

Proposal to Provide Annual Auditing Services

WORKFORCE West Virginia

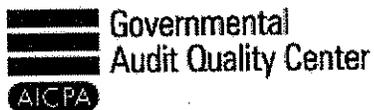
June 30, 2008

Buyer: 44  
RFQ Number: BEP08-064  
Bid Opening Date: May 15, 2008  
Bid Opening Time: 1:30 pm  
Firm Name: Gibbons & Kawash, CPAs  
Address: 300 Chase Tower  
707 Virginia St., East  
Charleston, WV 25301  
Telephone: 304-345-8400  
Fax: 304-345-8451  
Contacts: John D. Galloway  
Robert R. Denyer  
Robert E. Adams

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2008 MAY 15 P 1:13

PURCHASING DIVISION  
STATE OF WV



Gibbons  
& Kawash  
Certified Public Accountants

April 24, 2008

WORKFORCE West Virginia  
112 California Avenue  
Charleston, WV 25305-0112

We are pleased to present our credentials to provide professional auditing services to WORKFORCE West Virginia (the Agency). Gibbons & Kawash is a leader in providing services to state and local governments in West Virginia. As a client of our firm, you can be sure of our total commitment to provide timely, responsive and quality service.

We will perform an audit of WORKFORCE West Virginia's financial statements as of and for the year ended June 30, 2008, with the option of two additional 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. As described in Appendix B, we have committed an engagement team with extensive experience serving governmental and similar entities.

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 three 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, WORKFORCE West Virginia 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 WORKFORCE West Virginia in all respects.

Gibbons & Kawash (G&K) is one of only four auditing firms in West Virginia to have provided technical assistance and consulting services to State of West Virginia entities for the successful submission of a Comprehensive Annual Financial Report to receive the Certificate of Achievement for Excellence in Financial Reporting. We have assisted six component units with 29 successful submissions for the Certificate. Our experience with similar entities is further described on page 18 of this proposal.

We have structured this proposal to communicate Gibbons & Kawash's experience and qualifications to effectively and efficiently respond to the requirements and expectations of the Agency, and have made every effort to completely respond to all matters identified in your request for quotation. We would be pleased to meet with you and formally present our proposal upon your request. If you have any questions, please do not hesitate to contact me or Robert Denyer at 345-8400.

Very truly yours,

A handwritten signature in black ink, appearing to read 'John D. Galloway', written over a horizontal line.

John D. Galloway  
Partner

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

# Request for Quotation

RFO NUMBER  
 BEP08064

PAGE  
 1

ADDRESS CORRESPONDENCE TO ATTENTION OF:  
 FRANK WHITTAKER  
 304-558-2316

SUPPORT

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

SUPPORT

BUREAU OF EMPLOYMENT PROGRAMS  
 OFFICE OF ADMIN. SUPPORT-5302  
 112 CALIFORNIA AVENUE  
 CHARLESTON, WV  
 25305-0112 558-2634

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
04/10/2008				
BID OPENING DATE: 04/24/2008		BID OPENING TIME 01:30PM		

LINE	QUANTITY	UOP	CAT NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
0001	1	LS		946-20		
AUDITING SERVICES  THE WEST VIRGINIA PURCHASING DIVISION, FOR THE AGENCY, WORKFORCE WEST VIRGINIA, IS SOLICITING BIDS FROM QUALIFIED AND RESPONSIBLE VENDORS TO TO AWARD A CONTRACT FOR THE ANNUAL REVIEW OF THE AGENCY'S FINANCIAL RECORDS, PER THE FOLLOWING SPECIFICATIONS, SCOPE OF WORK, AND TERMS & CONDITIONS.  EXHIBIT 10  REQUISITION NO.: .....  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 ..... <i>[Signature]</i> NO. 2 ..... <i>[Signature]</i> NO. 3 ..... <i>[Signature]</i> NO. 4 ..... NO. 5 .....						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE <i>[Signature]</i>	TELEPHONE 304-345-8400	DATE 4/24/08
TITLE Shareholder	FEIN 55-0738985	ADDRESS CHANGES TO BE NOTED ABOVE

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



State of West Virginia  
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 304-558-2316

VENDOR

\*909132501 304-345-8400  
 GIBBONS & KAWASH  
 300 BANK ONE CENTER  
 707 VIRGINIA STREET EAST  
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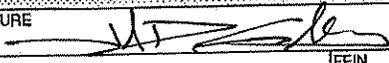
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<p>I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF BIDS.</p> <p>VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S 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.</p> <p style="text-align: center;">             .....            SIGNATURE            Gibbons &amp; Kawash, CPAs .....            COMPANY            April 24, 2008 .....            DATE         </p> <p>REV. 11/96</p> <p style="text-align: center;">VENDOR PREFERENCE CERTIFICATE</p> <p>CERTIFICATION AND APPLICATION* IS HEREBY MADE FOR PREFERENCE IN ACCORDANCE WITH WEST VIRGINIA CODE, 5A-3-37 (DOES NOT APPLY TO CONSTRUCTION CONTRACTS).</p> <p>A. APPLICATION IS MADE FOR 2.5% PREFERENCE FOR THE REASON CHECKED:</p> <p>( ) 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</p>						

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**BEP08064**

PAGE  
**3**

ADDRESS CORRESPONDENCE TO ATTENTION OF:  
**FRANK WHITTAKER**  
**304-558-2316**

VENDOR

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

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<p>( X ) BIDDER IS A PARTNERSHIP, ASSOCIATION OR CORPORATION RESIDENT VENDOR AND HAS MAINTAINED ITS HEAD-QUARTERS 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</p> <p>( ) BIDDER IS A CORPORATION 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.</p> <p>B. APPLICATION IS MADE FOR 2.5% PREFERENCE FOR THE REASON CHECKED:</p> <p>( X ) 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;</p> <p>OR</p> <p>( ) 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</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE 	TELEPHONE 304-345-8400	DATE 4/24/08
TITLE Shareholder	FEIN 55-0738985	ADDRESS CHANGES TO BE NOTED ABOVE

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PAGE
4

ADDRESS CORRESPONDENCE TO ATTENTION OF:
FRANK WHITTAKER 304-558-2316

VENDOR

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

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<p>OF ONE HUNDRED STATE RESIDENTS WHO CERTIFIES THAT, DURING THE LIFE OF THE CONTRACT, ON AVERAGE AT LEAST 75% OF THE EMPLOYEES OR BIDDERS' 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.</p> <p>BIDDER UNDERSTANDS IF THE SECRETARY OF TAX &amp; 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) RESCIND THE CONTRACT OR PURCHASE ORDER ISSUED; 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.</p> <p>BY SUBMISSION OF THIS CERTIFICATE, BIDDER AGREES TO DISCLOSE ANY REASONABLY REQUESTED INFORMATION TO THE PURCHASING DIVISION AND AUTHORIZES THE DEPARTMENT OF TAX AND 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.</p> <p>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.</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS			
SIGNATURE	TELEPHONE	DATE	
	304-345-8400	4/24/08	
TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE	
Shareholder	55-0738985		

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**BEP08064**

PAGE  
**5**

ADDRESS CORRESPONDENCE TO ATTENTION OF  
**FRANK WHITTAKER**  
**304-558-2316**

RODNEY

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

SHIP TO

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				BIDDER: <u>Gibbons &amp; Kawash, CPAs</u>		
				DATE: <u>April 24, 2008</u>		
				SIGNED: 		
				TITLE: <u>Shareholder</u>		
<p>* CHECK ANY COMBINATION OF PREFERENCE CONSIDERATION(S) IN EITHER "A" OR "B", OR BOTH "A" AND "B" WHICH YOU ARE ENTITLED TO RECEIVE. YOU MAY REQUEST UP TO THE MAXIMUM 5% PREFERENCE FOR BOTH "A" AND "B". (REV. 12/00)</p> <p>NOTICE</p> <p>A SIGNED BID MUST BE SUBMITTED TO:</p> <p>DEPARTMENT OF ADMINISTRATION          PURCHASING DIVISION          BUILDING 15          2019 WASHINGTON STREET, EAST          CHARLESTON, WV 25305-0130</p> <p>THE BID SHOULD CONTAIN THIS INFORMATION ON THE FACE OF THE ENVELOPE OR THE BID MAY NOT BE CONSIDERED:</p> <p>SEALED BID</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE 	TELEPHONE <b>304-345-8400</b>	DATE <b>4/24/08</b>
TITLE <b>Shareholder</b>	FEN <b>55-0738985</b>	ADDRESS CHANGES TO BE NOTED ABOVE

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# Request for Quotation

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PAGE  
**6**

ADDRESS CORRESPONDENCE TO ATTENTION OF  
**FRANK WHITTAKER  
 304-558-2316**

TO ORDER

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

SHIP TO

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LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
				<b>44</b>		
<b>BUYER:</b>				<b>BEP08064</b>		
<b>RFQ. NO.:</b>				<b>04/24/2008</b>		
<b>BID OPENING DATE:</b>				<b>1:30 PM</b>		
<b>BID OPENING TIME:</b>						
<p>PLEASE PROVIDE A FAX NUMBER IN CASE IT IS NECESSARY TO CONTACT YOU REGARDING YOUR BID:          304-345-8451</p> <hr/> <p>CONTACT PERSON (PLEASE PRINT CLEARLY):          John D. Galloway</p> <hr/>						
<p>***** THIS IS THE END OF RFQ BEP08064 ***** TOTAL:</p>						<p><b>\$58,200</b></p>

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE 	TELEPHONE 304-345-8400	DATE 4/24/08
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## **SPECIFIED ELEMENTS FOR REQUEST FOR QUOTATION**

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The *Government Auditing Standards* issued by the Comptroller General of the United States outlines requirements that must be met by certified public accounting firms that perform audits of governmental units. Three of these requirements are:

- Individual CPAs and CPA firms must be independent in fact and appearance from personal, external, and organizational impairments to independence.
- CPAs performing audits of governmental units should have continuing professional education in programs directly related to government auditing and accounting.
- CPAs performing audits of governmental units must establish an internal quality control review program and participate in an external peer review program for audits of governmental units.

### **INDEPENDENCE**

The credibility of the audit results is critical for oversight by the Agency and in meeting public expectations. Gibbons & Kawash 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 Agency, 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 Agency and State of West Virginia.

We will review the independence of all personnel within the firm assigned to this engagement to ensure that they are independent of the Agency and the State of West Virginia and its component units. Additionally, we will give the Agency written notice of any professional relationships entered into during the period of the agreement with any major contractors as defined in WV §29.22.23. We will also notify the Agency in writing if any other matters come to our attention during the engagement, which may impair our independence.

### **LICENSE TO PRACTICE IN WEST VIRGINIA**

All certified public accountants employed at Gibbons & Kawash are members of the AICPA, the West Virginia Society of CPAs, and are licensed to practice in West Virginia through the West Virginia Board of Accountancy.

### **GENERAL TERMS AND CONDITIONS**

Gibbons & Kawash is in good standing with the Unemployment Compensation Division of the State of West Virginia.

Gibbons & Kawash has no conflict of interest with regard to any other work performed by Gibbons & Kawash for the State of West Virginia.

Gibbons & Kawash's professional personnel have met all continuing professional education requirements.

## FIRM QUALIFICATIONS

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### GIBBONS & KAWASH'S PRACTICE

Gibbons & Kawash is a regional accounting corporation based in Charleston, West Virginia, with a staff of over 30 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'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 build its extensive governmental practice.

Gibbons & Kawash 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 18 State of West Virginia component units. Our experience during the past three years includes 41 audits of 15 State of West Virginia component units. These component units range in size up to \$3 billion in assets and \$1.6 billion in revenue.

### 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 seven senior auditors who have extensive experience serving government clients. The core engagement team for the audit of WORKFORCE West Virginia 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 WORKFORCE West Virginia is discussed in Section B.

### EXTERNAL QUALITY CONTROL REVIEW

Gibbons & Kawash 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 Accountants. The Center's 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

## FIRM QUALIFICATIONS

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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 Exhibit C. Their opinion was unqualified and **no letter of comment** was issued. This quality control review included governmental audit engagements.

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

### MEMBERSHIP IN ASSOCIATION OF ACCOUNTING FIRMS

Gibbons & Kawash is a member of CPAmerica International, an exclusive, worldwide association of independent, leading accounting firms founded to pursue and ensure excellence and quality in accounting, financial, and business consulting services. Membership requirements dictate that a firm must meet association standards of excellence in service, management competence, and all other aspects of practice. Members must commit to significant continuing investment on behalf of clients to provide the highest quality professional service.

This membership affords us access to outstanding audit, tax, and consulting professionals and their specialty niche expertise in over 50 major U.S. cities. CPAmerica International's international alliance partner is HORWATH International with over 90 firm members and 300 international affiliate offices located in countries around the world.

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

## FIRM QUALIFICATIONS

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### LITIGATION AND INSURANCE

Gibbons & Kawash 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 is available upon request.

### COMPUTERIZING THE AUDIT

Notebook computers are used by our auditors on every engagement to more efficiently complete a wide variety of audit activities. All staff members are permanently assigned a computer for completion of virtually every aspect of audit work. The benefit of this "computerization of the audit process," is that it enables our auditors to spend more time on judgment matters and in-depth analysis, rather than on "number crunching" and other mechanical aspects of auditing.

The Firm's commitment to "computerization of the audit process" is demonstrated by the following:

- Computer training is included in the initial training of all staff and continues throughout all levels.
- State-of-the-Art computer applications are used to analyze accounting data.

Some of the computer applications used by Gibbons & Kawash auditors include:

**Prosystems 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.

**Prosystems Engagement TB** - Prosystems Engagement TB allows the preparation of lead sheets and trial balances, allows flexibility in adapting to changes and expedites the gathering and processing of information. This program reduces the time needed to prepare schedules, trial balances, and related financial statement preparation.

**Smart E-Practice** - Allows the preparation of tailored audit programs for the various segments of audits in direct response to audit risks. Tailored general and specific audit programs will greatly increase audit effectiveness.

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

Other tools used in the audit process include:

A vast collection of templates used to accomplish various audit administrative tasks and common audit analyses and to expedite the confirmation and communication process.

Third party support products for spreadsheet applications, word processing, access to private and public data bases for accounting, tax research, and electronic mail.

## **FIRM QUALIFICATIONS**

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### **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 utilizes an experienced in-house information technology analyst to assist our experienced 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.

### **STATISTICAL AUDITING TECHNIQUES**

Gibbons & Kawash 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.

## **SERVICE APPROACH**

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Gibbons & Kawash understand that time and money are important concerns for our clients. We take these concerns seriously, and have designed our approach to yield a rate of return that is reflected in timeliness, effectiveness, and cost efficiency.

The following paragraphs describe some of the most significant elements of the Gibbons & Kawash service approach.

### **A SERVICE PHILOSOPHY BASED ON VALUE**

We reject the notion that our service is just a commodity. First and foremost, we are in business to serve our clients, to help them solve their problems, achieve their objectives, and to make a solid contribution to their success. Our people work to identify and respond to our clients' needs. We believe that in the course of conducting an engagement, your accounting firm should generate information and develop insights that, in the hands of professionals who combine competence with judgment, maturity, and creativity, will result in greater efficiencies and procedures. It is this value-added philosophy to client service that has molded our approach to engagement management and distinguishes us from other firms.

### **CLEAR COMMUNICATION**

We value the candid exchange of ideas and opinions with our clients, and we strive to maintain an open door with management and WORKFORCE West Virginia. From our initial planning meeting to our final exit conference, communication is perhaps the most important tool for maximizing efficiency and effectiveness. Our key team members will meet with management during the engagement to keep you apprised of our progress, to discuss any issues that may arise, and to solicit feedback regarding our performance. We also encourage contact throughout the year, and your client service team will be ready to consult with you any time you have a question. To demonstrate this commitment to meaningful dialogue, we do not bill for brief phone calls throughout the year. Of course, if a question requires extensive research, we will let you know and arrive at a fee estimate in advance.

### **EMPHASIS ON PLANNING**

We recognize that every engagement is unique. Effective and thorough planning is the key to ensuring that our approach is tailored to meet your specific needs and is the cornerstone of successful engagement management. Our comprehensive planning process includes interviewing key employees, reviewing systems documentation, and analyzing preliminary financial records for relational activity. Our goal here is to get beyond the numbers, to develop a clear understanding of your grant program, your goals and objectives, and the environment in which you operate. From this understanding emerges a written plan which are road maps used by the engagement team to execute field work.

### **STAFFING CONTINUITY**

Over the years, we have heard a number of prospective clients raise questions about accounting staff turnover and scheduling policies. We understand their apprehension.

Our staffing and scheduling policies have historically been very successful in maximizing team continuity from year to year. Effective staff recruiting and retention is a top priority for our firm, because we realize that our most valuable investment is our people. We recruit only those who have achieved a high academic standing and have demonstrated commitment, ambition, and leadership skills, and offer them a

## SERVICE APPROACH

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### STAFFING CONTINUITY (Continued)

proactive approach to staff development that includes a mentoring program, comprehensive training at every level, and performance evaluations after every significant engagement.

We view continuity of engagement teams to be in the best interest of the Firm and our clients. Staff repetition enhances effectiveness and efficiency, and is our guiding principle in scheduling. When personnel changes are unavoidable, the depth of our pool of experienced public sector professionals gives us the ability to select a replacement with relevant experience.

## **PARTNER AND SUPERVISORY STAFF QUALIFICATIONS AND EXPERIENCE**

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### **ENGAGEMENT TEAM**

The ultimate quality of our professional services to WORKFORCE West Virginia 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. **Gibbons & Kawash's managing Partner is Stephen E. Kawash and he can be reached by phone at (304) 345-8400 or email at [skawash@gandkepas.com](mailto:skawash@gandkepas.com).**

Your client service team will include:

#### **Engagement Partner**

John D. Galloway, CPA, is an audit partner in Gibbons & Kawash's audit practice with 14 years of specialized audit experience with governmental entities and OMB Circular A-133 audits. John will serve as the engagement partner 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 WORKFORCE West Virginia throughout the engagement to ensure that services and resources are provided to the Agency 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 partner on six 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 16 successful submissions under the GFOA's Certificate of Achievement program.

#### **Independent Review Partner**

Robert R. Denyer, CPA, a partner with Gibbons & Kawash with 30 years experience in serving governmental clients, will serve as independent review partner. The role of the independent review partner is an essential element of Gibbons & Kawash'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 21 successful submissions for the certificate. His extensive experience with State of West Virginia entities will be of substantial benefit on this engagement.

#### **Audit Manager**

Robert E. Adams, CPA, is an audit manager with 11 years of experience. He currently manages audits of seven State of West Virginia component units, including the five enterprise funds, 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 9 successful submissions under the GFOA's Certificate of Achievement program.

See **Appendix B** for resumes of our client service team.

## SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENTAL ENTITIES

Engagements performed in the last five years that are similar to WORKFORCE West Virginia are as follows:

	<u>Scope of Work</u>	<u>Years Served</u>	<u>Engagement Partner</u>	<u>Principal Client Contact</u>	<u>Phone Number</u>
West Virginia Parkways, Economic Development and Tourism Authority	GAS	2007, 2006, 2005, 2004, 2003	John D. Galloway	Greg Barr	926-1900
West Virginia Housing Development Fund	GAS/OMB - A133	2007, 2006, 2005	John D. Galloway	Erica Boggess	345-6475
West Virginia Consolidated Public Retirement Board	GAS	2007, 2006, 2005	John D. Galloway	Terasa Miller	558-3570
West Virginia Regional Jail and Correctional Facility Authority	GAS	2007, 2006, 2005, 2004, 2003	John D. Galloway	Tony Davis	558-2110
West Virginia Board of Treasury Investments	GAS	2007, 2006	Robert R. Denyer	Glenda Probst	340-1578
West Virginia Infrastructure and Jobs Development Council	GAS	2007, 2006, 2005, 2004, 2003	Robert R. Denyer	Barbara Meadows	558-3612
West Virginia Water Development Authority	GAS	2007, 2006, 2005, 2004, 2003	Robert R. Denyer	Barbara Meadows	558-3612
West Virginia Drinking Water Treatment Revolving Loan Fund	GAS/OMB - A133	2007, 2006, 2005, 2004, 2003	Robert R. Denyer	Barbara Meadows	558-3612
West Virginia Water Pollution Control Fund	GAS/OMB - A133	2006, 2005, 2004, 2003	Robert R. Denyer	Ramona Dickson	926-0440
West Virginia Racing Commission	GAS	2007, 2006, 2005, 2004, 2003	John D. Galloway	Linda Lacy	558-2150
West Virginia Jobs Investment Trust	GAS	2007, 2006, 2005, 2004, 2003	John D. Galloway	Richard Ross	345-6200
West Virginia Solid Waste Management Board	GAS	2007, 2006, 2005, 2004, 2003	Robert R. Denyer	Dick Cooke	926-0448
School Building Authority of West Virginia	GAS	2007, 2006, 2005, 2004, 2003	John D. Galloway	Garry Stewart	558-2541
West Virginia Lottery	GAS	2007, 2006, 2005, 2004, 2003	Robert R. Denyer	Jim Toney	558-0500
West Virginia Economic Development Authority	GAS	2005, 2004, 2003	Robert R. Denyer	David Warner	558-3650

## SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENTAL ENTITIES

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Gibbons & Kawash 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 (8)
- West Virginia Parkways, Economic Development and Tourism Authority (7)
- West Virginia Lottery (8)
- West Virginia Prepaid College Tuition Fund (1)
- West Virginia Housing Development Fund (3)
- West Virginia Board of Treasury Investments (2)

## AUDIT APPROACH

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### REQUIREMENTS OF THE ENGAGEMENT

Gibbons & Kawash will perform for WORKFORCE West Virginia (the Agency) the professional auditing services required by the request for quotation thereto. Specifically these services will consist of an independent audit of its financial statements and records as it relates to assets, liabilities, receipts, disbursements, contracts, and other matters concerning its financial operations; and annual financial and compliance audits in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, for the fiscal year ending June 30, 2008, with options to renew for two additional years.

Gibbons & Kawash will perform the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in the Government Accountability Office's (GAO) *Government Auditing Standards (2003 revision)*, and other applicable laws, rules, regulations and policies.

### REPORTS TO BE ISSUED

Gibbons & Kawash will express an opinion on the financial statements based on our audit procedures performed in accordance with all applicable auditing standards. We will also prepare a report on internal control and compliance as required by *Government Auditing Standards*.

In the required reports on compliance and internal controls, we will communicate any significant deficiencies found during the audit. Significant deficiencies that are also material weaknesses shall be identified as such in the report. Other control deficiencies identified by the auditor shall be reported in a separate letter to management, which shall be referred to in the reports on compliance and internal controls.

The reports on compliance and internal controls will include all material instances of noncompliance. 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.

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 to the Agency of any fraud and illegal acts of which we become aware.

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 Agency in the management letter.

## AUDIT APPROACH

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Reporting to those Charged with Governance. We will discuss and inform those charged with governance of each of the following areas, as applicable before and after the audit:

- Discussion of risk and its effect on materiality in conducting an audit
- The auditors' responsibility under generally accepted auditing standards
- Significant accounting policies
- The qualitative and quantitative factors included in financial statements and disclosures
- Management judgments and accounting estimates and projections
- Significant audit adjustments and significant revisions of past and current estimates and projections
- Other information in documents containing audited financial statements and/or estimates and projections
- Disagreements with management
- Consultation with other accountants and actuaries
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit
- Communication of identified significant deficiencies and material weaknesses

### WORKING PAPER RETENTION AND ACCESS TO WORKING PAPERS

All working papers and reports will be retained, at our expense, for a minimum of five years, unless we are notified in writing by the Agency 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 significance.

### TIMING

Upon notification of our successful proposal we will schedule our services to comply with your reporting deadline. We will schedule an entrance conference, risk planning, and meetings with those charged with governance prior to the commencement of field work, to describe the audit plan and schedule of audit events.

## AUDIT APPROACH

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### OVERVIEW

We will audit the financial statements of WORKFORCE West Virginia as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with our audits, we will also prepare a management letter which contains our comments and recommendations regarding opportunities for strengthening internal control and improving operational performance and will prepared all required schedules and in relation reporting necessary to comply with the state of West Virginia's Financial Accounting and Reporting Section requirements.

### AUDIT OBJECTIVES AND REPORTING

The objective of our audits is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The objective also includes reporting on:

Internal control over financial reporting and compliance with laws, regulations, provisions of contracts or grant agreements, and other matters of noncompliance with which could have a direct and material effect on the financial statements in accordance with *Government Auditing Standards*.

### 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 assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

### AUDIT PROCEDURES - INTERNAL CONTROL

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the Agency's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an

## AUDIT APPROACH

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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 control deficiencies. However, we will inform the Authority of any matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls.

We will also inform you of any immaterial instances of noncompliance or other matters involving internal control, if any, as required by *Governmental Auditing Standards*.

### AUDIT PROCEDURES - COMPLIANCE

Our audit will be conducted in accordance with the standards referred to in the section entitled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Agency's compliance with applicable laws and regulations and the provisions of contracts and grant agreements, and other matters. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### PHASES OF THE AUDIT

Our audit approach in performing the Agency'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.

## AUDIT APPROACH

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

A comprehensive planning and risk assessment process is an important cornerstone of adapting our audit approach to the Agency. Effective and thorough risk assessment allows for the early identification and resolution of audit issues. It also requires the auditor to become familiar with business risks and operational issues that could affect financial reporting. We would expect to incorporate appropriate management and other accounting and operational personnel in our planning and risk assessment activities related to consideration of business, reporting, and fraud risks.

#### 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 Agency 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 changes due to circumstances such as the following:

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

## AUDIT APPROACH

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We will obtain sufficient knowledge of the Agency'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 Agency'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. Application 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 Agency'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 Agency's operations that are significant to the financial statements.
- 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.

## AUDIT APPROACH

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- 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 Agency, 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

#### Applications Controls

- Input controls
- Processing controls
- Output controls
- Security

## AUDIT APPROACH

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### *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.

### *Planning Analysis*

An analytical review of the Agency's preliminary account balances will then be performed. We will identify accounts and information streams that are significant and which may require particular attention, as a result of our understanding of business risks, operational risks, understanding of controls, and fraud risks identified.

### *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 Agency 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 Agency.

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 Agency. 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

## AUDIT APPROACH

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to high. The audit tools used in each audit area will be matched against the specific audit risks of that area.

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.

### *Development of Tailored Audit Programs*

Upon completion of obtaining our understanding of the internal controls and all related risks of the Agency, we will develop audit programs for each audit area and transaction class that may be material to the Agency's financial statements, pose increased risk of noncompliance with laws and regulations, abuse, or has been identified as an area of concern by management. Our audit programs contain detailed audit procedures which are developed to achieve specific audit objectives in obtaining sufficient evidential matter to allow us to form an opinion over the financial statements of the Agency.

### *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.

### **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 Agency. Assessment of the control environment will give us a general indication of the extent of reliance on the Agency'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 Agency.

### **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 Agency'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 approaches 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 Agency personnel.

## AUDIT APPROACH

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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 contract documentation and approvals, predictive analytical tests and fluctuation analysis, for example.

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 Board members and management regarding the nature and scope of the noncompliance or abuse before modifying our audit approach.

### **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. 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 Agency. This letter would be in preliminary draft form to obtain your comments before any final draft is released.

## AUDIT APPROACH

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### *Approach for Determining Laws and Regulations that will be Subject to Audit*

We will determine the laws and regulations that will be tested through inquiry of management, inquiry of the Agency's legal counsel, and review of the West Virginia Code, the Agency' enabling legislation, and other regulatory or statutes that may apply.

### *Certification of Signatory of Proposal*

John D. Galloway is entitled to represent the firm of Gibbons & Kawash and is empowered to submit this proposal/bid and is authorized to sign a contract with the Agency.

## **APPENDIX A**

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**COST BID**

## APPENDIX A

### COST QUOTE FOR AUDIT SERVICES

<u>Classification</u>	<u>Estimated Hours</u>		<u>Hourly Rate</u>	<u>Cost</u>
Partner	60	X	\$ 145	\$ 8,700
Manager	75	X	125	9,375
Supervisor	85	X	110	9,350
Seniors	163	X	100	16,300
Staff	150	X	80	12,000
Clerical	15	X	55	825
Other (IT Analyst)	15	X	110	<u>1,650</u>
Total all-inclusive fee, per year				<u>\$ 58,200</u>

### COST QUOTE FOR ADDITIONAL ACCOUNTING AND AUDITING CONSULTING SERVICES

<u>Classification</u>	<u>Hourly Rate</u>
Partner	\$ 145
Manager	125
Supervisor	110
Seniors	100
Staff	80
Clerical	55
Other (IT Analyst)	110

All hourly rates must include travel and out-of-pocket expenses.

## **APPENDIX B**

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### **PARTNER AND SUPERVISORY STAFF QUALIFICATIONS AND EXPERIENCE**

## APPENDIX B

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### **PARTNER**

**John D. Galloway, CPA**

#### *Experience*

John's experience during the last 14 years has included managerial responsibility for numerous nonprofit and governmental engagements. His experience includes assisting two entities with 16 successful submissions for the Certificate of Achievement for Excellence in Financial Reporting. His public sector clients have included:

- City of Charleston, West Virginia
- Kanawha County, West Virginia
- Mid-Ohio Valley Regional Planning and Development Council
- School Building Authority of West Virginia
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation
- West Virginia Economic Development Authority
- 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 Regional Jail and Correctional Facility Authority
- West Virginia State Rail Authority
- West Virginia Racing Commission

#### *Professional Activities*

John is a member of the American Institute of Certified Public Accountants, the West Virginia Society of Certified Public Accountants, the Government Finance Officers Association, and serves on the board of the Charleston Chapter of the West Virginia Society of CPAs.

#### *Education*

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

#### *Continuing Professional Education*

John is in compliance with all applicable CPE requirements.

## APPENDIX B

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### PARTNER

**Robert R. Denyer, CPA**

#### *Experience*

Bob has 30 years of experience in providing audit, tax, and consulting services to public sector entities, including state agencies, local governments and nonprofit organizations. His in-depth industry knowledge includes such areas as governmental financial reporting, federal grant compliance, indirect cost reimbursement, and internal control and operational matters. Bob's government financial reporting expertise has been demonstrated by his involvement with 25 successful submissions to the Government Finance Officer Association under the Certificate of Achievement for Excellence in Financial Reporting Program. His service to public sector entities includes the following:

- City of Charleston
- Kanawha County, West Virginia
- Kanawha Valley Regional Transportation Authority
- Marion County, West Virginia
- School Building Authority of West Virginia
- West Virginia Bureau of Employment Programs
- West Virginia Consolidated Public Retirement Board
- West Virginia Department of Transportation
- West Virginia Drinking Water Treatment Revolving Loan Fund
- West Virginia Economic Development Authority
- West Virginia Educational Broadcasting Authority
- West Virginia Housing Development Fund
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Lottery
- West Virginia Parkways, Economic Development and Tourism Authority
- West Virginia Regional Jail and Correctional Facility Authority
- West Virginia Racing Commission
- West Virginia Solid Waste Management Board
- West Virginia State Rail Authority
- West Virginia Water Development Authority
- West Virginia Water Pollution Control Revolving Fund
- West Virginia Board of Treasury Investments

#### *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.

Bob is 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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### MANAGER

**Robert E. Adams, CPA**

#### *Experience*

Rob's professional experience during the last 11 years has included auditing and managerial responsibilities for numerous nonprofit and public sector entities as follows:

- City of Charleston
- Kanawha County, West Virginia
- Kanawha Valley Regional Transportation Authority
- West Virginia Drinking Water Treatment Revolving Loan Fund
- West Virginia Economic Development Authority
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Jobs Investment Trust
- West Virginia Lottery
- West Virginia Board of Treasury Investments
- West Virginia Regional Jail and Correctional Facility Authority
- West Virginia Solid Waste Management Board
- West Virginia Water Development Authority
- West Virginia Water Pollution Control Revolving Fund

#### *Professional Activities*

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

#### *Education*

Rob graduated from West Virginia Wesleyan College with a bachelor of business administration in accounting.

#### *Continuing Professional Education*

Rob is in compliance with all applicable CPE requirements.

## **APPENDIX C**

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### **EXTERNAL PEER REVIEW**

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

132 South Fourth Street  
Marietta, OH 45750-3208  
PH 740-373-7423  
FAX 740-373-7492  
www.reacpa.com

*We're Ready For Your Future*

November 30, 2006

To the Partners of  
Gibbons & Kawash  
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Gibbons & Kawash (the firm) applicable to non-SEC issuers in effect for the year ended February 28, 2006. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Gibbons & Kawash in effect for the year ended February 28, 2006, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

*Rea & Associates, Inc.*

## **APPENDIX D**

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### **QUALITY CONTROL DOCUMENT**

## APPENDIX A

### GIBBONS & KAWASH, A.C. QUALITY CONTROL DOCUMENT Amended December 31, 2004

The firm's quality control policies and procedures for the five elements of quality control are presented on the following pages. All employees and members of the firm are responsible for understanding, implementing, and adhering to these policies and procedures.

The firm is a member of the AICPA Governmental Audit Quality Center (Center) and the AICPA Employee Benefit Plan Audit Quality Center (Center) and has agreed to establish policies and procedures specific to the firm's governmental audit practice (as defined in the membership requirements) and its ERISA employee benefit plan practice to comply with the applicable professional standards and the membership requirements of the respective Centers. These policies and procedures are documented and communicated by this document.

As required by the membership requirements of the respective Centers, it is the policy of the firm that all eligible audit partners be members of the AICPA. It is the responsibility of the managing partner that each audit partner be advised annually that AICPA membership is mandatory. Also, as required by the membership requirements of the respective Centers, the managing partner annually designates an audit partner to assume firm-wide responsibility for the quality of the firm's governmental audit practice and an audit partner to assume firm-wide responsibility for the Firm's ERISA employee benefit plan audit practice.

Any questions, concerns, or recommendations about our quality control system should be communicated to the managing partner.

#### I. INDEPENDENCE, INTEGRITY, AND OBJECTIVITY

It is the policy of our firm that all professional personnel be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, the State of West Virginia Board of Accountancy, the West Society of CPAs, and state statutes. Furthermore, it is the policy of this firm that, for engagements that are subject to the rules of the Public Company Accounting Oversight Board (PCAOB), the U.S. Department of Labor, or *Government Auditing Standards*, all professional personnel be familiar with and adhere to the independence rules of those entities and that personnel will always act in the public interest. In this regard, any transaction, event, circumstance, or action that would impair the firm's independence or violate its integrity and objectivity policy, on a compilation, review, audit, forecast, projection, attestation or consulting engagement is prohibited. Although not necessarily all-inclusive, the following are considered to be prohibited.

- a. Investments by any partner or professional employee in a client's business during the period of a professional engagement.

- b. An investment in an entity or property by any of the following individuals and the client (or the clients officers or directors, or any owner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property:
- (1) An individual on an attest engagement team (including an audit; SSARS review; or examination, review, or agreed-upon procedures under the AICPA attestation standards).
  - (2) An individual in a position to influence the attest engagement by doing any of the following:
    - (a) evaluating the performance or recommending the compensation of the attest engagement owner,
    - (b) directly supervising or managing the attest engagement owner and all of that owner's superiors,
    - (c) consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or
    - (d) participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
  - (3) An owner or manager who provides nonattest services to the attest client beginning once he provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
    - (a) the firm signs the report on the financial statements for the fiscal year during which those services were provided or
    - (b) he no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
  - (4) An owner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
- c. Borrowing from or loans to a client, or client's personnel, during a period of a professional engagement by any of the individuals listed in items b (1)-(4).
- d. Accepting cash or gifts from a client (with the exception of noncash token Christmas gifts of nominal value).
- e. Certain family relationships between professional personnel and client personnel. (Consult the managing partner for a ruling on these).

Notwithstanding the preceding policy and list of prohibited transactions, at the managing partner's discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional literature.

The procedures listed below are followed to ensure compliance with this policy:

1. All professional personnel are required to complete independence training that covers the firm's independence policies and procedures shortly after their employment and periodically thereafter. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's independence, integrity, and objectivity policy and procedures.
2. All professional personnel are required to notify the managing partner of any potential prohibited transaction or violation of an independence, integrity, or objectivity rule as soon as they become aware of such a situation. To acknowledge that responsibility, all professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list situations they know of that could impair independence or that violate the Firm's integrity and objectivity policy. (The firm library contains the authoritative rules on independence, integrity, and objectivity that govern our firm. That literature and the advice of the managing partner should be consulted when an employee is not sure if a transaction, event, circumstance, or action should be reported.)
3. All professional personnel are required to review the firm's client list annually for possible violations. All professional personnel are also required to review the client list before they and their spouses or dependents enter into financial transactions or relationships, including those listed in the firm's independence, integrity, and objectivity policy, to determine if the entity is on the list. The list of clients is accessible by each employee from the time and billing system and additions to the list are communicated by the office manager as they occur..
4. If our firm is engaged as principal auditor and another firm is engaged to audit a subsidiary, branch, division, governmental component unit, or to perform procedures on an element or account grouping within a client's financial statement, the engagement team is required to obtain a written representation regarding the other firm's independence with respect to our client. The auditing manuals used by the firm contain examples of representation letters used in such situations. Furthermore, in a review forecast, projection, or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by our firm contain steps to ensure compliance with this procedure.

5. The engagement partner has the primary responsibility for determining if there are unpaid fees on any of his clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement partner's knowledge of any unbilled fees should be considered in making this determination. In addition, the managing partner has the secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
6. The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client [including services performed by entities closely aligned through common employment] and for determining if such nonattest services impair independence with respect to that client. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules of the PCAOB, U.S. DOL, and *Government Auditing Standards* for ongoing, planned, and future audits. Firm engagement work programs for all attest, as well as compilation, engagements; include steps to ensure compliance with this procedure.
7. The managing partner is responsible for obtaining the representation letters, reviewing for completeness, and for resolving questions relating to independence, integrity, and objectivity matters and is available to provide guidance. In so doing, the managing partner should, when necessary, consult the AICPA or the WV Society of CPA's for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of an independence, integrity, and objectivity matter should be filed in the client's permanent workpaper files. The managing partner is also responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, additional training, reprimand letter or termination.
8. The managing partner is also responsible for monitoring the firm's independence of attest clients at which owners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.
9. To ensure that independence is properly considered at the engagement level, the work programs and standard forms in the accounting and auditing manuals used by the firm contain steps that require a determination of independence on each new and recurring client. Furthermore, these manuals contain reporting guidance for those types of engagements where a lack of independence is allowed.

10. At least annually, the quality control director reviews our independence, integrity, and objectivity policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

## II. PERSONNEL MANAGEMENT

### A. Hiring

It is the policy of our firm that hiring decisions for our professional staff be based on an objective evaluation of our personnel needs, that hirees possess the appropriate characteristics to perform competently, and that new employees be adequately informed of the firm's policies and procedures. The procedures listed below are followed to ensure compliance with this policy:

1. Annually, the partners assess the personnel needs of our professional staff by considering, among other things, criteria such as our current clientele, anticipated growth, personnel turnover, individual advancement, current staff workload, quality of life, and retirement.
2. In fulfilling our hiring plans, we seek to employ individuals with high levels of intelligence, integrity, motivation, and aptitude. In this regard, we normally hire college graduates whose academic training will enable them to take the CPA exam. However, we will hire paraprofessionals who do not possess a college degree, but whose accounting experience and personal qualifications indicate a likelihood of adequate abilities.
3. Determination of the techniques to be used to recruit potential hirees and actual employment decisions will be made by the partners. Other personnel who are involved in the hiring process will be informed of the techniques to be used.
4. When evaluating a prospective employee, we consider, among other things, an individual's grade point average, college course concentration in accounting and related courses, personal achievements, work experience, and personal interests. The degree to which college transcripts, work references, and other qualifications are investigated is left to the discretion of the partner, the true test being the individual's performance under the supervision of a competent employee.
5. The firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.
6. At least annually, the quality control coordinator reviews our hiring policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

## B. Assigning of Personnel

It is the policy of our firm that personnel (including partners) be assigned to engagements in an objective manner to achieve a proper blend of competencies, supervision, staff utilization, staff on-the-job training, and client satisfaction. The procedures listed below are followed to ensure compliance with this policy:

1. Periodically, the partners assess the competencies that partners (or other persons) who are responsible for supervising attest engagements and signing (or authorizing other individuals to sign) attest engagement reports should possess. This assessment includes:
  - a. An understanding of the firm's system of quality control and the *Code of Professional Conduct*.
  - b. An understanding of the performance, supervision, and reporting standards at the level of service to be provided (i.e., audit, review, and compilation).
  - c. An understanding of the applicable accounting, auditing, and attestation professional standards, including those directly related to any special industries.
  - d. An understanding of applicable industries and each industry's organization and operating characteristics sufficient to identify high or unusual risk areas and to evaluate the reasonableness of industry-specific estimates.
  - e. Proficiency and seasoned judgment in discharging assigned responsibilities.
  - f. When applicable, an understanding of how an organization is dependent on or enabled by information technologies and how the information technology systems are used to record and maintain financial information.
2. Periodically, the partners assess the staffing (including partner assignments) requirements of each client and develop a partner and staff assignments plan. Any considerations that emerge from this assessment that affect the hiring plans of the firm are communicated to those responsible for hiring. In making assignments, consideration is given to factors such as:
  - a. The engagement type, size, significance, complexity, and risk profile.
  - b. Special expertise and experience required for the engagement (familiarity with the industry).
  - c. New or emerging professional literature or regulations that may affect the engagement.

- d. Recent continuing education relevant to the service to be provided and, if applicable, the industry. (For example, staff who have met the CPE requirement of GAO's Government Auditing Standards.)
- e. The timing and length of the engagement.
- f. The continuity and periodic rotation of the staff.
- g. Opportunities for on-the-job training.
- h. Previously demonstrated competencies (including consideration of the results of monitoring, inspections, peer reviews, and recent evaluations).
- i. Personnel availability and the involvement of supervisory personnel.
- j. Situations where possible conflicts of interest, objectivity, or independence problems may exist, including, where applicable, circumstances where the assigned staff is not independent under *Government Auditing Standards*.
- k. The degree of supervision required by each member.
- l. Non-CPA owners cannot be ultimately responsible for any financial statement attest or compilation engagement.

The assignments for the current month are posted on the firm bulletin board.

3. The firm recognizes that many modifications to the staff assignments schedule will be required because of the addition or loss of clients, staff turnover, delays in the timing of work, or other unforeseen events. Modifications are made based on an informal meeting of the partners and supervisory personnel affected by the changes and after a reconsideration of the planning factors discussed in Steps 1 and 2. Any disputes regarding assignment of personnel are resolved by the managing partner. Members of the staff are informed verbally of staffing changes and new assignments.
4. At least annually, the quality control director reviews our assigning of personnel policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

### C. Professional Development

It is the policy of our firm that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the AICPA, and the West Virginia Board of Accountancy ; that all professional staff maintain all adequate awareness and understanding of current developments in technical literature; and, that all professional staff assist in the training and development of staff members under their supervision. It is also the policy of the Firm that individuals assigned to engagements

subject to the additional continuing education requirements of the PCAOB, Government Auditing Standards and the AICPA Employee Benefit Plan Audit Quality Center, complete the applicable additional continuing education. The procedures listed below are followed to ensure compliance with this policy:

1. Annually, the partners assess the firm's continuing professional education (CPE) needs and plan our professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours, including accounting and auditing hours, needed by each professional to comply with the CPE rules governing our firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging technical literature; and the firm's needs for specialists or experts in a particular industry or service area. Normally, the firm requires that each member of its professional staff obtain a minimum of 120 hours of CPE during each three year period.
2. The CPE coordinator monitors employee progress toward meeting the CPE plan.
3. Only CPE alternatives that qualify for credit under the CPE rules that govern our firm will be considered when planning our PD program. Such alternatives normally include seminars and conferences sponsored by AICPA, state society, or other professional organizations; self-study courses; in-house seminars and programs; acting as an instructor or speaker; university or college courses; and published books, articles and CPE courses. Specifically, when CPE hours are to be fulfilled by in-house seminars, workshops, or discussion groups, each in-house program should comply with the following standards:
  - a. The program should maintain and/or increase the professional competence of participants.
  - b. The stated program learning objectives should specify the level of knowledge the participant should have attained or the level of competence he or she should be able to demonstrate upon completing the program.
  - c. The education and/or experience prerequisites for the program should be stated.
  - d. Participants should be informed in advance of pertinent course information.
  - e. Only those participants with the appropriate level of education and/or experience should attend the program.
  - f. The program should be developed by an individual qualified in the subject matter and knowledgeable in instructional design.
  - g. Program materials should be technically accurate, current, and sufficient to meet the program's learning objectives.



- (4) Dates attended or completed.
  - (5) Location of program.
  - (6) CPE hours claimed.
- b. For each in-house CPE program sponsored by the firm, the following records are maintained for the most recent five years:
- (1) A record of participation, indicating the number of CPE contact hours claimed for each participant.
  - (2) An agenda or outline of the program, indicating name(s) and qualifications of the instructor(s), the date(s) and length of the program, learning objectives, prerequisites, level of knowledge of the program, program content, nature and extent of advance preparation, teaching methods, and relevant administrative policies.
  - (3) The location(s) of the program.
  - (4) A copy of the program materials (reading materials, problems, case studies, visual aids, the instructors' manuals, etc.).
  - (5) A summary of the participants' evaluations, the instructor's evaluation(s), and the sponsor's evaluation of the instructor(s).
  - (6) If the course was developed in-house, a record of the name(s) and qualification(s) of the developer(s) and reviewer(s).
  - (7) If the course was acquired from another source, evidence that the course was developed and reviewed by qualified individuals.
- c. For all other CPE programs or activities, the following records are maintained for the most recent five years:
- (1) For group and independent study programs, a certificate or other verification supplied by the sponsor.
  - (2) For a university or college course that is successfully completed for credit, a record of the grade the person received.
  - (3) For a self-study program, a certificate of satisfactory completion of an examination provided by the sponsor.
  - (4) For a published book, article, or CPE program, evidence of publication (a copy of the book, journal, or course development documentation) that

names the CPA as author or contributor, the writer's statement supporting the number of CPE hours claimed, and the name and contact information of the independent reviewer(s) or publisher.

8. Each professional in our firm must recognize his or her responsibility to comply with applicable continuing professional education requirements to maintain technical competency. Accordingly, all professionals are encouraged to engage in self-development activities. To assist in this endeavor, the firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities. All professionals are encouraged to bring to the attention of the managing partner any news item that they believe should be circulated within the office.
9. The firm recognizes the importance of on-the-job training and has adopted, as a part of the firm's engagement performance QC system, the use of work programs to assist professionals in performing their work. Also, as noted in the firm's QC system for assigning personnel, professionals are assigned to work on a variety of jobs and under different supervisors (to the extent practical) to maximize on-the-job training. Personnel with supervisory responsibility are reminded to be constantly aware of situations where they can provide on-the-job training.
10. At least annually, the quality control coordinator reviews our PD policy and procedures (including CPE documentation) to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

#### **D. Advancement**

It is the policy of our firm that advancement and compensation decisions for professional personnel be based on a timely and objective evaluation of individual performance, that the professional personnel selected for advancement should have the necessary qualifications to fulfill their assigned responsibilities, and that compensation of personnel be based on the quality of their work. The procedures listed below are followed to ensure compliance with this policy:

1. Personnel classification levels are used to designate staff experience, to evaluate individual performance, and to establish criteria for promotion and compensation. The following staff levels and related performance criteria are used by the firm:
  - a. **Paraprofessionals and Interns** - Individuals at this level normally have a basic understanding of accounting, bookkeeping, or tax preparation, but may not have obtained a college degree that includes a significant concentration of accounting or tax courses. Paraprofessionals are expected to:
    - (1) Become familiar with the firm's policies and procedures.

- (2) Assist our professional staff in performing controllership and bookkeeping services for clients.
- (3) Assist our professional staff in preparing workpapers, trial balances, depreciation schedules, entering data for computer applications, and preparing engagement correspondence.
- (4) Assist our professional staff in gathering data for tax return preparation, maintaining our tax library, and maintaining our client tax files.

The job of paraprofessional is both challenging and rewarding, and with experience and supervision, individuals at this level can assume many of the responsibilities of staff accountants. However, advancements to higher levels of the professional staff normally will require the completion of a college degree with either a major in accounting or an equivalent number of accounting and business courses.

b. **Staff Accountant** - Individuals at this level normally have a college degree with a major in accounting or other related business field and have from zero to three years' experience. Staff accountants are expected to:

- (1) Become familiar with the firm's policies and procedures.
- (2) Understand the rules, regulations, and code of professional conduct of the AICPA.
- (3) Progress professionally by working toward passing the CPA exam as soon as possible.
- (4) If assigned primarily to financial statement engagements:
  - (a) Become familiar with pronouncements of the FASB, AICPA, and when assigned to governmental engagements, the GAO and GASB.
  - (b) Become proficient at preparing financial statements.
  - (c) Obtain exposure to the types of financial statement engagements offered by the firm.
  - (d) Assume responsibility for unaudited financial statement engagements or segments of audits under the supervision of more experienced staff.
- (5) If assigned primarily to tax engagements:
  - (a) Become familiar with pertinent IRC sections and regulations.

- (b) Obtain a working knowledge of research techniques and the various research sources in the firm library.
  - (c) Become proficient in the preparation of corporate, individual, partnership, fiduciary, and other tax returns prepared by the firm.
  - (d) Assume responsibility for the completion of tax returns under the supervision of more experienced staff.
- c. **Senior** - Individuals at this level have had a minimum of two years' experience as a staff accountant and normally have passed or are working towards passing the CPA exam. Seniors are expected to:
- (1) Know and understand the reason behind the firm's policies and procedures.
  - (2) Possess technical knowledge sufficient to supervise staff accountants.
  - (3) Begin acquiring the skills necessary to develop quality client relationships and loyalty.
  - (4) If assigned primarily to financial statement engagements:
    - (a) Begin to develop a command of GAAP, other comprehensive bases of accounting, unique or specialized accounting principles, and financial statement presentations.
    - (b) Obtain a thorough understanding of generally accepted auditing standards and common audit procedures and techniques.
    - (c) Assume responsibility for efficiently supervising both audit and nonaudited engagements.
  - (5) If assigned primarily to tax engagements:
    - (a) Begin developing a command of pertinent IRC sections and regulations.
    - (b) Become proficient at tax research including a knowledge of the reference sources available to the firm.
    - (c) Assume responsibility for the supervision of tax return preparation engagements.
- d. **Supervisor** - Individuals at this level are CPAs and have had a minimum of three years' experience (or equivalent experience as deemed appropriate by the partners) and have exhibited technical proficiency and the ability to supervise complete engagements. Supervisors are expected to:

- (1) Plan, supervise, and complete routine engagements.
  - (2) Supervise both staff accountants and seniors, provide feedback to them, and evaluate their progress.
  - (3) Become experts in their assigned areas.
  - (4) Develop client relationships and maintain secondary contact with clients.
  - (5) Assist in firm administrative functions as assigned by the partners.
  - (6) Recognize opportunities to provide additional services to existing clients.
- e. **Manager** - Responsibilities of managers are similar to those of partners. Most managers have primary client responsibilities in addition to administrative responsibilities. Individuals at this level are CPAs and have exhibited technical proficiency, managerial abilities, and the ability to attract and develop new clients. Managers are expected to:
- (1) Manage multiple complex engagements.
  - (2) Perform assigned administrative duties.
  - (3) Develop new client contacts and relationships beneficial to the firm.
- f. **Partner** - Individuals at this level are normally CPAs and normally have had a minimum of three years' experience as manager [or equivalent experience as deemed appropriate by the partners] and have exhibited superior technical competence, managerial abilities, and the ability to attract and develop new clients. Partners are expected to:
- (1) Provide firm leadership through example. Be ultimately responsible for all engagements performed under them.
  - (2) Attract and develop new clients.
  - (3) Perform assigned administrative duties.
  - (4) Be an asset to the firm through civic and community activities.
2. In addition to the evaluation criteria enumerated in the preceding staff classifications, each staff member will be evaluated on attributes such as, but not limited to, the following:
- a. Technical knowledge.

- b. Analytical and judgmental skills.
  - c. Communication skills.
  - d. Leadership and training skills.
  - e. Client relationships.
  - f. Professional demeanor and appearance.
  - g. Integrity.
  - h. Personal attitude.
3. At the completion of engagements to which a staff member contributed approximately 80 or more hours or at least every quarter [or more frequently at the discretion of the engagement partner], professional staff are evaluated by their supervisors using evaluation forms. These evaluation forms are discussed with the staff member by the supervisor and submitted to the engagement partner who conducts a counseling interview with that individual if, in the judgment of the engagement partner, issues are identified which warrant counseling. Comments and feedback obtained during these interviews, if any, are documented on the evaluation form by the supervising partner, and the form is routed to the individual's personnel file.
  4. At least annually, and on an ad hoc basis if necessary, the partners meet as a committee to discuss advancement and termination decisions. In considering advancement decisions, staff performance evaluations and progress within staff classifications are given priority, however, economic conditions, such as profits and future growth potential, must also be considered in each decision.
  5. At least annually, the quality control director reviews our advancement policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, to the system are made based on the results of the review.

### **III. ACCEPTANCE AND CONTINUANCE OF CLIENTS AND ENGAGEMENTS**

It is the policy of our firm that for all compilation, review, audit, forecast, projection, and attestation engagements, the acceptability of the client and the engagement, be evaluated before the firm agrees to provide professional services. The procedures listed below are followed to ensure compliance with this policy:

1. For each prospective client (or existing tax or MAS client) that requests for the first time compilation, review, audit, forecast, projection, or attestation service, the partner making initial contact with the client is required to complete a "new client

acceptance form" (The "new client acceptance form" is located in the accounting and auditing manuals used by the firm.) That form documents, among other things, background information; an assessment of the apparent integrity of management; possible independence; an assessment of the availability of staff; adequacy of the firm's professional competence; known disagreements with the client's prior accountants; and consideration of risks associated with the engagement.

2. For existing clients, the partners annually review the firm's client list and reevaluate the acceptability of each client and engagement. Furthermore, the engagement work programs used by the firm (as documented in the engagement performance QC element of the firm's QC document) contain steps requiring the engagement team to consider whether the firm should discontinue providing all or certain services to a client. Reasons that might surface in either the firm-wide or individual engagement review that would cause the firm to consider discontinuing services include:
  - a. Significant changes in the client, e.g., senior management, perceived integrity of management, ownership, financial stability, or the risk associated with the particular engagement.
  - b. Changes in the nature or scope of the engagement, including requests for additional services.
  - c. Significant changes in the composition of the firm, e.g., a change in the firm's professional competence (expertise) or the decision to discontinue client services in a particular industry.
  - d. Significant unpaid fees that may cause an independence problem or create doubt about the collectibility of future fees.
  - e. The existence of conditions that would have caused the firm to reject the client or engagement had such conditions existed at the time of the initial acceptance.
  - f. The client is in the development stage or operates in a highly specialized or regulated industry, such as a financial institution, governmental entity, or employee benefit plan.
  - g. More time is required to perform the engagement than the firm can provide.
  - h. The client has ignored prior recommendations, such as recommendations addressing internal control deficiencies.

The managing partner is responsible for deciding whether to discontinue providing all or certain services to a client or whether steps can be taken to mitigate the risk of continued services, e.g., requiring a down payment on fees before work commences payment-as-you-go billing arrangements, alternative engagement procedures, etc.

3. If situations occur after the commencement of an engagement and while work is in processes that indicate the firm should consider withdrawing from the engagement, the managing partner should be notified of the circumstances. Circumstances that may cause the firm to withdraw would include:
  - a. The client's unwillingness to make a material correction to the financial statements or accept a modified report or when a modification of the standard report will not adequately indicate the deficiencies in the financial statements taken as a whole.
  - b. Failure by the client to take remedial action with regard to an illegal act that might be discovered during the engagement.
  - c. The discovery of facts after the engagement commences that may have caused the firm to reject the engagement had those facts been known prior to starting the work, e.g., a significant risk of fraud.
  - d. The client provides information that is incorrect, incomplete, or otherwise unsatisfactory and refuses to provide additional or revised information.
  - e. The inability to apply the analytical and review procedures considered necessary for a SSARS or attest review, and, for a SSARS review, it is inappropriate to issue a compilation report.
  - f. The client's refusal to provide a representation letter in a SSARS or attest review, and, for a SSARS review, it is not appropriate to issue a compilation report.
  - g. In a review or attest engagement, the client is the responsible party and does not provide a written assertion.
  - h. Other information in client-prepared document containing the firm's attest report is materially inconsistent with the information in the report, and the client does not revise the information to eliminate the inconsistency.

The managing partner is responsible for deciding whether to withdraw from an engagement.

4. If based on the facts and circumstances identified in performing Steps 2 and 3, the managing partner concludes that the firm should discontinue providing all or certain services to a client or withdraw from a current engagement, the managing partner and the engagement partner should determine how the client should be informed about that decision. Furthermore, the managing partner should consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by the managing partner of the name of any client to which services are discontinued.

5. The engagement partner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter should document the firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed.
6. For each new or existing client that is, or expects to become, a publicly held company, the firm requires the following procedures in addition to those in Procedure No. 1:
  - (1) Review of filings with the SEC or other government agencies, including Form 8-K, if any, during at least the prior year.
  - (2) Consideration of the SEC independence rules (or the rules of other government agencies) in determining any existing or potential situations that impair or may impair in the future the firm's independence.
7. If the firm resigns, or is dismissed, as the auditor on an SEC engagement, the engagement partner is responsible for sending a written acknowledgment to the former client with a copy to the Office of the Chief Accountant of the SEC (or the appropriate government agency) within five business days. All such correspondence must be approved by the managing partner.
8. At least annually, the quality control coordinator reviews our acceptance and continuance policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

#### **IV. ENGAGEMENT PERFORMANCE**

- A. It is the policy of our firm that all compilation, review, audit, forecast, projection, and attestation engagements be properly planned, performed, supervised, reviewed, documented, reported or communicated in accordance with the requirements of professional standards, applicable regulatory authorities, and the Firm. In this regard, the procedures listed below are followed by all personnel assigned to those engagements:
  1. The firm's system of QC steps is documented in the attached engagement performance bridging document.
  2. The responsibilities of partners and other members of our professional staff for implementing the firm's QC steps are indicated on the attached engagement performance bridging document.

3. Certain steps in the firm's system of engagement performance QC steps are not applicable or are optional for some engagements. The attached engagement performance bridging document indicates the applicability of each step to each type of engagement.
4. The firm uses numerous checklists, work programs, report examples, and other practice aids to implement its engagement performance QC steps. These practice aids are documented on the attached engagement performance bridging document.
5. The firm requires completion of a concurring partner review prior to the release of all audit reports on PCAOB engagements. The concurring review is documented by completion of a "Concurring Owner Review Form." The nature, extent, and timing of the review and the qualification of the reviewer are stated in the review form. The "Concurring Owner Review Form" is located in the accounting and auditing manuals used by the firm.
6. At least annually, the quality control coordinator reviews our engagement performance policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

The firm adopts and integrates within its quality control system the use of Practitioners Publishing Company's (PPC's) accounting and auditing manuals and practice aids as more fully described in the attached engagement performance bridging documents. This QC document, the PPC manuals, and any other practice aids used by the firm are intended solely to assist us in achieving compliance with professional standards as covered by the AICPA *Code of Professional Conduct*. Accordingly, nothing within this QC document should be construed as requiring a higher level of performance or documentation than the minimum specifically required by our firm's QC policies and procedures nor to override the exercise of professional judgment.

- B. It is the policy of our firm that personnel refer to authoritative literature or other sources when appropriate. Our firm also recognizes the need for a constant exchange of ideas and opinions about technical issues on all professional engagements, and it is our policy that all professional personnel seek consultation within or outside the firm whenever they are uncertain about the answer to a technical question; the application of a rule, regulation, or procedure of a tax or other regulatory agency; or the application of a firm policy. The procedures listed below are followed to ensure compliance with this policy:
1. The Firm provides ready access to an adequate and up-to-date reference library that should be consulted to assist professional staff in their research of technical issues.
  2. While the firm recognizes that it is impossible to list all situations that might require referral to authoritative literature or other sources or that might require a consultation,

the following situations, due to their complexity, would normally require a consultation:

- a. Any engagement in which a qualified or nonstandard report is likely to be issued.
  - b. Any engagement involving material litigation.
  - c. Application, for the first time, of new or complex technical pronouncements.
  - d. Industries with special accounting, auditing, or reporting requirements.
  - e. Emerging practice problems.
  - f. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made.
  - g. Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued.
  - h. Filing requirements of regulatory agencies.
  - i. Meetings with regulators at which the firm is to be called on to support the application of generally accepted accounting principles or generally accepted auditing standards that have been questioned.
3. When an issue arises that requires consultation, the issue should first be discussed by the members of the engagement team. If, in the engagement partner's opinion, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team disagrees with the resolution, the procedure in Step 7 should be followed.
  4. If the engagement partner believes additional consultation beyond that of the engagement team is necessary, the issue should be discussed with an individual in the firm who has specialized knowledge or training that is appropriate for the issue in question. When the engagement team is unaware of an individual in the firm who possesses such knowledge, the managing partner should be consulted for the name of such an individual. If, in the engagement partner's opinion, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team or other individuals who consulted on the issue disagree with the resolution, the procedure in Step 7 should be followed.
  5. If the engagement partner believes that additional consultation beyond available within the firm is necessary, the issue should be discussed with an outside specialist. Outside specialists include, but are not limited to, the AICPA technical information services an CPAs or tax attorneys in other firms. In determining the professional

qualifications and reputations of the outside specialists, the firm should consider, among other things, the following matters:

- a. The professional certification, license, or other recognition of the competence of the specialist in his areas of expertise, as appropriate.
- b. The reputation and standing of the specialist in the views of his peers and others familiar with his capability or performance.
- c. The relationship, if any, of the specialist to the client.

If in the engagement partner's opinion, the issue is resolved, additional consultation is not necessary. However, if any member of the engagement team or other individual in the firm who consulted on the engagement disagrees with the resolution, the procedure in Step 7 should be followed.

6. Certain accounting audit, examination, attestation, tax, or MAS engagements may require the firm to consult with nonaccounting specialists, such as actuaries, appraisers, attorneys, engineers, and geologists. The firm should follow the guidance in AICPA Professional Standards at AU Section 336 when such consultations are necessary. If any member of the firm or engagement team disagrees with the advice of a nonaccounting consultant, the procedure in Step 7 should be followed.
7. If differences of opinion exist within the firm as to the resolution of a consultation issue, the matter should be brought to the attention of the managing partner. The managing partner will resolve any disputes as to the proper course of action taken by the firm on the issue in question. Any party to the consultation who disagrees with the conclusion has the option of preparing a memorandum and filing it in the workpapers.
8. All technical research and consultations that are unusual, controversial, or complex and material in nature should be documented in a memorandum to the workpapers.
9. At least annually, the quality control director reviews our consultation policy and procedures to determine if they are appropriate and operating effectively. This review is normally accomplished in coordination with the annual inspection. Changes, if necessary, to the system are made based on the results of the review.

## V. MONITORING

It is the policy of our firm that our quality control system be monitored to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements (including activities) of quality control are suitably designed and are being effectively applied. Monitoring procedures as they relate to the other elements (and activities) are included in the quality control procedures for each of the other elements. As

an integral part of the monitoring process, our quality control system is inspected annually to determine whether the firm has complied with its stated quality control policies and procedures. The procedures listed below are followed to ensue compliance with this policy.

1. Annually, the managing partner selects an individual or team (hereafter referred to as "the inspectors") to review the firm's quality control system. The inspector should possess adequate technical knowledge and experience and, when practical, should not be directly involved in the administration, supervision, or performance of the QC procedures or engagements selected for review. One person will be designated as the in-charge inspector. The inspection will include a review of the governmental audit practice, the SEC audit practice, and the ERISA employee benefit plan audit practice in accordance with the membership requirements of the respective audit quality centers.
2. The in-charge inspector is responsible for determining the scope of the inspection, developing the inspection procedures, and performing the inspection. The managing partner can require at his discretion that the inspection scope and procedures be approved by him before the inspection commences. The inspector should follow the guidelines listed below when determining the scope and designing the inspection procedures:
  - a. The inspection should be completed timely.
  - b. The scope of the inspection should encompass all of the firm's stated quality control procedures and, accordingly, should include a review of a representative sample of administration files, personal files, engagement workpapers, and other evidential matter. The engagement reviews will include a cross-section of the firm's engagements. The criteria for engagement selection may include, but are not limited to, the following:
    - (1) Specialized, complex, and high-risk engagements (for example, employee benefits plans, *Government Auditing Standards* audits, financial institutions, and security brokers and dealers).
    - (2) A cross-section of the firm's governmental audit practice considering the number and types of governmental audits (e.g. single audits and program-specific audits, as defined under OMB Circular A-133, and other compliance audits and attestation engagements performed under various federal, state, or local agency audit guides).
    - (3) A cross-section of the firm's ERISA employee benefit plan audit practice considering the number and types of plan audits (e.g. defined benefit, defined contribution, health and welfare, multiemployer, ESOPs, limited and full scope).
    - (4) First-year engagements.

- (5) A cross-section of engagements based on the level of service performed (e.g., audit, review, compilation, and attest).
  - (6) A cross-section of engagements from various owners and management level personnel having accounting and auditing responsibilities.
  - (7) Significant client engagements.
  - (8) Engagements for which there have been complaints or allegations from firm personnel, clients, or other third parties that the work performed by the firm failed to comply with professional standards, regulatory requirements, or the firm's system of quality control.
  - (9) Engagements in which there were significant disagreements between the quality review owner and the engagement owner.
- c. The inspection procedures should include inspection, observation and inquiries to determine whether:
- (1) Checklists, forms, programs, or other documentation required by the firm's QC system have been properly completed.
  - (2) Administrative and personnel policies have been complied with.
  - (3) Procedures performed on engagements are in accordance with both the requirements of authoritative literature and firm policies.
  - (4) The engagement workpapers provide adequate evidence to support conclusions, opinions, and presentations resulting from that engagement.
  - (5) The financial statements, reports, and other presentations resulting from the engagements conform to the measurement, presentation, and disclosure requirements of authoritative literature.
- d. The inspection scope and procedures should be documented in a work program. The scope of the inspection should include a review of the Firm's PCAOB, employee benefit plan, and governmental audit practices, including the selection of engagements for review in each of these areas.
3. At the conclusion of the inspection, the inspectors are responsible for (a) discussing the results of the review with the supervisory personnel responsible for each of the engagements selected for review and (b) summarizing the deficiencies noted for each engagement reviewed. Once identified, the deficiencies are summarized and evaluated to determine whether:

- a. Existing quality control policies and procedures should be modified.
- b. Additional emphasis should be placed on specific industries or areas for future engagements.

The scope of the inspection, the findings, and the recommendations are then reported to the partners.

4. In addition to the firm's annual inspection program, the firm is subject every three years to a peer review.. The quality control director is responsible for scheduling and coordinating that review.
  - a. In accordance with the membership requirements of the Governmental Audit Quality Center and the Employee Benefit Plan Audit Quality Center, the engagement letter covering our peer review will require that the governmental audits and ERISA employee benefit plan audits selected for review during the firm's peer review be reviewed by someone who is employed by a member firm of the respective Center. Also, information relative to the firm's most recently accepted peer review is available to the public in accordance with the membership requirements of the respective Centers.
  - b. The internal inspection results (including those specific to the firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection) are made available to the firm's peer review team.
5. Based on the inspection report and, if appropriate, the peer review report, letter of comments, letter of response, and exit conference with the reviewer, the partners determine any corrective actions that should be pursued to improve, amend, or rectify the QC system.
6. The partners meet annually (or when needed on an interim basis) and discuss the results of the inspection and the monitoring of all of the quality control elements (and activities) and the corrective actions determined to be needed by the partners. Based on the discussions at the meeting, the partners determine and communicate to all professional personnel any corrective actions that will be pursued to improve, amend, or rectify the QC system.
7. The quality control director is responsible for monitoring the implementation of, and compliance with, any corrective actions.
8. Overall responsibility for the quality of certain specified segments of the Firm's audit practice has been assigned to individual partners. Individual partners have been designated to have firm-wide responsibility for the quality of the Firm's audit practice related to governmental engagements, employee benefit plan engagements, and PCAOB engagements.

9. The Firm is a member of the AICPA's Center for Public Company Audit Firms, Governmental Audit Quality Center, and Employee Benefit Plans Audit Quality Center. During each inspection, the inspector shall determine that the Firm has complied with any additional requirements of membership not heretofore addressed in this document, including any requirements for public disclosure, payment of dues, filing of annual reports, etc.
10. The inspector shall determine that all audit partners of the Firm are members of the AIPCA, and that the Firm encourages all professionals to be members of the AICPA.

**Engagement Performance Bridging Document with QCM Described for Historical Financial Statements**

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements			Practice Aids (QCM's) Used By Firm	
	Primary Responsibility	Secondary Responsibility	Completions	Reviews	Audits	Description of Practice Aid	Location of Practice Aid
1. Evaluate whether to accept/continue the engagement.	Owner (O)	Engagement Team (ET)	Yes	Yes	Yes	Acceptance Form/Step on Work Program	AFL, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
2. Obtain an engagement letter.	O	ET	Yes	Yes	Yes	Engagement Letter	AFL, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
3. Plan the work and obtain background information about the company, officers, accounting practices, etc.	ET	O	Yes	Yes	Yes	Client Information and Planning Forms	AFL, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
4. Gain an understanding of internal control.	ET	O	No	No	Yes	Planning and Evaluation Forms	AFL, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
5. Perform preliminary analytical procedures	ET	O	No	No	Yes	Step on Work Program	AFL, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
6. Evaluate materiality and risk, including risk of fraud.	ET	O	No	No	Yes	Planning and Evaluation Forms/Step on Work Program	AFL, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
7. Prepare a work program.	ET	O	Yes	Yes	Yes	Standardized Program	AFL, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
8. Develop a time estimate.	ET	O	Opt	Opt	Opt	Budget Form	AFL, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
9. Obtain owner approval of work program and staff assignments, and, if applicable, time estimates.	O	ET	Opt	Yes	Yes	Step on Work Program	AFL, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements			Practice Aids (QCM's) Used By Firm	
	Primary Responsibility	Secondary Responsibility	Completions	Reviews	Audits	Description of Practice Aid	Location of Practice Aid
10. Supervise work (including work of other accountants).	ET	O	Yes	Yes	Yes	Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
11. Document material or complex consultations.	ET	O	Yes	Yes	Yes	Consultation Form	GQC
12. Evaluate the propriety of a step down to a lower level of service.	O	ET	Yes	Yes	N/A	Step-down Checklist/Step on Work Program	CAR, CON, EBP, NPO, PCAOB
13. Resolve any professional disputes.	O	ET	Yes	Yes	Yes	Write a memo to files	Not illustrated
14. Draft the financial statements and report.	ET	O	Yes	Yes	Yes	Numerous illustrations	AFI, ALG, CAR, CON, EBP, GAR, GFS, HUD, NFS, NPO, PFS, PCAOB
15. Perform analytical procedures.	ET	O	No	Yes	Yes	Step on Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
16. Complete a presentation and disclosure checklist.	ET	O	Yes	Yes	Yes	Checklist	AFI, ALG, ASB, CAR, CON, EBP, GFS, HUD, NFS, NPO, PFS, PCAOB
17. Review for contingencies and obtain legal representation letters.	ET	O	No	No	Yes	Legal Representation Letter	AFI, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
18. Obtain a management representation letter.	ET	O	Opt	Yes	Yes	Representation Letter	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
19. Review the workpapers.	O & ET	-	Yes	Yes	Yes	Supervision, Review, and Approval Form or Step on Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, PCAOB
20. Evaluate the effect of audit differences.	O	ET	No	No	Yes	Audit Difference Evaluation Form	AFI, ALG, ASB, CON, EBP, HUD, NPO, PCAOB

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements			Practice Aids (QCM's) Used By Firm	
	Primary Responsibility	Secondary Responsibility	Completions	Reviews	Audits	Description of Practice Aid	Location of Practice Aid
21. Obtain an independent internal review. For PCAOB engagements, obtain concurring partner review.	O	ET	Yes	Yes	Yes	Supervision, Review, and Approval Form, Technical Reviewer Checklist, or Step on Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
22. Prepare required client communications.	ET	O	N/A	N/A	Yes	Step on Work Program	AFI, ALG, ASB, CON, EBP, GAR, HUD, NPO, PCAOB
23. Determine that all review points and open items have been cleared.	ET	O	Yes	Yes	Yes	Step on Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
24. Have owner sign the report or transmittal letter.	O	ET	Yes	Yes	Yes	Supervision, Review, and Approval Form or Step on Work Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
25. Evaluate the staff's performance.	ET	O	Opt	Opt	Yes	Evaluation Form	GQC
26. File the workpapers (subject to monitoring review).	ET	O	Yes	Yes	Yes	Filing Examples	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB

Notes:

a. Opt - Optional.

b. AFI - PPC's Guide to Audits of Financial Institutions, ALG - PPC's Guide to Audits of Local Governments, ASB - PPC's Guide to Audits of Small Businesses, CAR - PPC's Guide to Compilation and Review, CON - PPC's Guide to Construction Contractors, EBP - PPC's Guide to Audits of Employee Benefit Plans, GAR - PPC's Guide to Auditor's Reports, GFS - PPC's Guide to Preparing Governmental Financial Statements, GQC - PPC's Guide to Quality Control, HUD - PPC's Guide to HUD Audits, NFS - PPC's Guide to Preparing Nonprofit Financial Statements, NPO - PPC's Guide to Audits of Nonprofit Organizations, PFS - PPC's Guide to Preparing Financial Statements, PCAOB - PPC's Guide to PCAOB Audits.

c. See discussion at paragraph 1004.12.

**Engagement Performance Bridging Document with QCM Described for Attestation Engagements**

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards						Practice Aids (QCM's) Used By Firm		
			Forecasts and Projections			Attestations					
	Primary Responsibility	Secondary Responsibility	Completions	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures	Description of Practice Aid	Location of Practice Aid	
1. Evaluate whether to accept/continue the engagement.	Owner (O)	Engagement Team (ET)	Yes	Yes	Yes	Yes	Yes	Yes	Acceptance Form/Step on Work Program	AFL, CAR, FAP, NTE	
2. Obtain an engagement letter.	O	ET	Yes	Yes	Yes	Yes	Yes	Yes	Engagement Letter	AFL, CAR, FAP, NTE	
3. Plan the work and obtain background information about the company, officers, accounting practices, key factors affecting forecasts, etc.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Client Information and Planning Forms	AFL, CAR, FAP, NTE	
4. Gain an understanding of internal control.	ET	O	No	No	No	No	No	No	-	-	
5. Perform preliminary analytical procedures	ET	O	No	No	No	No	No	No	-	-	
6. Evaluate materiality and risk.	ET	O	No	Yes	No	Yes	No	No	Planning and Evaluation Forms/Step on Work Program	AFL, FAP, NTE	
7. Prepare a work program.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Standardized Program	AFL, CAR, FAP, NTE	
8. Develop a time estimate.	ET	O	Opt	Opt	Opt	Opt	Opt	Opt	-	Not Illustrated	
9. Obtain owner approval of work program and staff assignments, and, if applicable, time estimates.	O	ET	Opt	Yes	Yes	Yes	Yes	Yes	Step on Work Program	AFL, CAR, FAP, NTE	
10. Supervise work (including work of other accountants).	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Work Program	AFL, CAR, FAP, NTE	
11. Document material or complex consultations.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Consultation Form	GQC	

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards						Practice Aids (QCM's) Used By Firm			
			Forecasts and Projections			Attestations						
			Completions	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures				
12. Evaluate the propriety of a step down to a lower level of service.	O	ET	Opt	N/A	Opt	Opt	Opt	N/A	-	Not Illustrated		Location of Practice Aid
13. Resolve any professional disputes.	O	ET	Yes	Yes	Yes	Yes	Yes	Yes	Write a memo to files	Not illustrated		
14. Draft the financial statements and report.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Numerous illustrations	AFI, CAR, FAP, GAR, NTE		
15. Perform analytical procedures.	ET	O	No	Opt	No	Yes	Yes	No	Step on Work Program	AFI, CAR, NTE		
16. Complete a presentation and disclosure checklist.	ET	O	Yes	Yes	Opt	N/A	N/A	N/A	Checklist	CAR, FAP		
17. Review for contingencies and obtain legal representation letters.	ET	O	No	Opt	No	No	Opt	No	-	Not Illustrated		
18. Obtain a management representation letter.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Representation Letter	AFI, CAR, FAP, NTE		
19. Review the workpapers.	O & ET	-	Yes	Yes	Yes	Yes	Yes	Yes	Step on Work Program	AFI, CAR, FAP, NTE		
20. Evaluate the effect of audit differences.	O	ET	No	No	No	No	No	No	-	-		
21. Obtain an independent internal review.	O	ET	Yes	Yes	Yes	Yes	Yes	Yes	Supervision, Review, and Approval Form, Technical Reviewer Checklist, or Step on Work Program	AFI, CAR, FAP, NTE		
22. Prepare required client communications.	ET	O	N/A	N/A	N/A	N/A	N/A	N/A	-	-		
23. Determine that all review points and open items have been cleared.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Step on Work Program	AFI, CAR, FAP, NTE		

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards						Practice Aids (QCM's) Used By Firm		
			Forecasts and Projections			Attestations					
			Completions	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures			
24. Have owner sign the report or transmittal letter.	Primary Responsibility	Secondary Responsibility	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Description of Practice Aid Supervision, Review, and Approval Form or Step on Work Program	Location of Practice Aid AFI, CAR, FAP, NTE
	O	ET	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
25. Evaluate the staff's performance.	Primary Responsibility	Secondary Responsibility	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Evaluation Form	GQC
	ET	O	Opt	Opt	Opt	Opt	Opt	Opt	Opt		
26. File the workpapers (subject to monitoring review).	Primary Responsibility	Secondary Responsibility	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Filing Examples	AFI, CAR, FAP, NTE
	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Yes		

Notes:

a. Opt - Optional.

b. AFI - PPC's Guide to Audits of Financial Institutions, CAR - PPC's Guide to Compilation and Review, FAP - PPC's Guide to Forecasts and Projections, GAR - PPC's Guide to Auditor's Reports, GQC - PPC's Guide to Quality Control, NTE - PPC's Guide to Nontraditional Engagements.

**APPENDIX E**

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**NO DEBT AFFIDAVIT**

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 exceed 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.

**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, West Virginia Insurance Commission, or any other state agencies or political subdivision. Furthermore, 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.

**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. Vendors should visit [www.state.wv.us/admin/purchase/privacy](http://www.state.wv.us/admin/purchase/privacy) for the Notice of Agency Confidentiality Policies.

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

Vendor's Name: Gibbons & Kawash, CPAs

Authorized Signature: \_\_\_\_\_

Date: 4/24/08