND**

HT was created on January 1, 2009, as the result of the merger of two of Oklahoma's premier, locally owned public accounting firms. HT continues to develop a customer-focused organization, in which very experienced personnel can provide hands-on solutions to each client's needs. The firm currently has approximately 180 professionals who provide audit, tax, accounting and a variety of consulting services to clients in many industries.

HT has been providing Type II service organization control reports for over ten years. Our SSAE No. 16 clients are in various industries and are located throughout the United States. Our personnel have performed service auditor reports for bank service centers, insurance third-party administrators, retirements plan administrators, business process outsourcing companies, data collection and reporting companies, and information management companies. In addition to the service organization control reports that we have issued, we have provided service auditor report engagement management and consulting services to other accounting firms throughout the country.

#### **ADDITIONAL STAFF**

Additional staff will be assigned as necessary. All professional staff will have a college degree from an accredited four-year college and be an actual employee with at least one year of experience. Gibbons & Kawash, A.C. consistently invests in our recruiting program to ensure that we hire the best available employees to serve our clients.

#### **ABILITY TO MAINTAIN QUALITY STAFF**

Gibbons & Kawash, A.C. understands the importance of not only hiring but also maintaining the highest quality professional staff to serve our clients. Accordingly, we continually strive to challenge our professional staff with high quality engagements while offering each individual the scheduling flexibility necessary to meet personal and work commitments, continuing education and career goals, while ensuring that our commitments to clients are met. Together with competitive compensation and benefits, this effort has resulted in a lower turnover ratio than other firms in our industry group. This has improved our ability to provide consistent staffing on engagements which has lead to better client service and more effective audits.

Occasionally, there will be a need to change professional staff assigned to the engagement. We believe our depth and internal quality control policies will ensure the quality of any staff changes to the engagement. If any, directors, supervisory staff, audit seniors, or consultants need to be

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changed, we will provide the OIC with written notification and the resume similar to those included in this proposal, to ensure that the change is acceptable to the OIC. We understand that the OIC right to approve or reject replacements based upon their qualifications, experience, or performance. Additionally, we understand that the OIC reserves the right to request staff changes throughout the term of the contract.

### 2.4.5.3 Reports

Following the completion of the audit of the fiscal year's financial statement, the auditing firm shall issue a report on the fair presentation of the financial statements in conformity with generally accepted accounting principles. It is the intention of the OIC to issue a bound set of financial statements.

In addition, the auditing firm will provide an "in-relation-to" report on the supporting schedules based on the auditing procedures applied during the audit of the general purpose financial statements.

The auditing firm shall communicate in a letter to management any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal controls structure, which could adversely affect the organizations' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

*Irregularities and illegal acts:* The auditing firm shall be required to make an immediate written report of all irregularities and illegal acts of which they become aware to the State Comptroller and the Financial Accounting and Reporting Section of the Department of Administration under the authority of Section 5A-2-33 of the State Code.

*Reporting to the OIC:* At a minimum, the auditing firm shall inform the OIC of each of the following:

- The auditing firm's responsibility under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Management consultations with other accountants
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit.

#### ◦ Vendor Response:

Gibbons & Kawash, A.C. will issue the following reports:

- Independent Auditor's Report on Basic Financial Statements and Required Supplementary Information
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Independent Auditor's Report on Other Financial Information
- Letter communicating other internal control matters that are not considered material weaknesses or significant deficiencies and other operating suggestions. (Management Comment Letter)

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Any significant deficiencies or material weaknesses included in our GAS Report and any matters included in our management comment letter will be presented in draft form and discussed with management prior to final release.

In addition to the financial statements we will report on the following, as applicable:

Fraud and Illegal Acts We will make an immediate, written report of any fraud and illegal acts of which we become aware to the State Comptroller and the Financial Accounting and Reporting Section of the Department of Administration under the authority of Section 5A-2-133 of the State Code.

Abuse and Other Matters If abuse or other matters are identified which have a significant effect on financial statement amounts or disclosure, we will include the matters as an audit finding in our report, as required by *Government Auditing Standards*. Any other potential abuse will be reported to the OIC in the management letter.

Reporting to the OIC We will make the following communications to the OIC and those charged with governance regarding the audit:

- The auditors' responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards*
- Significant accounting policies
- Significant disclosures not made
- Management judgments and significant accounting estimates
- Significant audit adjustments
- Significant unrecorded audit differences
- Other information in documents containing audited financial statements
- Independence within the meaning of professional standards
- Disagreements with management
- Management consultation with other accountants and actuaries
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit
- Irregularities and illegal acts

### **2.4.5.4 Working Paper Retention and Access to Working Papers:**

All working papers and reports must be retained, at the auditing firm's expense, for a minimum of three (3) years, unless the firm is notified in writing by the OIC of the need to extend the retention period. The auditing firm will be required to make working papers available, upon request, to the OIC. In addition, the successful auditing firm shall respond to the reasonable inquiries by the OIC or its successor auditing firms and allow its successor auditing firms to review working papers relating to the matters of continuing account significance.

#### **◦ Vendor Response:**

All working papers and reports will be retained, at Gibbons & Kawash, A.C.'s expense, for a minimum of five (5) years, unless we are notified in writing by the OIC of the need to extend the retention period. In addition, we will respond to the reasonable inquiries of any successor auditor and allow the successor auditor to review working papers relating to matters of continuing accounting or auditing significance.

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### 2.4.5.5 Schedule of Fiscal Year Audit

Each of the following shall be completed by the auditing firm no later than the dates indicated. These dates apply to the 2012 audit only.

Required Submission or Event	Required Completion/ Submission Date
Entrance conference	Prior to June 30, 2012
Any interim work must be completed	June 30, 2012
Detailed audit plan	July 20, 2012
Fieldwork to begin	On or after August 1, 2012
Draft submitted to the Financial Accounting and Reporting Section (FARS) of the Department of Administration with copies to the Assistant Commissioner of Finance	September 14, 2012
Unsigned final draft with all modifications to the OIC management for review	October 5, 2012
Final Signed report submitted to the OIC and FARS	October 12, 2012

At a minimum, the following conferences shall be held by the dates indicated on the schedule:

- *Entrance Conference with OIC staff.* The purpose of this meeting is to discuss potential audit problems and the interim work to be performed. This meeting will also be used to establish an overall liaison for the audit and to make arrangements for work space and other needs of the auditing firm.
- *Monthly Progress Conference with auditing firm's supervisory staff.* The purpose of these meetings will be to summarize the results of the preliminary review and to identify key internal controls of other matters to be tested.
- *Exit Conference with audit managers.* The purpose of this meeting will be to summarize the results of the fieldwork and to review significant findings.

#### Audit Work, Audit Plan, and Reports

- *Interim Work.* During this phase, the auditing firm shall gain a detailed understanding of the controls that exist over expenditures and the GAAP basis financial statements.
- *Detailed Audit Plan.* The auditing firm shall provide detailed audit plans and requests for audit assistance.
- *Field Work.* The auditing firm shall complete all field work to ensure that the draft and final reports are delivered as agreed.
- *Draft Reports.* The auditing firm shall have drafts of the audit reports and recommendations to the respective management of the OIC available for their review.
- *Final Reports.* The auditing firm shall deliver the final audit reports and recommendations to the respective management of the OIC. On or before the date that the final report for Fiscal Year 2012 is due, fifty (50) signed copies shall be bound and delivered to the OIC's Assistant Commissioner of Finance. The OIC may request fewer copies if they determine that less than 50 printed copies will meet their needs. The auditing firm shall also provide the OIC with an electronic copy of the final audit report in a format that is suitable for publication on the OIC's website.

#### ◦ Vendor Response:

Upon notification that our audit proposal is successfully, we will schedule our services to comply with your reporting deadline. We will schedule an entrance conference and meetings with those



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charged with governance prior to the commencement of fieldwork to discuss our audit plan and schedule.

### AUDIT APPROACH AND WORK PLAN

#### Understanding of Required Services

We understand that the West Virginia Department of Revenue, Offices of the Insurance Commissioner (OIC) is soliciting proposals to provide auditing services for the year ending June 30, 2012, with the option of renewing the contract for each of the two subsequent years. The audits will be conducted in accordance with auditing standards generally accepted in the United States of America and other applicable laws and regulations.

The objective of our audits will be expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to below when considered in relation to the financial statements taken as a whole.

The financial statements will include all funds administered by the OIC including the Operating Fund, Workers' Compensation Fund, and Access WV for the purpose of expressing an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. In addition, we will determine whether the other financial information, including that required by the Financial Accounting and Reporting Section of the West Virginia Department of Administration, is presented fairly in all material respects in relation to the financial statements taken as a whole. The OIC's financial statements will also include certain supplementary information (RSI) required by U.S. accounting standards for purposes of complying with GASB 30, and Management's Discussion and Analysis. We will apply certain limited procedures to the RSI which will consist principally of inquiries of management regarding the methods of measurement and presentation. Unless we encounter problems with presentation of the RSI or with procedures relating to it, we will express no opinion on it.

We understand the West Virginia Offices of the Insurance Commissioner (OIC) is an agency of the State of West Virginia and is reported as part of the primary government in the State's Comprehensive Annual Financial Report (CAFR). The OIC is responsible for the regulation and oversight of all insurance transactions conducted in the State. The OIC is also responsible for the administration and oversight of the remaining assets and liabilities of the former West Virginia Workers' Compensation Commission (Old Fund) and the Coal Workers' Pneumoconiosis Fund (CWPF) which ceased operations in 2005 and are in runoff status under the administrative oversight of the OIC. The Uninsured Employers' Fund, the Self-Insured Funds, and the Private Carrier Guaranty Fund are proprietary funds created by Senate Bill 1004 for the purpose of maintaining an effective workers' compensation system. The OIC also administers Access WV, which is a high risk health insurance pool that provides health insurance for medically uninsurable individuals. The Workers' Compensation Fund is considered a reporting fund for financial statement purposes and consists of the Old Fund, the CWP Fund, the Uninsured Employers' Fund, the Self-Insured Employers' Funds, and the Private Carrier Guaranty Fund. The Workers' Compensation Fund and Access WV combine to comprise the proprietary funds reported in the financial statements and the operating fund is reported as the general fund in the financial statements.

We will comply with the requirements established by the State of West Virginia's Department of Administration, Financial Accounting and Reporting Section (FARS) in the preparation of all financial reports and will respond to their requests for information and other financial reporting requirements.

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We will also provide a report on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards. In planning and performing our audits, we will consider OIC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OIC's internal control over financial reporting. Our consideration of internal control over financial reporting will not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we will report to you any matters identified in internal control that we consider to be significant deficiencies or material weaknesses.

As part of obtaining reasonable assurance about whether OIC's financial statements are free from material misstatement, we will perform tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on OIC's financial statements. However, providing an opinion on compliance with those provisions will not be an objective of our audits and, accordingly, we will not express such an opinion. We will report to you any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We will issue all written reports in draft form so that they may be reviewed, discussed and agreed upon before final delivery.

### **Reporting the Audit Results**

Based on the required scope of services, Gibbons & Kawash, A.C. will report as follows:

- The Independent Auditors' Report will include our opinion as to whether the basic financial statements of the OIC as of June 30, 2012, and for the year then ended, present fairly, in all material respects, the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America and whether the other financial information, including that required by FARS, is presented fairly in all material respects in relation to the financial statements taken as a whole.
- The Independent Auditor's Report will also contain language that our procedures applied to the required unaudited supplemental information included with the basic financial statements, including management's discussion and analysis, supplemental reconciliation of claims liabilities by type of contract, supplemental revenue and reserve information, and the budgetary comparison schedule, consisted of applying certain limited procedures, principally inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we will not audit the information or express an opinion on it.
- The Independent Auditors' Report on Other Financial Information will include our report on other financial information not included in the basic financial statements of the OIC, but presented for purposes of additional analysis of the financial statements. The schedules of net assets - workers' compensation information, revenues, expenses and change in fund net assets - workers' compensation information, and cash flows - workers' compensation information, will be subjected to the auditing procedures applied in the audit of the financial statements and will include our opinion as to whether they are fairly stated in all material respects in relation to the financial statements taken as a whole.

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- The Independent Auditor's Report on internal control over financial reporting and on compliance and other matters based on an audit of the OIC's financial statements performed in accordance with *Government Auditing Standards*.
- A Schedule of Findings and Responses will report any significant deficiencies or material weaknesses in internal control noted during our audit and any noncompliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts. All immaterial instances of noncompliance will be reported in a separate management letter, which will be referred to in the report on compliance and internal controls. Any significant deficiencies or material weaknesses in internal control and material instances of noncompliance, as well as any matters required to be included in the GAS report and other matters included in the management letter will be presented in draft form and discussed with OIC management.

In addition to financial statement reporting, we will report on the following, as applicable:

- Fraud and Illegal Acts - We will make an immediate, written report to OIC management of any fraud and illegal acts of which we become aware:
  - Insurance Commissioner
  - Assistant Commissioner of Finance of the OIC
  - The State Comptroller
  - The Financial Accounting and Reporting Section of the West Virginia Department of Administration.
- Abuse - If abuse is identified which has a significant effect on financial statement amounts, we will include the matter as an audit finding in our report as required by *Government Auditing Standards*. Any other potential abuse will be reported to those listed under Fraud and Illegal Acts above.

We will inform OIC management in writing of each of the following, as applicable:

- The auditors' responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards*
- Significant accounting policies
- Significant disclosures not made
- Management judgments and significant accounting estimates
- Significant audit adjustments
- Significant unrecorded audit differences
- Other information in documents containing audited financial statements
- Independence within the meaning of professional standards
- Disagreements with management
- Management consultation with other accountants and actuaries
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit
- Irregularities and illegal acts



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### Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to above when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and will include tests of the accounting records of the OIC and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the OIC is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit is in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will prepare a draft of your financial statements and related notes. Management is responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions.

Management will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, management is required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the OIC and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us

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during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud, or illegal acts, could have a material effect on the financial statements. Management's responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

### **Audit Procedures - General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

### **Audit Procedures - Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in

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scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

### **Audit Procedures on Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform test of the OIC's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express any opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Audit Administration, and Other**

We understand that your employees will prepare all schedules we request and will locate any documents selected by us for testing.

The audit documentation for this engagement is the property of Gibbons & Kawash, A.C. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a regulatory agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Gibbons & Kawash, A.C. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

Gibbons & Kawash, A.C. will comply with all applicable Federal and State rules and regulations, and requirements governing the maintenance of documentation to verify any cost of services rendered under this contract by Gibbons & Kawash, A.C. The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by a regulatory agency. We will make available all records to OIC personnel at our offices during normal business hours upon written request of the OIC within 10 business days of receipt of the request. If we are aware that a regulatory agency or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Gibbons & Kawash, A.C. agrees to maintain confidentiality and security of the data made available and shall indemnify and hold harmless the State of West Virginia and the OIC against any and all claims brought by any party attributed to actions of breach of confidentiality by Gibbons & Kawash, A.C., subcontractors or individuals permitted access by Gibbons & Kawash, A.C.

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### PROPOSED WORK PLAN

#### Overview

Foremost in considering our approach to the audit of the OIC's financial statements will be the importance of maintaining operational integrity, the significance of estimates to the financial statements, and the extensive reliance on computer applications in processing financial data.

Accordingly, our audit approach and related audit procedures will be designed with an emphasis on review and evaluation of internal controls over computer operations, and the overall reasonableness of actuarial estimates.

#### Phases of the Audit

Our audit approach in performing the OIC's audit will consist of the following phases:

- I. Comprehensive Planning and Risk Assessment Process
- II. Internal Control Evaluation, including evaluation of information technology and related controls
- III. Development of Audit Plan, including preparation of tailored audit programs
- IV. Testing of Financial Data and Compliance Matters
- V. Reporting

The performance of phases I and II will occur concurrently due to the interrelationship of the various steps of these phases and prior to the commencement of comprehensive fieldwork. Below is a summarized schedule of estimated audit hours by audit phase:

Audit Phase	Director Partner	Manager	Senior	Staff	EDP/ Actuarial Specialists	Total
Comprehensive planning and risk assessment	16	30	40	20	10	116
Internal control evaluation, including information technology controls	20	30	60	30	30	170
Development of audit plan, including preparation of audit programs	25	30	50	20	-	125
Testing	16	40	170	205	50	481
Reporting	35	30	30	30	-	125
Total hours	112	160	350	305	90	1,017

### USE OF SPECIALISTS

#### Actuarial Specialist

The liability for unpaid claims and claim adjustment expense represents a significant estimate which is developed with the assistance of the OIC's consulting actuary. This liability represents the ultimate net cost of all unpaid claims and claims adjustment expense as of June 30, 2012. This estimate can have a significant impact on the results of operations reported in the statement of revenues, expenses, and changes in fund net assets.

Gibbons & Kawash, A.C. will engage the services of Actuarial Risk Management (ARM), a consulting actuarial firm, to assist in determining that the underlying assumptions and methodology used by the OIC's consulting actuary are reasonable and appropriate in the circumstances.

The actuarial services ARM will provide are those required by generally accepted auditing

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standards and in accordance with the terms of the request for proposal. These services will include an independent review of workers' compensation related liabilities for various OIC funds. ARM's review will involve evaluating all data and other information pertinent to the subject liabilities, reviewing analysis done by the preparing actuary in support of the booked reserves, and performing testing and independent analysis, as needed, to provide their conclusion regarding the booked reserves. Their services will include preparation of a written report presenting and supporting their conclusions, a copy of which will be provided to the OIC.

### Insurance Industry Specialists

We will utilize the extensive experience of Barb Woltjer, CPA, a partner with BDO, to assist in obtaining an understanding of OIC, assessing risk, and developing the audit strategy. Additionally, these industry specialists will be available to provide technical guidance on determining the sufficiency of audit evidence and financial reporting.

### Information Technology Specialist

Due to the highly computerized operational systems that OIC utilizes, we have determined that an information technology specialist is necessary to adequately evaluate the computer controls designed and placed in service. Gibbons & Kawash, A.C. will engage the services of Hogan Taylor, LLP to assist in the evaluation of the computer controls. Hogan Taylor, LLP is a CPA firm based in northeast Oklahoma and is nationally recognized as a leader in computer control evaluations including SSAE 16 (formerly SAS 70) reporting.

### **Phase I: Comprehensive Planning and Risk Assessment Process**

The Comprehensive Planning and Risk Assessment Process phase of the audit will include the following activities.

- Obtain a thorough understanding of the Entity and Its Environment. Our process in obtaining this understanding will be focused on those matters that could cause material misstatement of an opinion unit, including potential fraud risk factors, undisclosed related-party transactions, illegal acts, or uncertainties. Our understanding of the entity also assists in:
  - Establishing planning materiality and evaluating whether such judgments remain appropriate throughout the audit.
  - Evaluating whether certain observed conditions, such as unusual or unexpected relationships from preliminary analytical procedures, do not make sense and indicate possible risk considerations.
  - Considering fraud risk factors, for example, the existence of significant or complex related-party transactions.
  - Evaluating the appropriateness and sufficiency of audit evidence.

Our understanding of the entity and its environment will consist of an understanding of the following items:

- Industry, regulatory, and other external factors.
- Nature of the entity, including its opinion units.
- Objectives, strategies, and related business risks that may result in a material misstatement of an opinion unit.
- Measurement and review of the entity's financial performance.
- Internal control.

Our understanding will encompass both internal and external factors which could significantly affect the OIC. The following list includes some of the items that will be



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considered and/or reviewed as part of this phase of the audit:

- The Code of West Virginia sections authorizing or affecting the OIC, including specific laws governing Workers' Compensation (the Code)
- Applicable Legislative Rules
- Reading of the minutes of the meetings of the Workers' Compensation Industrial Council, the Access WV Board of Directors, and any other significant committees that may be established that could impact the audit.
- The organization structure of the OIC and any recent changes to that structure.
- Long term plans of the OIC resulting from new or proposed legislation, if any at the time of the audit and the status of any internal implementation plans.
- Recently implemented policy and procedures documents/manuals for significant operational areas
- Internal financial reports
- Significant contractual agreements
- Actuarial valuations and trends

As part of understanding the entity and its environment, we will obtain an understanding of the entity's selection and application of accounting policies and the consideration of fraud risk factors. Although considering the presence of fraud risk factors occurs simultaneously with obtaining information about the entity and its environment, it merits separate and focused attention.

- Consideration of Fraud in a Financial Statement (SAS #99) - In accordance with Statement on Auditing Standards 99, we will meet members of the OIC's management and those charged with governance to discuss that existence of any known or suspected fraud, areas of concern and known attitudes and controls related to fraud prevention and detection.
- Consideration of new Statements on Auditing Standards - New auditing standards issued by the American Institute of Certified Public Accountants include:
  - SAS No. 118 – *Other Information in Documents Containing Audited Financial Statements*, effective for periods beginning on or after December 15, 2010. This standard supersedes AU 551 and clarifies the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon.
  - SAS No. 119 – *Other Information in Documents Containing Audited Financial Statements*, effective for periods beginning on or after December 15, 2010. This standard supersedes AU 551 and clarifies the auditor's responsibility when engaged to report one whether supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.
  - SAS No. 119 – *Other Information in Documents Containing Audited Financial Statements*, effective for periods beginning on or after December 15, 2010. This standard supersedes AU 551 and clarifies the auditor's responsibility when engaged to report one whether supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.
  - SAS No. 120 – *Required Supplementary Information*, effective for periods beginning on or after December 15, 2010. This standard clarifies the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany and entity's basic financial statements. In the absence of any separate requirement in the particular circumstances of the

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engagement, the auditor's opinion on the basic financial statements does not cover required supplementary information.

- SAS No. 121 – *Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information*, is effective for periods beginning after December 15, 2011. This standard amends the applicability of SAS No. 100 for interim financial information.
- New auditing standards issued by the Government Accountability Office include:
  - *Government Auditing Standards*, August 2011 Revision - effective for financial audits and attestation engagements for periods ending on or after December 15, 2012. The changes related to financial audits are:
    - A conceptual framework for independence was added to provide a means for auditors to assess auditor independence to activities that are not expressly prohibited. The conceptual framework requires auditors to make independence determinations based on facts and circumstances that are often unique to specific audit environments. The conceptual framework achieves further harmonization with AICPA and international standards, with additional considerations for government audits.
    - Specific references to personal, external, and organizational impairments and overarching independence principles have been removed. However, the underlying concepts related to these categories have been retained in the new conceptual framework for independence.
    - Requirements for auditors performing nonaudit services at entities they audit, including a requirement that auditors assess whether management possesses suitable skill, knowledge, or experience to oversee the nonaudit service and to document that assessment, were established.
    - Guidance on nonaudit services that always impair an auditor's independence with respect to audited entities and on certain nonaudit services that may be permitted under appropriate conditions was substantially revised.
    - A summary of requirements on documentation necessary to support adequate consideration of auditor independence was added, incorporating requirements applicable under the new conceptual framework.
    - Certain SAS and SSAE requirements that were repeated in GAGAS have been removed.
    - Three categories of attestation engagements, (1) examination, (2) review and (3) agreed-upon procedures engagements are now separately discussed. Auditors are not permitted to deviate from the reporting elements prescribed by the AICPA.
    - The reporting requirement for fraud now includes only those occurrences that are significant within the context of the audit objectives for performance audits.
- Effects of New GASB Standards

We will be available throughout the audit process to consult with management regarding the implementation of any new financial reporting standards.

- Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011. This statement improves financial reporting by addressing issues related to service

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- concession arrangements, which are a type of public-private or public-public partnership.
- Statement No. 61 – *Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for financial statements for periods beginning after June 15, 2012. This statement modifies certain requirements for inclusion of component units in the financial reporting entity.
  - Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for financial statements for periods beginning after December 15, 2011. incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:
    - Financial Accounting Standards Board (FASB) Statements and Interpretations
    - Accounting Principles Board Opinions
    - Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.
  - Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statements for periods beginning after December 15, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.
  - Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for financial statements for periods beginning after June 15, 2011. This statement addresses situations where a government has entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement.
  - Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective for financial statements for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
  - Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for financial statements for periods beginning after December 15, 2012. This statement improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.



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- Preliminary Analytical Review - Preliminary analytical review is utilized to increase our understanding of the OIC's operations and to identify balances and transaction classes that may pose increased risk. Our preliminary analytics will include horizontal and vertical analysis along with analysis of key ratios against benchmarks.
- Integration of the Audit Approach - During the planning phase of our engagement we intend to have an engagement meeting with the actuarial staff, IT support, and management. The purpose of the meeting will be to ensure that OIC's needs related to each significant audit area are met in an efficient manner.
- Coordination with OIC Staff - During the planning phase we will meet with the OIC staff to coordinate our audit effort. We will discuss audit timing and establish a timeline of the audit activities that will minimize the disruption of the OIC's personnel and activities. Any issues that arise during the course of the audit that could cause delays in the issuance of the report or have an adverse impact on the audit opinion will be communicated immediately to the Commissioner and the Chief Financial Officer. The preliminary time table for the audit follows.
- Ongoing Planning & Risk Assessment - the risk assessment process is not an audit step to be completed rather it is an ongoing process where the results of one procedure can impact the assessment of risk in another area. Our engagement team will be in constant communication with each other to evaluate the ongoing effects of completed procedures and other information discovered on the audit risk assessment. **We will meet semi-monthly with designated OIC personnel to discuss the progress of the audit.**

### ***Understanding of Internal Control***

We will obtain an understanding of internal controls to plan the audit and determine the nature, timing and extent of tests to be performed. Internal control is comprised of the following five components; control environment, risk assessment, control activities, information and communication, and monitoring.

*Control Environment* - This component sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the following:

- a. Integrity and ethical values
- b. Commitment to competence
- c. Board of directors (or other oversight organization) or audit committee participation.
- d. Management's philosophy and operating style
- e. Organizational structure

We will obtain our understanding of the control environment through the use of inquiry and observation procedures. We will inquire of OIC management and the key individuals in sensitive areas of the various transaction classes. Concentrating on the substance of the controls rather than their form is a key factor in evaluating the control environment.

*Risk Assessment* - This component for financial reporting purposes is the auditee's identification, analysis, and management of risk relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles.

Risks relevant to financial reporting include external and internal events and circumstances that may adversely affect the auditee's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Risk can arise or change due to circumstances such as the following:

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- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- Organizational restructuring
- New accounting pronouncements.

We will obtain sufficient knowledge of the OIC's risk assessment process to understand how management considers risks relevant to financial reporting objectives and decides about actions to address those risks. We will obtain this understanding in conjunction with our inquiry and observations regarding the control environment.

*Control Activities* - This component includes the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the OIC's objectives. Control activities, whether automated or manual, have various objectives and are applied at various organizational and functional levels. Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following:

- Performance reviews
- Information processing
- Physical controls
- Segregation of duties

We will obtain an understanding of how information technology affects control activities that are relevant to planning the audit and any areas that have been identified as areas of concern. We view the information technology control activities in terms of application controls and general controls.

Applications controls apply to the processing of individual applications. Accordingly, application controls relate to the use of information technology to initiate, record, process, and report transactions and other financial data. These controls help ensure that transactions occurred, are authorized, and are completely and accurately recorded and processed. General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping ensure the continued proper operations of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

*Information and Communication* - This component is relevant to the financial reporting objectives, which includes the accounting system, consists of procedures, whether automated or manual, and records established to initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity. The quality of system-generated information affects management ability to make appropriate decisions in controlling the OIC's activities and to prepare reliable financial reports.

We will obtain sufficient knowledge of the information system relevant to financial reporting to understand the following:

- The classes of transactions in the OIC's operations that are significant to the financial statements.

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- The procedures, both automated and manual, by which transactions are initiated, recorded, processed, and reported from their occurrence to their inclusion in the financial statements.
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements involved in initiating, recording, processing, and reporting transactions.
- How the information system captures other events and conditions that are significant to the financial statements.
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures

We will obtain sufficient knowledge of the means the entity uses to communicate financial reporting roles and responsibilities and significant matters relating to financial reporting.

*Monitoring* - An important management responsibility is to establish and maintain internal control. Management monitors controls to consider whether they are operating as intended and that they are modified as appropriate for changes in conditions.

Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. This process is accomplished through ongoing activities, separate evaluations, or a combination of the two. In many entities such as the OIC, internal auditors or personnel performing similar functions contribute to the monitoring of an entity's activities. Monitoring activities may include using information from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement. In many entities, much of the information used in monitoring may be produced by the entity's information system.

If management assumes that data used for monitoring are accurate without having a basis for that assumption, errors may exist in the information, potentially leading management to incorrect conclusions from its monitoring activities.

We will obtain sufficient knowledge of the major types of activities the entity uses to monitor internal control over financial reporting, including the source of the information related to those activities, and how those activities are used to initiate corrective actions.

### ***Understanding of Computer Controls***

In conjunction with obtaining our understanding of internal controls in planning the audit we will concentrate significant audit effort in the area of computer controls. With the assistance of our information technology specialist, we will evaluate the general controls and application controls. Examples of areas that will be evaluated are as follows:

#### **General Controls**

- Organizational controls
- Access controls
- Application development controls
- System software controls
- Operational controls
- Disaster recovery/contingency planning

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### Applications Controls

- Input controls
- Processing controls
- Output controls
- Security

### ***Time Management System***

Beginning with the planning and risk assessment phase of the audit, each audit segment will be provided with a detailed time budget to perform the necessary audit tasks based on the audit planning memos, documentation of controls, walkthroughs of those controls, and supporting tailored audit programs. Under the direction of the audit manager, time incurred and progress made with respect to the audits will be accumulated and entered into the time management system. This information and related explanations of variances from budget will be forwarded to the engagement partner for analysis. These estimates will be modified and resources redirected as necessary to ensure the successful completion of the engagement.

### ***Laws, regulations, contracts, agreements, and grants***

We will consult with management to assist in the identification of provisions of laws, regulations, contracts, agreements, and grants to be tested. Identifying and ensuring that the OIC complies with laws and regulations is the responsibility of management. We will include appropriate inquiries of management to identify laws and regulations for which noncompliance could have a direct and material effect on the financial statements. We will also review relevant portions of the West Virginia Code and relevant regulations. We will test the provisions of those laws, regulations, contracts, agreements, and grants for noncompliance which could have a direct and material effect on the financial statements.

### ***Risk Assessment***

The critical first step toward ensuring that the audit approach is both innovative and prudent is determining risk assessment; that is the risk of material misstatement associated with a given objective, including the opinion on the financial statements of the OIC.

The ultimate risk of failure to identify a material error is the product of three risk components:

- a material error may occur;
- internal controls may fail to identify and correct that error; and
- the auditor's substantive procedures may fail to reveal the error.

Once risk has been assessed, the auditor then determines the quality and quantity of audit evidence required to limit that risk to an acceptable level.

We plan to concentrate our audit effort on those areas where the dollar volume of transactions is significant, transactions are of a more complex nature, and the risk of material misstatement is greatest.

We will make extensive use of analytical and quantitative techniques to support the opinion on the financial statements of the OIC. We view analytical procedures such as economic and ratio analysis, and statistical sampling as a continuum of techniques to analyze transaction classes for unusual or unexpected activity for further testing and be matched against a continuum of audit risk, ranging from low to high. The audit tools used in each audit area will be matched against the specific audit risks of that area.

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The engagement team members will perform the risk assessment based on their extensive experience and ensure audit efforts address areas of the highest risk of material misstatement in the financial statements, noncompliance with applicable provisions of laws, regulations, contracts, agreements, and grants and/or abuse.

### ***Comprehensive Planning Summary***

We will then compile planning documentation which will summarize the information gained in the planning and risk assessment phase of the audit. This documentation will include a detailed audit approach for the audit fieldwork. This documentation along with the final audit approach will be discussed with the entire audit team before beginning fieldwork. At this point the engagement partner will ensure individuals with the necessary experience and expertise have been assigned to complete the audit in a timely manner.

Upon notification that our audit proposal is successful, we will schedule our services to comply with your reporting deadline. We will schedule an entrance conference and meetings with those charged with governance prior to the commencement of fieldwork to discuss our audit plan and schedule. We will complete each of the following no later than the dates indicated:

<u>Required Submission/Event</u>	<u>Completion/Submission Date</u>
Entrance conference with OIC staff	Prior to June 30, 2012
Completion of any interim work	June 30, 2012
Detailed audit plan	July 20, 2012
Begin fieldwork	August 1, 2012 or after
Draft submitted to the Financial Accounting and Reporting Section (FARS) of the Department of Administration with copies to the Assistant Commissioner of Finance	September 14, 2012
Final draft with all modifications to the OIC management for final review	October 5, 2012
Final signed report submitted to the OIC and to FARS	October 12, 2012

The following conferences with OIC staff will be held in accordance with the above schedule:

- *Entrance Conference with OIC staff.* The purpose of this meeting is to discuss potential audit problems and the interim work to be performed. This meeting will also be used to establish an overall liaison for the audit and to make arrangements for work space and other needs of the auditor.
- *Semi-monthly Progress Conference with supervisory audit staff.* The purpose of these meetings will be to summarize the results of the preliminary review and to identify key internal controls or other matters to be tested.
- *Exit Conference with audit managers.* The purpose of this meeting will be to summarize the results of the fieldwork and to review significant findings.



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### Phase II: Internal Control Evaluation

We will perform procedures to obtain an understanding of the internal controls, including controls over information technology, and computer system controls, of the OIC. Assessment of the control environment will give us a general indication of the extent of reliance on the OIC's internal control policies and procedures that may be possible. This will be done in conjunction with obtaining our understanding of the operating environment of the OIC.

We understand that the OIC utilizes the West Virginia Information Management System (WVFIMS), which is the state government's accounting system for cash receipts, disbursements, investments, and accounts payable. Information related to accounts receivable, insurance reserves and claims are processed using other systems. Claims processing is done through third party administrator. Previously, the Workers' Compensation Commission utilized the Micro Insurance Reserve Analysis (MIRA) system and the Workers' Compensation Insurance System (WCIS) for loss reserving, employer accounts and claims management functions. MIRA and WCIS were not integrated systems. The OIC maintained copies of the programs after the establishment of BrickStreet to assist the OIC in managing its responsibilities related to the "Old Fund" processing and Self-Insured Fund analysis.

The information technology specialists will concentrate their procedures on both internal and external factors impacting the OIC. As a result of these risks, our procedures will be designed to evaluate the integrity of the established IT internal controls to test the general and application controls in which we obtained an understanding as part of phase I.

### Phase III: Development of Audit Plan

The planning, risk assessment, and system evaluation phases of the audit culminate in the development of a detailed audit approach and audit plan.

Based on the information developed during the planning and risk assessment phase and an understanding of the OIC's significant accounting and control systems, we will develop a detailed audit approach supported by tailored audit programs which will be used during the remainder of the audit.

Once prepared, the audit plan is carefully reviewed to ensure that there is no duplication of efforts, that the approach planned address all of our audit and client service objectives and are consistent and appropriate in the circumstances, and that the approaches are efficient and will be minimally disruptive to OIC personnel.

Audit programs will be tailored to focus on testing of the specific account balance or transaction classes that have elevated audit risk. Each audit program step will be designed to specifically achieve certain audit objectives. After completion of the audit program, we will meet with OIC personnel to discuss the timing of the procedures. The audit plan will include addressing the following:

- Sampling - Sample sizes will be determined based on established and independent sampling plans. Statistical sampling is used whenever it is determined to be cost effective. Sampling will include both substantive tests and tests of compliance. Samples for tests of compliance, including compliance with certain laws and regulations are generally based on attribute principles. Substantive sampling procedures would normally be weighted toward higher dollar items. When statistical sampling is considered to be cost effective, we will use a computer program to determine the samples based on the assessments of inherent/control risk and the evidence provided by other audit procedures.

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- Extent of use of EDP Audit Software - We utilize the CCH Prosystem FX Engagement for maintenance of our electronic audit documentation (workpapers), including the core trial balance and adjustment workpapers, for account groupings, and for certain analytical procedures and ratio analysis. We anticipate that substantially all financial information and schedules prepared for the auditors will be supplied in an electronic format, which we will import into our computerized systems. Other uses of EDP software will be determined based on the results of the system reviews. We actively use other computer assisted audit techniques utilizing various programs such as CCH Active Data. Efficiency and effectiveness are often enhanced by computer assisted audit techniques, especially in the OIC's sophisticated computerized operational and accounting environment. Examples of EDP audit applications include:
  - Analytical review
  - Horizontal and vertical analyses
  - Importing general ledger
  - Statistical and Non-statistical Sampling
  - Data analysis, extraction, and manipulation
  - Responses to identified fraud risks, if any

We have utilized various specialized software. We plan to make use of Active Data in this role, as necessary, to perform a significant number of computer assisted procedures in a short amount of time. We will also use email to communicate with the OIC and other professionals assigned to the engagement; Microsoft EXCEL and WORD to perform analyses and document work on the engagement; and TValue to perform interest calculations and amortizations. We also now make the financial statements available to our clients in a secure PDF format for electronic distribution, include the OIC's website.

- Analytical Procedures - Analytical procedures can be powerful tools to anticipate and predict results. Therefore, actual results can be compared to these expectations, and significant variances analyzed. Many expenses, such as commissions, wages and benefits, payroll taxes, rent, etc. are also susceptible to strong predictive analytical tests. The following section on Testing summarizes some of the various tests for the significant financial statement elements, demonstrating the extent to which analytical procedures are used to enhance the audit process.

After the audit plan has been finalized and approved by the senior members of the engagement management team, the planning summary is developed. The planning summary addresses the following:

- Assurance that the composition of the client service team is appropriate;
- An explanation of known legislative, economic, or other issues that may impact the audit process;
- A description of the audit procedures to be performed by each audit segment; and
- A final engagement procedures timetable.

### **Phase IV: Testing of Financial Data and Compliance Matters**

These tests are designed to provide reasonable assurance as to the validity of the information provided by the accounting system; i.e, the accuracy and completeness of all transactions and account balances. Such tests will include confirmations of account balances, review of invoices supporting payments, review of individual transaction and contract documentation and approvals, predictive analytical tests, and data extraction and analysis and fluctuation analysis, for example.

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### *Detailed Audit Approach by Key Financial Statement Element*

Cash and Cash Equivalents (including Investments) - Our approach in auditing cash and cash equivalents will be primarily utilizing substantive auditing procedures. These procedures will include testing the related reconciliations and evaluating the need to confirm cash and cash equivalents. Our approach in auditing investments and the related investment income will include evaluating the need to confirm investments and related investment income. In addition, we will obtain an understanding of the Investment Management Board's (IMB) and Board of Treasury Investments (BTI) processes regarding the allocation of investment principle and interest to the OIC. This may include making inquiries of IMB and BTI personnel, performing walkthroughs, and performing a site visit, if deemed necessary. Investment income will be tested analytically by calculating an annual yield and comparing this calculation to the anticipated or market return on the investment.

We will evaluate whether the IMB's investment strategy has an impact on the OIC's discount rate used in loss reserving. Because there are other operational matters that may be impacted by changing the discount rate, we will gain an understanding of the facts and the ramifications of each possible solution in performing our evaluation.

Receivables, Net - The OIC's Operating Fund receivables result primarily from assessments. Workers' Compensation Fund receivables result from assessments, premium related amounts due and severance taxes specified for workers' compensation debt reduction. We will make inquiries of management and perform a detailed collectability review of significant receivables not collected at the time of our fieldwork including coal litigation, reinstatement agreements, and related penalties/interest and fees, if any.

We will obtain and test a reconciliation of the total of the detail accounts receivable to the balance recorded in the general ledger. The detail listing will also be tested for clerical accuracy.

Surplus Note - As part of the privatization of workers' compensation, the newly formed employees' mutual insurance company, BrickStreet, received cash in exchange for a surplus note to be repaid by June 30, 2016. We will confirm the payments and unpaid balance, if any, with BrickStreet and evaluate for compliance with the note terms.

Estimated Liability for Unpaid Claims and Claim Adjustment Expenses - Due to the size of the Workers' Compensation Fund's estimated liability for unpaid claims and claim adjustment expenses, special emphasis will be placed on this area. We will obtain a copy of the core data request files provided to the OIC's consulting actuary as of June 30. This file will be totaled and reconciled to the general ledger. We will provide this file to our actuarial specialist and coordinate with the OIC's consulting actuary and in-house actuary for purposes of evaluating the ultimate recorded reserves. Our audit approach will also include a test of claims based on the primary cost drivers associated with computing the loss reserves.

Because of certain underlying operational/data issues (i.e., date of injury on fatals changed to date of death; structured settlements; undefined claims; large or potentially large claims requiring manual review; etc.), we will obtain the data adjustment file and determine an appropriate sample for testing. This testing will include inquiries of management, vouching of information maintained by the OIC to support the changes made on the file and tracing the revised actuarial calculation to the adjusted incremental data file provided by the OIC's consulting actuary. The data adjustment file will also be provided to our actuary for independent review.



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The actuarial review will include:

- Documenting procedures used by the OIC and the OIC's consulting actuary to arrive at reserve estimates. Processes will be reviewed to determine adherence to described procedures.
- Procedures used by the OIC and the OIC's consulting actuary will be compared to alternative reserving procedures to confirm the reasonableness of the procedures used as compared to alternative procedures.
- Changes in Division operations will be evaluated regarding the impact on indicated reserves, if any. Such changes may include items such as changes in case reserve methodology, changes in defense of claims, and changes in reliance on outside vendors (e.g., managed care services, etc.).
- The reserves may be impacted by court decisions, and by legislation. Each of these types of external influences on indicated reserves will be analyzed based on interviews with appropriate parties in West Virginia, and based on our actuarial specialists prior experience in performing such analysis.

In order for the independent actuary to effectively complete his work, we will need electronic copies of the OIC's and the OIC's consulting actuary's worksheets.

A similar review will be performed for Access WV.

Compensated Absences - We will obtain calculations made by the OIC and test them by tracing significant inputs from the calculation to related payroll records, personnel policy and procedures manual, and calculations performed by the WV Retiree Health Benefit Trust Fund actuaries.

Accrued Expenses and Other Liabilities - We will obtain a detail listing of accrued expenses and other liabilities and test for clerical accuracy. We also will perform a test for unrecorded liabilities by reviewing cash disbursed subsequent to year end and reviewing for significant unpaid invoices or open contracts.

Contingent Liability for Self-Insured Employers - We will obtain an updated listing of the self insured employers including those participating in the graduated premium tax program. Our testing will include tracing the liability back to the actuarial calculations, examining supporting documentation for surety coverage or reasons why the employer was unable to obtain said coverage, reviewing applicable resolutions, etc.

We will test compliance with significant applicable provisions of laws, regulations, contracts, and grant agreements. Generally, we will select and review transactions in sufficient detail to permit us to formulate conclusions regarding compliance.

At the conclusion of our compliance testing over laws, regulations, contracts and grant agreements, and abuse and established control procedures, we will review the results of our testing to determine what changes should be made, if any, to our audit plan. If noncompliance with laws, regulations, contracts and grant agreements, or abuse is noted during our testing, we will notify the OIC regarding the nature and scope of the noncompliance or abuse before modifying our audit approach.

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### Phase V: Reporting

Upon completion of all compliance and substantive testing, the reporting phase begins. During this phase, all data necessary for completion of all reports will be collected. The reports will be completed in draft form and reviewed by the engagement manager partner and independent review partner prior to submission to management for their review. We would expect the format for required reports to be similar to the reports included in Attachment B to the RFP. In addition, report formats for supplemental information and schedules required by FARS will follow the format specified by FARS. After any questions or concerns of management have been answered, the final reports will be issued.

In addition, we will follow the financial requirements of the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration including responding to specific requests for information, expression of an "in relation to" opinion on supporting schedules required by the Department of Administration for the preparation of the State's Comprehensive Annual Financial Report (CAFR), and attending conferences, meetings, or seminars held or presented by FARS regarding their requirements for report preparation, presentation, deadlines, etc.

During the entire audit process, we will be alert for any recommendations for improvement in your system of internal control and your operating and administrative procedures. If we find areas where improvements can be made, we will discuss the recommendation with those employees responsible for the area noted. This input is valuable to determine if the suggestion is reasonable and practical to implement. We will summarize our suggestions and recommendations in a letter addressed to the management of the OIC. This letter would be in preliminary draft form to obtain your comments before any final draft is released.

We will deliver fifty (50) signed copies of the audit report to the OIC by October 15, 2012.

#### **2.4.5.6 Financial Accounting and Assistance:**

The Financial Accounting staff and responsible management personnel of the OIC will be available during the audit to assist the firm by providing information, documentation, and explanations. The preparation of confirmations will be the responsibility of the auditing firm.

- **Vendor Response:**

We understand that the financial accounting staff and responsible personnel will be available to assist us through providing information, documentation, and explanations. We also understand that we would be responsible for the preparation of confirmation correspondence.

#### **2.4.5.7 Work Area, Telephone, Photocopying and Fax Machines:**

The OIC will provide the auditing firm with reasonable workspace, desks, and chairs. The auditing firm will also be provided with access to telephone lines, photocopying facilities, and fax machines as appropriate.

- **Vendor Response:**

We acknowledge and appreciate that the OIC will provide us with reasonable workspace, desks, and chairs. We will also be provided with access to telephone lines, photocopying facilities, and fax machines as appropriate.

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2.4.6 The proposal should include a description of the entity that they will be auditing and state a clear understanding of the work that they will be undertaking. The proposal should demonstrate that the firm has thoroughly reviewed the OIC's financial statements and achieved an understanding of the entity and the funds to be audited.

◦ **Vendor Response:**

### **UNDERSTANDING OF THE OIC AND FUNDS TO BE AUDITED**

#### **General Requirements**

Gibbons & Kawash, A.C. will audit the financial statements of the West Virginia Offices of the Insurance Commission (OIC) for the year ending June 30, 2009, with an option to audit each of the two (2) subsequent fiscal years.

Gibbons & Kawash, A.C. will perform the audits in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* (2007 revision) issued by the Comptroller General of the United States and other applicable laws, rules, regulations and policies for the year ended June 30, 2012. *Government Auditing Standards* (2011 revision) will be followed in subsequent years' audit.

We understand our primary contact during the audit of the OIC will be the Insurance Commissioner, or her designee, who will coordinate the assistance to Gibbons & Kawash, A.C. during the audit. We further understand, Gibbons & Kawash, A.C. will be responsible for report preparation, editing, and printing the audit deliverables.

#### **Scope of Work**

Gibbons & Kawash, A.C. will conduct an audit of the OIC's financial statements with the objective of expressing an opinion on the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. In addition, we will prepare all supporting schedules required by the Department of Administration for the preparation of the State's Comprehensive Annual Financial Report (CAFR).

The financial statements will include all funds administered by the OIC including the Operating Fund, Workers' Compensation Fund, and Access WV for the purpose of expressing an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. For financial reporting purposes the Workers' Compensation Fund is comprised of the following internal funds: Workers' Compensation Old Fund, Coal Workers' Pneumoconiosis Fund, Uninsured Fund, Self Insured Fund, and the Private Carrier Fund. In addition, we will determine whether the other financial information, including that required by the Financial Accounting and Reporting Section of the West Virginia Department of Administration, is presented fairly in all material respects in relation to the financial statements taken as a whole. The OIC's financial statements will also include certain supplementary information (RSI) required by U.S. generally accepted accounting standards, including the Management's Discussion and Analysis. We will apply certain limited procedures to the RSI which will consist principally of inquiries of management regarding the methods of measurement and presentation. Unless we encounter problems with presentation of the RSI or with procedures relating to it, we will express no opinion on it.

## ATTACHMENT A - VENDOR RESPONSE SHEET

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Financial statements and other information that will be included in the scope of work will include:

Management's Discussion and Analysis

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets

Statement of Activities

Fund Financial Statements

Balance Sheet - Governmental Fund

Statement of Revenues, Expenses, and Changes in Fund Balance - Governmental Fund

Statement of Net Assets - Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

Statement of Cash Flows - Proprietary Funds

Notes to Financial Statements

Required Supplementary Information - Unaudited

Supplemental Revenue and Reserve Development Information

Supplemental Reconciliation of Claims Liabilities by Type of Contract Information

Supplemental Revenue and Reserve Development Information - Access WV

Supplemental Reconciliation of Claims Liabilities by Type of Contract Information - Access WV

Budgetary Comparison Schedule - Operating Fund

Other Financial Information

Schedule of Net Assets - Workers' Compensation Information

Schedule of Revenues, Expenses and Change in Fund Net Assets - Workers' Compensation Information

Schedule of Cash Flows - Workers' Compensation Information

Budgetary Comparison Schedules

Gibbons & Kawash, A.C. will issue the following reports:

- Independent Auditors' Report on Basic Financial Statements and Required Supplementary Information
- Independent Auditors' Report on Other Financial Information
- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (GAS Report)
- Letter communicating other internal control matters that are not considered material weaknesses or significant deficiencies and other operating suggestions. (Management Comment Letter)

Any significant deficiencies or material weaknesses included in our GAS Report and any matters included in our management comment letter will be presented in draft form and discussed with management prior to final release.

In addition to the financial statements we will report on the following, as applicable:

Fraud and Illegal Acts. We will make an immediate, written report of any fraud and illegal acts of which we become aware to the State Comptroller and the Financial Accounting and Reporting Section of the Department of Administration under the authority of Section 5A-2-133 of the State Code.

## ATTACHMENT A - VENDOR RESPONSE SHEET

---

Abuse and Other Matters. If abuse or other matters are identified which have a significant effect on financial statement amounts or disclosure, we will include the matters as an audit finding in our report, as required by *Government Auditing Standards*. Any other potential abuse will be reported to the OIC in the management letter.



## ATTACHMENT B – MANDATORY SPECIFICATION CHECKLIST

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List mandatory specifications contained in Section 2.5:

**Section 2.5.1:** The successful audit firm must be in compliance with all applicable rules and regulations of the WV Board of Accountancy, as required by WV Accountancy law. All public accounting firms must comply with firm organization and registration requirements and annually renew their registrations with the WV Accountancy Board. Additionally, the successful firm must be authorized by the WV Board of Accountancy to perform attest services within the state of WV.

**Vendor Response:** Gibbons & Kawash, A.C. is in compliance with all applicable rules and regulations of the West Virginia Board of Accountancy, as required by the West Virginia Accountancy law. Gibbons & Kawash, A.C. is authorized by the West Virginia Board of Accountancy to perform attest services within the state of West Virginia.

**Section 2.5.2:** To meet the requirements of this Request for Proposal, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants.

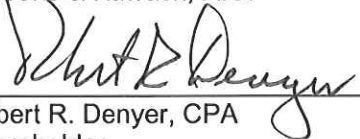
**Vendor Response:** The audits will be conducted in accordance with auditing standards generally accepted in the United States of America issued by the American Institute of Certified Public Accountants and, as described in Addendum No. 2, in accordance with *Government Auditing Standards*.

**Section 2.5.3:** Report preparation, editing, and printing shall be the responsibility of the auditing firm.

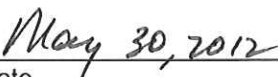
**Vendor Response:** We acknowledge that report preparation, editing and printing will be the responsibility of Gibbons & Kawash, A.C.

I certify that the proposal submitted meets or exceeds all the mandatory specifications of this Request for Proposal. Additionally, I agree to provide any additional documentation deemed necessary by the State of West Virginia to demonstrate compliance with said mandatory specifications.

Gibbons & Kawash, A.C.

  
\_\_\_\_\_  
Robert R. Denyer, CPA  
Shareholder

Phone: (304) 345-8400  
Fax: (304) 345-8451

  
\_\_\_\_\_  
Date

## ATTACHMENT C - COST SHEET

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See separate sealed envelope.

## **APPENDIX A**

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**REQUEST FOR PROPOSAL,  
VENDOR PREFERENCE CERTIFICATE,  
PURCHASING AFFIDAVIT AND  
ADDENDUM ACKNOWLEDGEMENT**



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

## Request for Quotation

RFQ NUMBER

INS12015

PAGE

1

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400  
GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

VENDOR

SHIP TO

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS		
04/26/2012						
BID OPENING DATE: 05/30/2012		BID OPENING TIME 01:30PM				
LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
REQUEST FOR PROPOSAL						
THE WEST VIRGINIA PURCHASING DIVISION, FOR THE AGENCY, THE WEST VIRGINIA INSURANCE COMMISSION, IS SOLICITING PROPOSALS TO PROVIDE AUDIT SERVICES FOR FISCAL YEAR ENDING JUNE 30, 2012 PER THE ATTACHED SPECIFICATIONS.						
TECHNICAL QUESTIONS MUST BE SUBMITTED IN WRITING TO SHELLY MURRAY IN THE WEST VIRGINIA PURCHASING DIVISION VIA MAIL AT THE ADDRESS SHOWN IN THE BODY OF THIS RFP, VIA FAX AT 304-558-4115, OR VIA E-MAIL AT SHELLY.L.MURRAY@WV.GOV. DEADLINE FOR ALL TECHNICAL QUESTIONS IS 05/11/2012 AT THE CLOSE OF BUSINESS. ALL TECHNICAL QUESTIONS RECEIVED, IF ANY, WILL BE ADDRESSED BY ADDENDUM AFTER THE DEADLINE.						
001	1	LS		946-20		
AUDITING SERVICES						
EXHIBIT 3						
LIFE OF CONTRACT: THIS CONTRACT BECOMES EFFECTIVE ON 07/01/2012 AND EXTENDS FOR A PERIOD OF ONE (1) YEAR OR UNTIL SUCH "REASONABLE TIME" THEREAFTER AS IS NECESSARY TO OBTAIN A NEW CONTRACT OR RENEW THE ORIGINAL CONTRACT. THE "REASONABLE TIME" PERIOD SHALL NOT EXCEED TWELVE (12) MONTHS. DURING THIS "REASONABLE TIME" THE VENDOR MAY TERMINATE THIS CONTRACT FOR ANY REASON UPON GIVING THE DIRECTOR OF PURCHASING 30 DAYS WRITTEN NOTICE.						
SEE REVERSE SIDE FOR TERMS AND CONDITIONS						
SIGNATURE		TELEPHONE		DATE		
LE		FEIN		ADDRESS CHANGES TO BE NOTED ABOVE		

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

## GENERAL TERMS & CONDITIONS REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL (RFP)

1. Awards will be made in the best interest of the State of West Virginia.
  2. The State may accept or reject in part, or in whole, any bid.
  3. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required \$125 fee.
  4. All services performed or goods delivered under State Purchase Order/Contracts are to be continued for the term of the Purchase Order/Contracts, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods this Purchase Order/Contract becomes void and of no effect after June 30.
  5. Payment may only be made after the delivery and acceptance of goods or services.
  6. Interest may be paid for late payment in accordance with the *West Virginia Code*.
  7. Vendor preference will be granted upon written request in accordance with the *West Virginia Code*.
  8. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.
  9. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.
  10. The laws of the State of West Virginia and the *Legislative Rules* of the Purchasing Division shall govern the purchasing process.
  11. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.
  12. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.
  13. **HIPAA BUSINESS ASSOCIATE ADDENDUM:** The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, is available online at [www.state.wv.us/admin/purchase/vrc/hipaa.html](http://www.state.wv.us/admin/purchase/vrc/hipaa.html) and is hereby made part of the agreement provided that the Agency meets the definition of a Cover Entity (45 CFR §160.103) and will be disclosing Protected Health Information (45 CFR §160.103) to the vendor.
  14. **CONFIDENTIALITY:** The vendor agrees that he or she will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure is made pursuant to the agency's policies, procedures, and rules. Vendor further agrees to comply with the Confidentiality Policies and Information Security Accountability Requirements, set forth in <http://www.state.wv.us/admin/purchase/privacy/noticeConfidentiality.pdf>.
  15. **LICENSING:** Vendors must be licensed and in good standing in accordance with any and all state and local laws and requirements by any state or local agency of West Virginia, including, but not limited to, the West Virginia Secretary of State's Office, the West Virginia Tax Department, and the West Virginia Insurance Commission. The vendor must provide all necessary releases to obtain information to enable the director or spending unit to verify that the vendor is licensed and in good standing with the above entities.
  16. **ANTITRUST:** In submitting a bid to any agency for the State of West Virginia, the bidder offers and agrees that if the bid is accepted the bidder will convey, sell, assign or transfer to the State of West Virginia all rights, title and interest in and to all causes of action it may now or hereafter acquire under the antitrust laws of the United States and the State of West Virginia for price fixing and/or unreasonable restraints of trade relating to the particular commodities or services purchased or acquired by the State of West Virginia. Such assignment shall be made and become effective at the time the purchasing agency tenders the initial payment to the bidder.
- I certify that this bid is made without prior understanding, agreement, or connection with any corporation, firm, limited liability company, partnership, or person or entity submitting a bid for the same material, supplies, equipment or services and is in all respects fair and without collusion or Fraud. I further certify that I am authorized to sign the certification on behalf of the bidder or this bid.

### INSTRUCTIONS TO BIDDERS

1. Use the quotation forms provided by the Purchasing Division. Complete all sections of the quotation form.
2. Items offered must be in compliance with the specifications. Any deviation from the specifications must be clearly indicated by the bidder. Alternates offered by the bidder as **EQUAL** to the specifications must be clearly defined. A bidder offering an alternate should attach complete specifications and literature to the bid. The Purchasing Division may waive minor deviations to specifications.
3. Unit prices shall prevail in case of discrepancy. All quotations are considered F.O.B. destination unless alternate shipping terms are clearly identified in the quotation.
4. All quotations must be delivered by the bidder to the office listed below prior to the date and time of the bid opening. Failure of the bidder to deliver the quotations on time will result in bid disqualifications: Department of Administration, Purchasing Division, 2019 Washington Street East, P.O. Box 50130, Charleston, WV 25305-0130
5. Communication during the solicitation, bid, evaluation or award periods, except through the Purchasing Division, is strictly prohibited (W.Va. C.S.R. §148-1-6.6).





State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

## Request for Quotation

RFQ NUMBER

INS12015

PAGE

2

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400

GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

VENDOR

SHIP TO

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
04/26/2012				
BID OPENING DATE: 05/30/2012		BID OPENING TIME 01:30PM		

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
UNLESS SPECIFIC PROVISIONS ARE STIPULATED ELSEWHERE IN THIS CONTRACT DOCUMENT BY THE STATE OF WEST VIRGINIA, ITS AGENCIES, OR POLITICAL SUBDIVISIONS, THE TERMS, CONDITIONS, AND PRICING SET FORTH HEREIN ARE FIRM FOR THE LIFE OF THE CONTRACT.						
RENEWAL: THIS CONTRACT MAY BE RENEWED UPON THE MUTUAL WRITTEN CONSENT OF THE SPENDING UNIT AND VENDOR, SUBMITTED TO THE DIRECTOR OF PURCHASING THIRTY (30) DAYS PRIOR TO THE EXPIRATION DATE. SUCH RENEWAL SHALL BE IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE ORIGINAL CONTRACT AND SHALL BE LIMITED TO TWO (2) ONE (1) YEAR PERIODS.						
CANCELLATION: THE DIRECTOR OF PURCHASING RESERVES THE RIGHT TO CANCEL THIS CONTRACT IMMEDIATELY UPON WRITTEN NOTICE TO THE VENDOR IF THE COMMODITIES AND/OR SERVICE SUPPLIED ARE OF AN INFERIOR QUALITY OR DO NOT CONFORM TO THE SPECIFICATIONS OF THE BID AND CONTRACT HEREIN.						
OPEN MARKET CLAUSE: THE DIRECTOR OF PURCHASING MAY AUTHORIZE A SPENDING UNIT TO PURCHASE ON THE OPEN MARKET, WITHOUT THE FILING OF A REQUISITION OR COST ESTIMATE, ITEMS SPECIFIED ON THIS CONTRACT FOR IMMEDIATE DELIVERY IN EMERGENCIES DUE TO UNFORESEEN CAUSES (INCLUDING BUT NOT LIMITED TO DELAYS IN TRANSPORTATION OR AN UNANTICIPATED INCREASE IN THE VOLUME OF WORK.)						
BANKRUPTCY: IN THE EVENT THE VENDOR/CONTRACTOR FILES FOR BANKRUPTCY PROTECTION, THE STATE MAY DEEM THE CONTRACT NULL AND VOID, AND TERMINATE SUCH CONTRACT WITHOUT FURTHER ORDER.						
THE TERMS AND CONDITIONS CONTAINED IN THIS CONTRACT						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
LE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

# Request for Quotation

RFQ NUMBER

INS12015

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3

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400  
GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
04/26/2012				

BID OPENING DATE:

05/30/2012

BID OPENING TIME

01:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
SHALL SUPERSEDE ANY AND ALL SUBSEQUENT TERMS AND CONDITIONS WHICH MAY APPEAR ON ANY ATTACHED PRINTED DOCUMENTS SUCH AS PRICE LISTS, ORDER FORMS, SALES AGREEMENTS OR MAINTENANCE AGREEMENTS, INCLUDING ANY ELECTRONIC MEDIUM SUCH AS CD-ROM.						
NOTICE						
A SIGNED BID MUST BE SUBMITTED TO:						
DEPARTMENT OF ADMINISTRATION PURCHASING DIVISION BUILDING 15 2019 WASHINGTON STREET, EAST CHARLESTON, WV 25305-0130						
THE BID SHOULD CONTAIN THIS INFORMATION ON THE FACE OF THE ENVELOPE OR THE BID MAY NOT BE CONSIDERED:						
SEALED BID						
BUYER: SHELLY MURRAY						
RFQ. NO.: INS12015						
BID OPENING DATE: 05/30/2012 (TECHNICAL)						
BID OPENING TIME: 1:30 PM						
PLEASE PROVIDE A FAX NUMBER IN CASE IT IS NECESSARY						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
FLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

# Request for Quotation

RFQ NUMBER

INS12015

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ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400

GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
04/26/2012				

BID OPENING DATE: 05/30/2012 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
TO CONTACT YOU REGARDING YOUR BID: 304-345-8451						
CONTACT PERSON (PLEASE PRINT CLEARLY): Robert R. Denyer						
ANY INDIVIDUAL SIGNING THIS BID IS CERTIFYING THAT: (1) HE OR SHE IS AUTHORIZED BY THE BIDDER TO EXECUTE THE BID OR ANY DOCUMENTS RELATED THERETO ON BEHALF OF THE BIDDER, (2) THAT HE OR SHE IS AUTHORIZED TO BIND THE BIDDER IN A CONTRACTUAL RELATIONSHIP, AND (3) THAT THE BIDDER HAS PROPERLY REGISTERED WITH ANY STATE AGENCIES THAT MAY REQUIRE REGISTRATION.						
***** THIS IS THE END OF RFQ INS12015 ***** TOTAL:						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
Robert R. Denyer	304-345-8400	May 30, 2012
TITLE	FAX	ADDRESS CHANGES TO BE NOTED ABOVE
Shareholder	55-0738985	

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

## State of West Virginia

# VENDOR PREFERENCE CERTIFICATE

Certification and application\* is hereby made for Preference in accordance with **West Virginia Code**, §5A-3-37. (Does not apply to construction contracts). **West Virginia Code**, §5A-3-37, provides an opportunity for qualifying vendors to request (at the time of bid) preference for their residency status. Such preference is an evaluation method only and will be applied only to the cost bid in accordance with the **West Virginia Code**. This certificate for application is to be used to request such preference. The Purchasing Division will make the determination of the Resident Vendor Preference, if applicable.

**1. Application is made for 2.5% resident vendor preference for the reason checked:**

- ☐ Bidder is an individual resident vendor and has resided continuously in West Virginia for four (4) years immediately preceding the date of this certification; or,
- ☐ Bidder is a partnership, association or corporation resident vendor and has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or 80% of the ownership interest of Bidder is held by another individual, partnership, association or corporation resident vendor who has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or,
- ☐ Bidder is a nonresident vendor which has an affiliate or subsidiary which employs a minimum of one hundred state residents and which has maintained its headquarters or principal place of business within West Virginia continuously for the four (4) years immediately preceding the date of this certification; or,

**2. Application is made for 2.5% resident vendor preference for the reason checked:**

- ☐ Bidder is a resident vendor who certifies that, during the life of the contract, on average at least 75% of the employees working on the project being bid are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,

**3. Application is made for 2.5% resident vendor preference for the reason checked:**

- ☐ Bidder is a nonresident vendor employing a minimum of one hundred state residents or is a nonresident vendor with an affiliate or subsidiary which maintains its headquarters or principal place of business within West Virginia employing a minimum of one hundred state residents who certifies that, during the life of the contract, on average at least 75% of the employees or Bidder's affiliate's or subsidiary's employees are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,

**4. ☒ Application is made for 5% resident vendor preference for the reason checked:**

- ☐ Bidder meets either the requirement of both subdivisions (1) and (2) or subdivision (1) and (3) as stated above; or,

**5. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:**

- ☐ Bidder is an individual resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard and has resided in West Virginia continuously for the four years immediately preceding the date on which the bid is submitted; or,

**6. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:**

- ☐ Bidder is a resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard, if, for purposes of producing or distributing the commodities or completing the project which is the subject of the vendor's bid and continuously over the entire term of the project, on average at least seventy-five percent of the vendor's employees are residents of West Virginia who have resided in the state continuously for the two immediately preceding years.

Bidder understands if the Secretary of Revenue determines that a Bidder receiving preference has failed to continue to meet the requirements for such preference, the Secretary may order the Director of Purchasing to: (a) reject the bid; or (b) assess a penalty against such Bidder in an amount not to exceed 5% of the bid amount and that such penalty will be paid to the contracting agency or deducted from any unpaid balance on the contract or purchase order.

By submission of this certificate, Bidder agrees to disclose any reasonably requested information to the Purchasing Division and authorizes the Department of Revenue to disclose to the Director of Purchasing appropriate information verifying that Bidder has paid the required business taxes, provided that such information does not contain the amounts of taxes paid nor any other information deemed by the Tax Commissioner to be confidential.

Under penalty of law for false swearing (**West Virginia Code**, §61-5-3), Bidder hereby certifies that this certificate is true and accurate in all respects; and that if a contract is issued to Bidder and if anything contained within this certificate changes during the term of the contract, Bidder will notify the Purchasing Division in writing immediately.

Bidder: Gibbons & Kawash, A.C.

Signed: 

Date: May 30, 2012

Title: Director



STATE OF WEST VIRGINIA  
Purchasing Division

## PURCHASING AFFIDAVIT

**West Virginia Code §5A-3-10a states:** No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owed is an amount greater than one thousand dollars in the aggregate.

**DEFINITIONS:**

"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, limited liability company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceeds five percent of the total contract amount.

**EXCEPTION:** The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing (*West Virginia Code §61-5-3*), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

**WITNESS THE FOLLOWING SIGNATURE**

Vendor's Name: Gibbons & Kawash, A.C.

Authorized Signature: *[Signature]* Date: May 30, 2012

State of WV

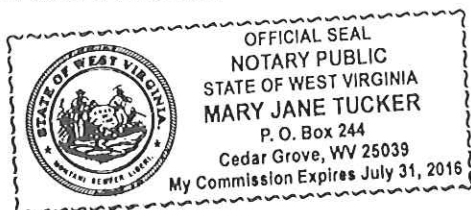
County of Kanawha, to-wit:

Taken, subscribed, and sworn to before me this 30 day of May, 2012.

My Commission expires July 31, 2014.

**AFFIX SEAL HERE**

NOTARY PUBLIC *Mary Jane Tucker*







State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

## Request for Quotation

RFQ NUMBER

INS12015

PAGE

1

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400

GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

V  
E  
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INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

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DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
05/16/2012				

BID OPENING DATE:

05/30/2012

BID OPENING TIME

01:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
----- ADDENDUM NO. 2 -----						
THIS ADDENDUM IS ISSUED TO ADDRESS THE QUESTIONS RECEIVED PRIOR TO THE QUESTION SUBMISSION DEADLINE OF 05/11/2012 THAT ALSO INCLUDES A CD ATTACHMENT.						
0001	1	LS		946-20		
AUDITING SERVICES						
EXHIBIT 10						
REQUISITION NO.: INS12015						
ADDENDUM ACKNOWLEDGEMENT						
I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.						
ADDENDUM NO.'S:						
NO. 1 ..... X						
NO. 2 ..... X						
NO. 3 .....						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

# Request for Quotation

RFQ NUMBER

INS12015

PAGE

2

ADDRESS CORRESPONDENCE TO ATTENTION OF:

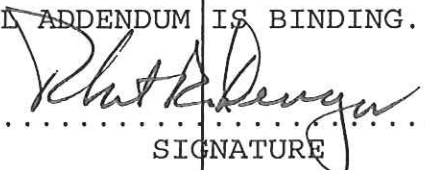
SHELLY MURRAY  
304-558-8801

\*909132501 304-345-8400

GIBBONS & KAWASH  
300 BANK ONE CENTER  
707 VIRGINIA ST EAST  
CHARLESTON WV 25301

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV  
25305-0540 304-558-3707

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS		
05/16/2012						
BID OPENING DATE: 05/30/2012		BID OPENING TIME 01:30PM				
LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
NO. 4 .....						
NO. 5 .....						
I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF BIDS.						
VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S REPRESENTATIVES AND ANY STATE PERSONNEL IS NOT BINDING. ONLY THE INFORMATION ISSUED IN WRITING AND ADDED TO THE SPECIFICATIONS BY AN OFFICIAL ADDENDUM IS BINDING.						
						
SIGNATURE						
Gibbons & Kawash, A.C.						
COMPANY						
May 30, 2012						
DATE						
NOTE: THIS ADDENDUM ACKNOWLEDGEMENT SHOULD BE SUBMITTED WITH THE BID.						
----- END OF ADDENDUM NO. 2 -----						
SEE REVERSE SIDE FOR TERMS AND CONDITIONS						
SIGNATURE		TELEPHONE		DATE		
TITLE		FEIN		ADDRESS CHANGES TO BE NOTED ABOVE		

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

## **APPENDIX B**

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### **ENGAGEMENT TEAM QUALIFICATIONS AND EXPERIENCE**

## APPENDIX B

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**John D. Galloway, CPA**

**DIRECTOR**

304-345-8400 ph  
304-345-8451 fax  
jgalloway@gandkcpas.com

### ***Engagement Responsibilities***

The engagement director is the primary decision-maker with respect to a particular engagement. He has the ultimate responsibility for the planning, execution, and review of the engagement.

Specifically, the engagement director directs the examination and is concerned with staffing, client involvement, field review, report preparation, and presentation of financial statements and other communications to management and the governing board.

### ***Experience***

John has 16 years of professional experience. He has been responsible for review of accounting systems, review and evaluation of internal controls and consulting with clients regarding management and systems problems. He has supervised and managed audits of many privately-owned commercial companies, as well as large governmental entities, and nonprofit organizations. His governmental experience includes the following:

- Central West Virginia Regional Airport Authority
- City of Charleston
- Kanawha County, West Virginia
- Kanawha County Parks and Recreation Commission
- Public Service Commission of West Virginia
- Region I Planning and Development Council
- Region VI Planning and Development Council
- School Building Authority of West Virginia
- West Virginia Alcohol Beverage Control Administration
- West Virginia Board of Treasury Investments
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation
- West Virginia Educational Broadcasting Authority
- West Virginia Housing Development Fund
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Jobs Investment Trust
- West Virginia Parkways, Economic Development, and Tourism Authority
- West Virginia Racing Commission
- West Virginia Regional Jail and Correctional Facility Authority
- West Virginia Tobacco Settlement Financing Authority
- West Virginia Water Development Authority

### ***Professional Activities***

John is a member of the American Institute of CPAs, the West Virginia Society of CPAs, and is past-president and member of the Charleston Chapter of the West Virginia Society of CPAs.

### ***Education***

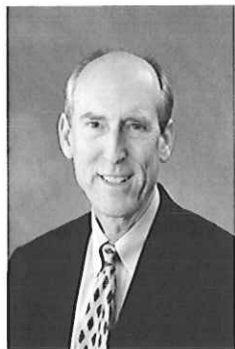
John graduated from the University of Charleston with a bachelor of science degree in business administration.

### ***Continuing Professional Education***

John is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Robert R. Denyer, CPA**

**DIRECTOR**

304-345-8400 ph  
304-345-8451 fax  
rdenyer@gandkcpas.com

### ***Engagement Responsibilities***

The role of the engagement quality control review director is an essential element of Gibbons & Kawash, A.C.'s quality control program over the delivery of services to a client. He will consult with

the engagement team on accounting, auditing, and reporting matters including planning and risk assessment and provide technical expertise. He will be charged with reviewing the final report to evaluate the following criteria: clarity of presentation; adequacy of disclosures; and appropriateness of the accountant's report.

### ***Experience***

Bob has more than 30 years of experience in providing audit, tax, and consulting services to public sector entities, state agencies, nonprofit organizations, and local governments. His in-depth industry knowledge includes such areas as federal grant compliance, indirect cost reimbursement, employee benefit plan issues, and internal control and operational matters. His service to governmental entities includes the following:

- Kanawha County, West Virginia
- Kanawha Valley Regional Transportation Authority
- School Building Authority of West Virginia
- West Virginia Alcohol Beverage Control Administration
- West Virginia Board of Treasury Investments
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation
- West Virginia Drinking Water Treatment
- Revolving Loan Fund
- West Virginia Housing Development Fund
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Lottery Commission
- West Virginia Parkways, Economic Development and Tourism Authority
- West Virginia Solid Waste Management Board
- West Virginia Water Development Authority

### ***Professional Activities***

Bob is a member of the American Institute of Certified Public Accountants, West Virginia Society of Certified Public Accountants, and the Charleston Chapter of the West Virginia Society of CPAs. He is as a board member and past president of the South Charleston Rotary Club and a member of the South Charleston Chamber of Commerce.

### ***Education***

Bob graduated from West Virginia University with a Bachelor of Science degree in business administration.

### ***Continuing Professional Education***

Bob is in compliance with all applicable CPE requirements.



## APPENDIX B

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**Robert Henson, CPA**

**MANAGER**

304-345-8400 ph  
304-345-8451 fax  
rhenson@gandkcpas.com

### ***Engagement Responsibilities***

Rob will serve as audit manager responsible for, first and foremost, being present on-site throughout the course of the audit engagement; particularly in the audit planning process; ensuring that the day-to-day audit activities conform to our audit plan; coordinating and scheduling the activities of the audit team; and advising the engagement director of the status of the engagement, including any accounting and auditing problems.

### ***Experience***

Rob's professional experience during the past six years has included significant responsibilities providing audit, tax, and consulting services to numerous public sector entities. Rob has supervised and managed audits of several large state governmental entities, local governments, and nonprofit organizations. His service to governmental and nonprofit organizations includes the following:

- Alderson-Broaddus College
- Center for Neighborhood Enterprises
- Center for Rural Health Development, Inc.
- Human Resource Development Foundation
- Kanawha Hospice Care, Inc.
- Logan Mingo Area Mental Health, Inc.
- Region VI Planning and Development Council
- Westbrook Health Services, Inc.
- West Virginia Advocates, Inc.
- West Virginia Affordable Housing Trust Fund
- West Virginia Drinking Water Treatment Revolving Loan Fund
- West Virginia Housing Development Fund
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Jobs Investment Trust
- West Virginia Water Development Authority

### ***Professional Activities***

Rob is a member of the American Institute of Certified Public Accountants, the West Virginia Society of CPAs, and the Charleston Chapter of the West Virginia Society of CPAs.

### ***Education***

Rob graduated from Marshall University with a bachelor of science in business administration.

### ***Continuing Professional Education***

Rob is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Robert Alatis, CPA**

**SENIOR**

304-345-8400 ph  
304-345-8451 fax  
ralatis@gandkcpas.com

benefit plans.

### ***Engagement Responsibilities***

The staff auditor is responsible for conducting the detailed testing and the gathering of the audit evidence. Rob has over 4 years of audit experience, including audits of the CPRB and audits of employee benefit plans, including defined

### ***Experience***

During the last four years, Mr. Alatis' experience has included serving several nonprofit organizations and local and state governmental agencies, and retirement plans as follows:

- Central West Virginia Regional Airport Authority
- Kanawha County Commission
- Kanawha Valley Regional Transportation Authority
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Board of Treasury Investments
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation, Division of Highways
- West Virginia Department of Transportation
- Four employee benefit plans (not including the CPRB)

### ***Education***

Rob graduated from West Virginia University with a Bachelor of Science degree in business administration and a Master of Professional Accountancy.

### ***Continuing Professional Education***

Rob is in compliance with all applicable CPE requirements.

## APPENDIX B

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### **Jessica Simmons**

#### **STAFF**

304-345-8400 ph  
304-345-8451 fax  
jsimmons@gandkcpas.com

### ***Engagement Responsibilities***

The staff auditor is responsible for conducting the detailed testing and the gathering of the audit evidence. Jessica has 3 years of audit experience, including audits of the CPRB and audits of employee benefit plans, including defined benefit plans.

### ***Experience***

Ms. Simmons' experience has included serving several nonprofit organizations and local and state governmental agencies, and retirement plans as follows:

- Appalachian Bible College
- Capitol Market, Inc.
- Kanawha County Dental Health Council, Inc.
- Kanawha County Regional Development Authority
- Kanawha Valley Regional Transportation Authority
- Logan Mingo Area Mental Health, Inc.
- Nicholas Community Action Partnership, Inc.
- Westbrook Health Services, Inc.
- West Virginia Alcohol Beverage Control Administration
- West Virginia Board of Treasury Investments
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation, Division of Highways
- West Virginia Department of Transportation
- West Virginia Lottery Commission

### ***Education***

Jessica graduated from Marshall University with a Bachelor of Science degree in business administration.

### ***Continuing Professional Education***

Jessica is in compliance with all applicable CPE requirements.

## APPENDIX B

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### CONSULTING ACTUARIES



6500 River Place Boulevard  
Building 2, Suite 204  
Austin, Texas 78730  
Phone (512) 345-5200  
Toll Free (866) 480-RISK (7475)  
Fax (512) 346-1249  
[www.actrisk.com](http://www.actrisk.com)

#### **Frederick Bass, *Senior Retirement Benefit Actuarial Consultant***

Mr. Bass provides employee benefit consulting for ARM through Frederick Bass & Co., Inc., a firm specializing in compensation, benefits and actuarial consulting. Prior to his being with Frederick Bass & Co., Inc., Mr. Bass was associated with Bass Consultants, Inc. Prior to that, he was with Peat Marwick Mitchell & Co. (currently KPMG) where he was Principal-in-Charge of the Human Resources Consulting Practice for the Southwest, regional actuarial principal for the southwestern United States, and a member of that firm's Actuarial Practice Committee. Mr. Bass was also a Senior Vice President with a large mid-western financial organization and prior to that, Vice President and Actuary with a regional consulting firm.

He is a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary under the provisions of ERISA. He has spoken before the Society of Actuaries, the American Academy of Actuaries, the Risk & Insurance Management Society, Texas Society of CPA's and other organizations.

#### **Dan Homan, *Senior Retirement Benefit Actuarial Consultant***

Mr. Homan provides employee benefit consulting for ARM through Frederick Bass & Co., Inc. (FBCI), a firm specializing in compensation, benefits and actuarial consulting. He has over 25 years of experience in the actuarial industry. Prior to joining FBCI, he spent over 15 years at Wachovia Retirement Services in the actuarial department. Before that, he worked as a consulting actuary with A. Foster Higgins in their Pittsburgh, PA and Princeton, NJ offices. He also spent 20 months working for Hershey Foods Corporation as their Manager of Corporate Benefits.

Public sector plan clients in the last 5 years:

- Virginia Retirement System: plan actuary for 5 large state pension plans and 660 local pension plans, life insurance plan and retiree medical plan
- State of Virginia Line of Duty Plan: death, disability, and survivor benefit plan
- Valley View Regional Hospital, Ada OK: pension plan and retiree medical plan
- Norman Regional Hospital, Norman OK: pension plan
- University of Oklahoma and Oklahoma State University, part of the Oklahoma State Teachers Plan: special subdivision of State OTRS pension plan
- City of Roanoke, VA: pension plan
- Newnan Utilities, Newnan, GA: pension plan
- 57 GASB valuations for counties, schools, cities and governmental entities in Virginia, North Carolina, South Carolina and Delaware.

## APPENDIX C

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### EXTERNAL PEER REVIEW



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

### System Review Report

May 12, 2009

To the Partners of Gibbons & Kawash CPAs  
and the Peer Review Committee of the American Institute of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Gibbons and Kawash CPAs (the firm) applicable to non-SEC issuers in effect for the year ended February 28, 2009. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Gibbons & Kawash CPAs applicable to non-SEC issuers in effect for the year ended February 28, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Gibbons & Kawash CPAs has received a peer review rating of *pass*.

*Rea & Associates, Inc.*



## **APPENDIX D**

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### **ACTUARIAL RISK MANAGEMENT'S PRACTICE**

# **COMPREHENSIVE ACTUARIAL AUDIT SUPPORT PROPOSAL**

**To**



**For**

**STATE OF WEST VIRGINIA  
OFFICE OF INSURANCE COMMISSIONER**

**With Respect To**

**WORKERS COMPENSATION FUND**

**Charleston, West Virginia**

**May 29, 2012**

**Actuarial Risk Management**  
*An Independent Member of the BDO-USA Alliance*  
6500 River Place Boulevard  
Building 2, Suite 204  
Austin, TX 78730  
Phone: 512-345-5200  
Fax: 512-346-1249  
[www.actrisk.com](http://www.actrisk.com)



## Actuarial Services – WV Workers Compensation Fund

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## Actuarial Services – WV Workers Compensation Fund

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### Executive Summary

May 29, 2012

John D. Galloway  
Director  
Gibbons & Kawash, A.C.  
300 Chase Tower  
707 Virginia Street, East  
Charleston WV 25301  
Phone: 304.345.8400

Dear John:

Gibbons & Kawash, A.C. ("GK") is preparing a submission for audit services to the State of West Virginia's Office of Insurance Commissioner ("Department"). GK requires the engagement of an actuarial and risk management consulting firm to support GK's audit services as it relates to the Department's Workers Compensation Fund's liability ("WCF liability") at June 30, 2012, June 30, 2013, and June 30, 2014.

As we understand, ARM's role is to provide an independent actuarial evaluation of the WCF liabilities described within the Request for Proposal for Audit Services issued April 26, 2012 by the Department. ARM's role is to provide a limited scope, where our work is based on inquires and analyses of information made available to us in order to make sure that the financial statements are prepared in accordance with generally accepted accounting and actuarial principles. A full scope audit would require a parallel valuation, from start to finish, similar to the approach as the actuary preparing the underlying balance sheet values under review. ARM has the capacity and will, if necessary (discussed later in this proposal), perform an independent parallel valuation.

GK requires the actuarial firm have requisite skill-sets, audit support experience, and actuarial advisory services as it relates to governmental organizations, workers compensation risk programs, healthcare risk programs, and other related employee-employer risk programs (like OPEB, pension, etc.). GK and/or the Department may require non-audit support advisory services during the engagement, none of which are contemplated herein.

In response to your request, Actuarial Risk Management (ARM) is able to assemble a team of experienced professionals with the necessary capabilities and expertise, along with their respective supporting procedures and tools. Our proposal will be in form of a collaborative submission which builds off of the ARM business model. Since 2006, the ARM business model routinely brings highly skilled actuarial and risk management consultants to our clients. Our membership within the BDO Alliance, which also began in 2006, has ARM serving as the larger BDO family's pseudo-internal actuarial group that is prominently found within the Big-4 accounting firms. As a result of our relationship with BDO, ARM routinely supports corporate and public audits by bringing knowledgeable consultants to the audit engagement and respective audit team to ensure all facets of actuarial and risk management programs found within an entity are evaluated appropriately and consistently.

## Actuarial Services – WV Workers Compensation Fund

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Specific to this audit support engagement, ARM brings the following competitive advantages:

- Extensive experience with workers compensation programs and related actuarial techniques for reporting and managing such self-funded programs.
- The ARM team has provided audit support services to BDO offices across the U.S., including but not limited to the audits of private entities, where ARM has conducted independent reviews of 100+ self-insured workers compensation programs across all business and industries. Furthermore, ARM has supported an equally large audit practice for the collective BDO Alliance firms, like GK, who engage ARM to provide actuarial specialist support to their audit team for those governmental agencies with large workers compensation risk exposures (and other risk mitigating programs too).
- The ARM consultants have advised various workers compensation insurers on the pricing and management of their own workers compensation fully insured offerings to smaller business across the U.S.
- A wealth of knowledge gained from years of practice in: Pricing of Fully Insured Workers Compensation Plans, Premium Rate Filings, Mergers & Acquisitions / Due Diligence, Actuarial Valuations of Loss Estimates, Corporate Modeling, [e.g. *Financial Projections, Capital Planning (including Risk-Based Capital analysis), Market Segment Reporting, and Loss Reserving/Claims analysis*], and Expert Witness Testimony.
- Our team will include:
  - Charles "Chuck" Emma, FCAS, MAAA - a former casualty risk line leader at Deloitte, a former managing partner at a large regional actuarial consultancy, and active member of the American Academy of Actuaries' Casualty Risk Working Groups.
  - Sarah Petersen, FCAS, MAAA - a former senior actuary at a large multi-line casualty insurer.
  - Corwin Zass, ASA, MAAA, FCA – principal of ARM and a leading auditing actuary.
  - Each of the ARM actuarial consultants is qualified by US actuarial bodies and average 25+ years of actuarial experience.
- Our consultants have collectively worked on all sides of the workers' compensation spectrum, from private sector to public sector entities, like the Department, to those risk management regimes that balance fully funded to self-insured solutions to auditors.
- Personal, professional and efficient consulting style that reflects the decades of client experience for each of our senior consultants, many of whom held senior practice leader positions in large consultancies and/or related insurance and financial institutions; and
- The ability to provide tenured consultants and services at a competitive fee schedule.

This proposal provides you with information on our firm, our team's capabilities, and a proposed fee structure. We thank you for your consideration and look forward to working with you. If you have any questions about this proposal, or if we have misunderstood the scope of assignment, please contact us.

Best



Corwin Zass,  
Principal & Consulting Actuary



## Actuarial Services – WV Workers Compensation Fund

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CC: Harry Silverman, Chuck Emma

### **Overview of Services and Capabilities of Team**

The team assembled by ARM includes the Principal of ARM plus two tenured actuarial consultants who routinely work in concert with ARM on a multitude of actuarial engagements, both for BDO family firms, like GK, and in a wide range of projects, like financial reporting duties (claim liability) to loss reserving and funding initiatives. Our proposal leverages off the ARM business model – simply a collaboration philosophy between ARM and other ARM Network firms all of which come together to support ARM engagements. When appropriate for the engagement, ARM may tap specific and qualified experts within the ARM Network. We list below information on the core team and a brief listing of other available colleagues.

### **Actuarial Risk Management (ARM)**

Actuarial Risk Management has built a network of independent consulting firms that combine to rival the large national firms by picking an engagement team that solely relies on abilities and expertise regardless of geographical location. Many of the advisors and consultants have risen through the ranks of insurance company home offices, consulting firms, and large employers to hone their skills. This exceptional level of experience and knowledge enables our clients to gain more than the typical consultant offers. This experience is available to our clients in a very cost effective manner.

Since ARM's entrance into the BDO family in 2006, the ARM business model has provided exceptional services and support to BDO and their clients. When called upon, ARM can quickly tap additional resources, from leading experts in their fields to the necessary support staff, all of which combine to produce a high quality deliverable for our clients.

The ARM business model's mission is to help our clients maximize profits and mitigate risks at a cost that they can afford. Our actuarial and risk management experts provide our clients with a flexible hands-on partnership that covers all governmental risk sectors including employer related like workers compensation to employee focused like medical and retirement.

Since inception, the ARM Network has included more than a dozen core member firms with over 50 highly skilled consulting actuaries and risk experts averaging over 20 years of experience. The ARM business model also provides our clients access to a broad range of non-actuarial services, including, for example, credit risk management, banking, captive services, insurance operations, retirement administration, asset valuation experts, pharmacy benefit manager (PBM) specialists, health care cost specialists, and employee benefit strategists.

It is our ability to balance the technical and business skills that separate our team from others. Our services cover everything from providing general commentary about business & industry pressures on insurance programs to supplying valuable insight & comprehensive analysis of risk exposure and related mitigation techniques, and to the quantifying of appropriate levels of capital and reserving protocols. Our goal is to help organizations recognize and better manage risks emanated from their corporation, regardless of the risk. Whether a white paper concept or a proven competitor product, ARM will dissect products to identify ways of leveraging opportunities within the marketplace which can improve the likelihood of exceeding the objectives.

## Actuarial Services – WV Workers Compensation Fund

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### Core Team

#### **Charles C. "Chuck" Emma, FCAS, MAAA - Senior ARM Casualty Consultant**

Mr. Emma provides casualty-risk oriented consulting for ARM through his Managing Principal position within EVP Advisors, Inc., a firm specializing in actuarial-themed property & casualty risk advisory services. Mr. Emma brings over 25 years of actuarial experience in the casualty space.

Prior to EVP Advisors, Inc. Mr. Emma was a Director with Navigant Consulting, Inc. and a Principal and Consultant with Pinnacle Actuarial Resources, Inc. in its Chicago office. Prior to Pinnacle Mr. Emma was employed by Zurich American Insurance Companies and was a Senior Manager with Deloitte & Touche. Mr. Emma is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries. In 2006 he was elected to the Board of Directors of the American Academy of Actuaries.

#### **Sarah Petersen, FCAS, MAAA - Senior ARM Casualty Consultant**

Ms. Petersen has over 20 years of actuarial and managerial experience in property and casualty insurance, with particular expertise in reserving, pricing, profitability measurement and process improvement. Her specialties also include data analysis and manipulation, model design and communication. She has a strong commercial and personal lines rate filing background along with a great deal of reserving and forecasting experience. She works with a variety of insurance companies, self-insureds and law firms on actuarial, operational, strategic and legal matters. Ms. Petersen promotes the benefits of actuarial and quantitative analysis to non-actuarial personnel through conversation, work experience and training settings.

Before working in Corporate Actuarial, Ms. Petersen was a Senior Actuary managing the Workers Compensation and then Commercial Property areas. Her responsibilities included rate filing, reserving and forecasting activities that were used on a companywide basis. While in these areas, she fostered cooperation and relationships with the underwriters that improved the effectiveness of her teams.

#### **Corwin Zass, ASA, MAAA, FCA - ARM Principal & Consulting Actuary**

Mr. Zass guides his visionary business model to market through a cost-effective network allowing ARM the ability to deliver support and expertise to local, regional, national, and international clients. Mr. Zass blends a foundation of credentials and technical skills, via his extensive knowledge of actuarial science foundations of statistics, finance, and economics, with business common sense.

Over the years, Mr. Zass has consulted on a variety of assignments across the insurance and health care sector, including projects for fraternal, mutual, and stock insurance companies acting in the capacity as direct carriers and reinsurers. Mr. Zass, a trained insurance actuary, has aided various sized insurers on product management and corporate expansion while providing advisory skills revolving around longevity risk exposures which are central to healthcare, long term care, annuity, and pension sponsors. He previously held the position of chief actuary of a \$2b life and health insurance organization and since 2006 typically takes on the role of the auditing actuary for those accounting & audit engagements. Those audit engagements include numerous public sector programs.

## Actuarial Services – WV Workers Compensation Fund

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### Support Team and Other Available Resources

EVP Advisors, Inc. (EVP) brings additional staff to the engagement. EVP Advisors is an independent property/casualty insurance advisory firm that offers a broad range of consulting services to insurance companies, alternative markets, state insurance departments, legal firms and accounting firms. We serve clients across the country. EVP can support engagements in any location in the U.S.

EVP's actuarial consultants are experts in many property/casualty insurance matters which involve quantifying uncertain future events with areas of expertise covering loss reserving, evaluation of long tail liabilities, self-insured funding, annual reviews for captive insurers, product pricing and predictive modeling, and expert testimony in legal matters. EVP's professionals have a reputation for uncompromising professionalism, expertise and outstanding service to their clients. They come with a variety of backgrounds: actuarial, financial reporting and operations; and positions: consultants with large and mid-sized consulting firms and employees with insurance and reinsurance companies, and MGAs.

EVP is known for its deep expertise, personal delivery and strong communication skills. EVP provides casualty actuarial support to Actuarial Risk management and routinely works with firms within the BDO family. It was created in 2009 as the combined spin-offs of the insurance operations of Navigant Consulting, Inc. and the property and casualty actuarial operations of SMART Business Advisory and Consulting, LLC.

While the firm's name has been around only a short time, EVP represents a team comprised of several very seasoned and experienced actuarial consultants. Loss reserving is the fundamental area of specialty of EVP's practitioners.

### **Collective Experiences in the Workers Compensation Space**

Each professional assigned to the Department brings a unique skill-set that has some overlap but more importantly different perspectives on mitigating risks and reducing funding constraints on workers' compensation programs.

The ARM mission is simple, bring our clients, in a cost-effective manner, those sought after industry experts to design, manage, and report on workers' compensation programs. Although challenges may be similar, no two companies are exactly alike. Accessible and results-driven, our consultants ensure clients a flexible hands-on partnership to address all areas of the workers' compensation spectrum and other tangential employee benefits and compensation initiatives. Combined with the wealth of knowledge and industry expertise, our consultants continually earn the trust and respect of a growing number of public and private organizations.

ARM continually sees this business model flourish while regularly competing with those large national firms. The ARM Casualty actuarial team has supported extensively the BDO family while helping customers of all types navigate the increasingly complex and changing general insurance area. ARM's consultants provide a wide ranging set of advisory services, from price analysis, solvency and profitability assessments, loss reserves appropriateness, optimized reinsurance programs – from negotiations to structuring, effective self-insurance risk management programs, proper reserve transfer, along with insurance operational and distribution knowledge, and the cornerstones of successful casualty risk mitigation - strategic planning,

## Actuarial Services – WV Workers Compensation Fund

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financial modeling and reporting.

These project types plus our insurance / reinsurance litigation support makes ARM “the” full service firm for BDO, the BDO Alliance firms, like GK, and our many collective customers, including insurance and reinsurance companies and their boards, law firms, regulators, and self-insureds companies.

The ARM resource pool simply includes a pedigree of experts that cover from all perspectives all the casualty lines of business that undoubtedly brings solutions and results, all at a better price point than the large national firms.

### A Sample of Past Engagements

We illustrate a sample of past assignments in workers compensation, covering current and past projects:

- Provided loss reserve analyses on some 50 workers compensation (both monoline and multiline) insurance carriers
- Helped carriers with identifying optimal ceded reinsurance retentions
- Developed funding level indications and advised in sources of funding for many governmental workers compensation funds
- Provided economic valuations of workers compensation carriers which were targets for acquisition
- Provided financial risk guidance with alternative risk mechanisms for
- Engaged to provide funding analyses and optimization initiatives to current structures
- Support a major Managing General Agent in its evaluation of fronting carriers
- Provided audit support to audit firms with audit clients having workers compensation spectrum (insures, captives, self-insured programs. Reviewed 100+ WC self-insured programs. [ see below]

### Tools & Services

The ARM team has numerous actuarial and financial modeling tools specifically designed to facilitate the complex analyses required of effective workers’ compensation programs. We list a sample of such programs:

- Stochastic Risk Models for evaluation risk transfer properties of proposed reinsurance contracts
- Utilized advanced data analytics for the development of predictive models for workers compensation carriers
- Developed internal curve-fit models for the proper estimate of loss development tails for workers compensation insurance

### Audit Support Expertise

Given ARM’s relationship with BDO and the BDO Alliance firms, like GK, ARM routinely services as the actuarial technical expert for the audit team. In these audit support engagements, the following steps outline ARM’s process in reviewing an audit client’s actuarially themed loss estimates and insurance-like liabilities:

- Discuss with the Auditor the timeline / scope / expectations / deliverables of the assignment, including the preparation of at least one statement of work that may be executed by the parties that covers fees, hours, expenses and other items relevant to completing the assignment
- Review the current actuary’s report and support work (It is important the Audit Client provide ARM

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adequate information to understand the effects of any stop-loss or reinsurance risk transfer programs

- Compare results to prior year for consistency check and make an assessment on trends
- Where possible and relevant, we will assess and quantify the adequacy of the claim liability found in the prior year's audit financial statement – such review would include actuarial experience evolved / realized since that prior year's statement date (i.e. high-end hind-sight review)
- Determine what, if any, changes (systems, bases, approaches) made with the Audit Client since the last calendar fiscal year end which affects the computation of the liability
- Discuss with the Audit Client's internal and/or consulting actuary any problems, concerns, approaches they have prior to issuing our conclusion. Note, if ARM disagrees with the Audit Client's balance sheet amounts that are under this review, ARM and the Audit Partner will work together and discuss with the Audit Client the additional effort needed by ARM to independently develop and compute it's own set of estimates.
- Discuss with Audit Team the audit risks (segmented into data based, computations, reporting) for these liabilities
- Provide a limited scope report to the Audit team on the methods / approaches used in the development of the actuarially determined liabilities and the reasonableness of the results
- Include within this report, where necessary, recommendations to the Auditor for improvements, from current approaches, on the Audit Client's methods or processes involving the actuarial computations
- Amend, if necessary, the limited scope report following a review by the Audit Team
- Communicate with the Audit Partner throughout the assignment on findings, etc.

When relevant, it is important for the Audit Client to provide adequate information to ARM to understand the effects between risks held on their books and any risks transferred to a third-party.

### Caveats

ARM must caveat certain aspects of a review since the review is limited in nature. Specifically,

- ARM will rely on the sufficiency and reliability of data from the Audit Client and/or the Audit Team. Specifically, we assume we will not be auditing any of the data used in the development of the balance sheet items under this scope nor will we be performing the "ticking and tying" of the supporting work papers to the filed financial statements. We assume either of those tasks will be the responsibility of the Audit Team.
- In addition, with respect to the loss adjustment expense (LAE) the ARR report will provide commentary on whether the Audit Client made any provision for LAE, explicitly or implicitly, and whether it makes sense in comparison to industry and client experience. As in most audits, ARM will not perform any expense study to test the adequacy of the LAE levels.
- In the event the quality of the data, the lack of a qualified actuary, or if we disagree with the Audit Client's reserving methodology, position, or results then the fees would need revisiting to include additional man-hours to work with you and the Audit Client to understand and substantiate the differences but not before we discussed the circumstances with the Audit Partner. (discussed in the previous section)

In all these exceptions, our firm has the resources and expertise necessary to support you and the Audit Team to complete the audit support review.



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## Peer Review Standards

All ARM projects, and thus ARM consultants, must incorporate solid peer review standards where:

1. All client work is reviewed by a qualified peer before it is delivered to the client. The peer reviewer is responsible for the accuracy and reasonableness of the work provided.
2. The peer review process for each assignment is recorded in our time sheets noting the client's name, the description of the assignment and the time and date of the review.
3. Any disagreements between the consultant and the peer reviewer are resolved with the intervention of other senior consultants.
4. All new employees are trained on the peer review standards. Consultants understand that the author of the report and the peer reviewer are equally accountable for the accuracy and completeness of the work product.
5. All actuarial work products are performed in accordance with the Actuarial Standards of Practice (ASOPs) promulgated by Actuarial Standards Board. ASOPs are applicable to all members of the American Academy of Actuaries and the Society of Actuaries.

## Use of Information

GK agrees that ARM is entitled to rely upon all information supplied to it during the engagement and ARM shall not in any respect be responsible for the accuracy or completeness of any such information or have an obligation to verify the same. ARM hereby agrees that it will not disclose confidential information received from GK to others except as contemplated by this engagement or as such disclosure may be required by law. For purposes of this agreement, "confidential information" shall mean information provided by you to us that is not otherwise available to us from sources outside of GK (or its affiliates), and any such information shall cease to be confidential information when it becomes generally available, or comes to our attention, through other sources that do not, to our awareness at the time, involve a violation of this or any similar agreement.

## Client Services Approach

In all of our client relationships we appoint a senior consultant to serve as the key client contact. For this engagement, Cory Zass will serve as the point person given his leadership skills and project management focus that balance his technical abilities. This will result in mixing in the appropriate consultants and ensuring that all consultants involved with the client deliver first-class work on a timely basis.

## Professional Standards

We conduct our work on a best-efforts basis and we expect our results will meet your objectives. Professional personnel having the required skills, experience and competence will perform the work. In any event, our liability for damages, direct or consequential, resulting from this work will be limited to the amount paid for the assignment. We strictly adhere to the principles of professional actuarial bodies, including the standards promulgated by the Actuarial Standards Board.

## Specific Services

Audit support services, such as those requested under the RFP, must start with a sound understanding of the underlying risks resonating within the liabilities under the scope. We have taken the liberty to outline some nuances of loss estimates for some future unknown.

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Generally, an actuarial review includes such review of the actuarial assumptions, actuarial methods and the underlying basic records, and such tests of the actuarial calculations as considered necessary. As we discussed previously in this proposal, ARM must rely upon the accuracy of claims data listings and summaries provided by the Audit Client. ARM relied upon the testing of the completeness and accuracy of the claims listings by the Auditor. In the event that the information provided to ARM is not correct, the results of our review might change.

We understand our role in this review process is to report on the assumptions and procedures used by the Audit Client, primarily in the determination of its claims reserves. Where appropriate, we provide comments regarding the appropriateness of such reserve assumptions and procedures as compared to generally accepted actuarial principles.

ARM's consultants understand that simplistic models can provide some general guidance on loss estimates. However, the more robust average lag methods and hybrid methods in the hands of seasoned actuaries simply will produce better results with lower deviations from actual results once known.

One of the key concerns we recognize from discussions with prospective client are the frustrations created during the audit process as well as those "surprises" encountered during the once a year actuarial valuation process. As such, we tailored this proposal to demonstrate that the ARM staff supporting the Department deeply recognize these situations, which we believe are all too frequent. We believe in proactive management of risks, which means on-going communications to ensure no surprises. Additionally we provide very supportable and transparent methods and assumptions to ease the audit process and since we routinely wear the hat as the auditing actuary that we are well positioned to understand all sides of the fence.

As part of our evaluation, ARM will review the Department's historical loss development patterns and the internal workpapers and/or actuarial reports produced for the Department. Our review will provide the Audit Team with an assessment of the reasonableness of the estimates, the appropriateness of the assumptions used in the underlying methods employed in the development of the loss estimates. Where relevant, and appropriate, ARM will also provide a sense of reasonableness to industry norms of frequency and severity trends, loss cost trends, and any insight to the programs solvency.

Regardless if the scope of services is in audit support or explicit development of the loss estimates, ARM understands that there is no one single factors influencing the level of losses in workers' compensation programs, including but not limited to demographic s to employment, injury, medical conditions, and treatments. ARM and EVP believe that predictive modeling in the hands of qualified and experienced actuarial specialists simply aid in the efficient management of workers' compensation claim costs. Furthermore, organizations willing and able to implement effective medical management (focused treatment) will simply reduce medical costs and shortening the claims period.

The foundation of predictive modeling is the understanding of one's own experience, the need for high quality and reliable data is the cornerstone. The ability to construct then routinely validate bespoke claim forecasting models is the best means of having a barometer in place to shrink exposures.

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These reasons alone has ARM recognizing that traditional loss estimates rely on simplified techniques that produce simply estimates. Those entities open to sophisticated approaches will realize lower claim costs and manageable risk exposures. Understanding an organization's particular facts and circumstances (past vs. current environment) may be the most important assumption to specifically document prior to deciding on the most appropriate method for a specific claim analysis.

Most qualified actuaries recognize that estimates in general require some blend of "art and science" to produce such predictions. The facts and circumstances, and the actuary's background and actuarial judgment typically are difficult to test in longer tail programs. ARM does not submit the exact techniques and methods to use if selected for this engagement, rather, upon selection, ARM will conduct an initial review of existing IBNR methods to determine if such methods can be enhanced or refined beyond current approaches.

### Data Request

Depending upon the level of complexity of the self-insured program, our request list varies and will be formally furnished upon selection. A sample request list includes a complete historical (and detailed) claims register databases to spreadsheet formats of:

1. Payroll by year by year;
2. Paid Loss Triangles -- Cumulative paid loss and allocated loss adjustment expenses by accident period, and by evaluation date;
3. Reported Loss Triangles -- Cumulative paid loss and allocated loss adjustment expenses + related case reserves, by accident period and by evaluation date;
4. Claims Count Triangles -- Reported, open and closed claim counts by accident period at the reserve evaluation date;
5. Self insured retention by year;
6. List of individual losses with a current incurred value over the retention; and
7. A description of any changes in the Company's claims administrators, self-insurance program, or any other item that you believe would materially impact the Company's self-insured liabilities.

### Fee Proposal

As you might imagine, it is not possible to determine an exact amount of time required of us to complete the assignment given our lack of understanding of the program. Our professional fees vary according to each consultant's experiences and are found in the table below, which shows how our normal hourly rates, which ARM changes each summer, compare with our discounted hourly rates that form the basis of our proposed charges.

Category of ARM Consultants	Normal Hourly Rate	Discounted Hourly Rate
Senior Practice Leaders	\$575-625	\$400-450
Senior Consulting Actuaries & Risk Managers	\$375-500	\$275-350
Junior Consulting Actuaries & Risk Managers	\$275-400	\$200-250
Technical Support Staff	\$175-250	\$125-175

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### Audit Support - Professional Fees:

**Fiscal Year End (once per annum)** - ARM provides a not-to-exceed fee as a result of applying our discounted hourly rates, excluding direct expenses (travel), if required, or travel time. We produced the fees as a result of our understanding of this audit support scope; if we have misunderstood this scope, then the resulting fee estimates may indeed need to be revisited.

Maximum Fee: \$22,500 USD

The aforementioned fee estimates is solely for the June 30 fiscal yearend's independent development of the loss estimates by ARM. Each subsequent yearend will increase by the greater of (i) 5% or (ii) the Federal applicable cost of living adjustment; unless the underlying scope changes or the underlying program deviates from the program in place at the time of this RFP of which the entire fee estimate will be recomputed at such time.

### ***Parallel Process Loss Estimate Development:***

*For whatever reasons, if ARM must develop an independent range of loss estimates using data provided by the Department then ARM will charge an annual fee, subject to the aforementioned inflationary adjustment, not to exceed a set amount with the 2012 level being \$35,000 USD.*

We also note that this fee range does not include any internal control assessments, which can be handled by ARM albeit as a separate charge. Any other services are deemed outside this scope and can be developed and quoted on in a separate proposal.

## Conclusion

We fit our services to the needs of the clients rather than forcing the client to a particular approach or capability. Our team of consultants exceeds the traditional level of experience and will perform at the highest professional level. Our work is of the highest quality and we work with our client to exceed their expectations. Upon the start of the assignment we will routinely evaluate other needs beyond the primary scope of the assignment but will only do so upon approval of you. We provide a sample list of references on the next page of this proposal that can substantiate the quality of work and deliverables provided to each of those clients.

ARM believes this proposal overwhelmingly documents the strength of the ARM workers' compensation focused team along with our collective skills and tools that will serve the Department and make the audit process easier for GK.

We appreciate the opportunity as always.

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### References

Project Leader	Client	Contact	Work Scope	Email Address
Corwin Zass	BDO	William Eisig	Workers Compensation IBNR Audits (Public Sector)	<a href="mailto:weisig@bdo.com">weisig@bdo.com</a>
Corwin Zass	BDO	Steven Shill	Workers Compensation IBNR Audits (Hospitals)	<a href="mailto:sshill@bdo.com">sshill@bdo.com</a>
Chuck Emma	ReliaMax Insurance Company	Michael Van Erdewyk	Actuarial pricing, loss reserving, general strategy	<a href="mailto:mvanerdewyk@reliamax.com">mvanerdewyk@reliamax.com</a>
Chuck Emma	Midwest Insurance Co.	Max Carney	Actuarial pricing, loss reserving, general strategy	<a href="mailto:mcarney@midins.com">mcarney@midins.com</a>
Chuck Emma	Illinois Casualty Company	Arron Sutherland	Actuarial pricing, loss reserving, general strategy	<a href="mailto:arrons@ilcas.com">arrons@ilcas.com</a>
Chuck Emma	West Virginia Dept. of Environmental Protection	William Callahan	Actuarial review of Land Reclamation Bond Fund	<a href="#">NA</a>