

Proposal to Serve

West Virginia Consolidated  
Public Retirement Board


June 30, 2011

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2011 MAY -3 PM 12:37

RFQ Number: CPR11018  
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WV PURCHASING  
DIVISION

Shareholder: 

Date: May 3, 2011



West Virginia Consolidated Public Retirement Board

Technical Audit Proposal

RFP No. CPR11018

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

List project goals and objectives contained in Section 2.4:

**Section 2.4.1:** Goal 1 - CPRS is seeking a professional accounting and auditing firm to perform the annual audit of the Agency in accordance with Governmental Auditing Standards(GAS).

**Section 2.4.1.1:** The resulting audit should meet all federal, state and industry standards.

- Please describe how the financial reports required under the terms of this proposal comply with parameters established by the State of West Virginia Department of Administration, Financial Accounting and Reporting Section (FARS). This may include but is not limited to, responding to specific requests for information, preparing closing book forms, and attending conferences, meetings, or seminars held or presented by FARS regarding their requirements for report preparation, presentation, deadlines, etc.
  - It is strongly preferred that the bidder supply detailed discussion of the audit approach and a timeline for interim and year-end fieldwork.
  - It is strongly preferred that the successful bidder supply a Client Preparation Assistance Package that includes information needed for fieldwork and the timeline for such information.
  - Should the firm intend to include any subcontracted firms the firm should provide the same information for each subcontracted firm as for the primary firm; however, the primary firm will still be responsible for the results and deliverables of the contract.
- **Vendor Response:**

### OUR UNDERSTANDING OF YOUR REQUIREMENTS

We have obtained an understanding of your expectations for the public accounting firm to provide auditing services to the Joint Committee on Governmental Finance. Key among these are that your accounting firm should:

- Present a diversity of audit experience with governmental entities which demonstrates that the firm can meet your service needs.
- Have an experienced team of professionals with a proven record of providing high quality audit and other required services, and who will work closely with Legislative Leadership and its representatives.
- Have an audit approach that addresses areas of highest risk, concentrates its efforts in areas of most concern, and incorporates the use of current technology to apply procedures resulting in an effective and efficient audit.
- Perform a financial and compliance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, including any amendments thereto which may become effective during the term of this proposal or any renewal thereof, that will include such tests of the accounting records and such other auditing procedures considered necessary in the circumstances.

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- We will ensure that the financial reports required under the terms of this contract comply with parameters established by the State of West Virginia Department of Administration, Financial Accounting and Reporting Section (FARS) by continuing our ongoing dialogue with the FARS staff. We will also attend all conferences/seminars and meetings conducted by FARS (including the Annual closing book training). Gibbons & Kawash has significant experience working with FARS and demonstrated the ability to meet expectations of FARS through our extensive experience auditing State of West Virginia Agencies and component units. We maintain a continuing dialog with FARS regarding the application of new accounting matters, technical matters, and audit status.

### ENGAGEMENT SCOPE, AUDIT APPROACH AND TIMELINE

#### *Scope of Work to be Performed*

We will express an opinion on the fair presentation of the West Virginia Consolidated Public Retirement Board's (the CPRB) financial statements as of and for the year ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America. Our audit will be performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

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 Executive Director of the CPRB of any fraud and illegal acts of which we become aware.

Abuse. If abuse is identified which has a significant effect on financial statement amounts, we will include the matter as an audit finding in our report. Any other potential abuse will be reported to the Executive Director of the CPRB.

Reporting to the Executive Director, the Chief Financial Officer and the Accounting Manager of the CPRB. We will inform these individuals and the governing board of each of the following, as applicable:

1. The auditor's responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards*
2. Significant accounting policies
3. Management judgments, accounting estimates and projections.
4. Significant audit adjustments and significant revisions of past and current estimates and projections.
5. Other information in documents containing audited financial statements and/or estimates and projections.
6. Disagreements with management
7. Management consultation with other accountants and actuaries

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8. Major issues discussed with management prior to retention
9. Difficulties encountered in performing the audit

### *Time Requirements*

Each of the following shall be completed no later than the dates indicated.

1. Detailed audit plan and information needed from the Division:

Within 10 days of the award of the contract and no later than June 17th, we will meet with Executive Director, Chief Financial Officer and Accounting Manager of the CPRB to discuss our preliminary detailed audit plan and review the list of all schedules and information to be prepared by the CPRB (the client assistance package).

2. Interim Procedures:

Prior to July 15, we will obtain/update our understanding of the systems and controls in place at the CPRB. Additionally, we will test the systems and controls, including information technology, in place at the CPRB. We will also perform tests of compliance with certain provisions of laws, regulations, contracts, and grants and tests of actuarial census data and pension benefit payments.

3. Year End Tests of Balances:

We will begin these procedures as soon as the CPRB has completed year end closing procedures, but no later than August 19th.

4. Preparation of Auditor's Report:

We expect to begin preparation of the auditor's reports on the financial statements and on internal control over financial reporting and on compliance and other matters on approximately August 24th.

5. Our preliminary report for fiscal year 2011 will be delivered to and reviewed with the Management of the CPRB on or before September 2nd, 2011. After the preliminary report is discussed with Management, a revised draft will be provided to management by September 9<sup>th</sup>. After approval from management the draft report will be delivered to FARS (and CPRB Management) before September 15<sup>th</sup>.
6. An unsigned final draft with all requested modifications will be delivered to the Management of the CPRB by October 7, 2011.
7. The final signed report (50 bound copies and one electronic copy) will be delivered to the management of CPRB on or before October 14, 2011.
8. Gibbons & Kawash will be available to present the audit report and the results of the audit to the CPRB Board at its December 2011 Board Meeting.

# ATTACHMENT A - VENDOR RESPONSE SHEET

## PHASES OF THE AUDIT

Gibbons & Kawash understands that time and money are important concerns for our clients. Our audit approach takes these concerns seriously. Therefore, we organize the audit process to yield a rate of return that is reflected in timeliness, effectiveness and cost efficiency.

Our audit approach for the CPRB's audit will consist of six phases:

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

We have separated the audit process into the above phases to emphasize certain significant aspects of each phase. However, the performance of phases I and II will occur concurrently due to the interrelationship of the various steps of these phases.

Audit Phase	Audit Hours					Total
	Partners	Managers	Supervising Senior	Staff	Consulting Actuary	
Comprehensive Planning	14	10	20	10	-	54
Internal Control Evaluation, including information technology controls	8	10	16	8	-	42
Development of Audit Plan, including preparation of audit programs	10	8	25	-	-	43
Compliance and Internal Control Testing	-	2	25	50	-	77
Testing of Financial Data	6	6	40	85	52	189
Reporting	8	4	28	2	-	42
<b>Total hours</b>	<b>46</b>	<b>40</b>	<b>154</b>	<b>155</b>	<b>52</b>	<b>447</b>

### Phase I: A Comprehensive Planning Process

A comprehensive planning process is an important cornerstone in the process of adapting our audit approach to the CPRB. Effective and thorough planning allows for the early identification and resolution of audit issues and facilitates compliance with financial reporting timelines.

### Understanding of Internal Control

We will obtain a detailed 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.

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*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 CPRB 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 is the CPRB'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 CPRB's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Risks 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.

We will obtain sufficient knowledge of the CPRB's risk assessment process to understand how management considers risks relevant to financial reporting objectives and fraud prevention 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 that could affect achievement of the CPRB'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

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We will obtain an understanding of how information technology affects control activities that are relevant to planning the audit.

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, which includes the accounting system, is relevant to the financial reporting objectives, and consists of procedures, whether automated or manual, 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's ability to make appropriate decisions in controlling the CPRB'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 CPRB'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.
- 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



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two. In many entities, 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.

An important responsibility of the internal audit function is to monitor the performance of an entity's controls. While obtaining an understanding of internal control, we will obtain an understanding of the internal audit function sufficient to identify those internal audit activities that are relevant to planning the audit. We will make inquiries of appropriate management and internal audit personnel about the internal auditors':

- a. Organizational status within the entity.
- b. Application of professional standards.
- c. Audit plan, including the nature, timing, and extent of audit work.
- d. Access to records and whether there are limitations on the scope of their activities.

In addition, we will inquire about the internal audit function's charter, mission statement, or similar directive from management or other oversight body

Relevant internal audit activities are those that provide evidence about the design and effectiveness of controls that pertain to the entity's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the financial statements or that provide direct evidence about potential misstatements of such data.

### ***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. We will develop and perform detailed tests over the general controls and application controls. Examples of areas that will be considered are as follows:

#### General Controls

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

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### Applications Controls

- Input controls
- Processing controls
- Output controls
- Security

### *Time Management System*

Beginning with the planning 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 and supporting audit programs. Under the direction of the audit manager, time incurred and progress made with respect to the audit procedures 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 CPRB's preliminary account balances will then be performed. We will identify accounts and information streams that are significant and which may require particular attention.

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

Identifying and ensuring that the CPRB complies with laws and regulations is the responsibility of management. We will include appropriate inquiries of management of the CPRB to identify laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. We will also review relevant portions of the West Virginia Code, Code of State Rules, and relevant regulations. We will test the provisions of those laws, regulations, grants and contracts 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 CPRB.

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.

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

To accomplish this audit approach, specialists from Gibbons & Kawash will be used. The engagement team members will perform the risk assessment based on their extensive experience with retirement plans and State of West Virginia government entities, and ensure that audit efforts address areas of the highest risk of material misstatement in the financial statements, noncompliance with laws, regulations and provisions of grants and contracts, and abuse.

### **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 CPRB. Assessment of the control environment will give us a general indication of the extent of reliance on the CPRB's internal control policies and procedures that may be possible. This will be done in conjunction with obtaining/updating our understanding of the operating environment of the CPRB as described in Phase I.

We will perform specific tests of the significant controls, including controls over the computer system, based on our assessment of the planned extent of reliance on the CPRB's internal control.

### **Phase III: Development of Audit Plan**

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

#### ***Development of Tailored Audit Programs***

Upon completion of obtaining our understanding of the internal controls of the CPRB, we will develop audit programs for each audit area and transaction class that may be significant to the CPRB's financial statements, or pose increased risk of noncompliance with laws and regulations, or abuse. Our audit programs will 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 CPRB.

Once prepared, the audit approaches are 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 Division personnel.

After the audit approaches have been finalized and approved by the senior members of the engagement management team, the audit plan is developed. In addition to explaining the engagement objectives and provide a full audit perspective, the primary thrust of the audit plan is to provide:

- 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;

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- A description of the audit procedures to be performed by each audit segment; and
- A final engagement procedures timetable.

### *Audit Approach Evaluation*

Prior to the execution of any significant audit effort, the audit team's planning procedures, internal control evaluation, risk assessment, audit programs, and audit approach will be scrutinized by the engagement partner and the engagement quality control partner to determine that the specific procedures developed are appropriate, efficient and reasonable in the circumstances. As a result, this process is a pre-audit quality control step which ensures that the audit team has a thorough understanding of the work allocated to them and that the efforts of all team members are coordinated and consistent.

### **Phase IV: Compliance Testing**

We will test compliance with established control procedures designed to verify that the significant strengths within the system are functioning as described to us. Additionally, we will test compliance with provisions of laws, regulations, contracts and grants, and abuse. 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 grants, and abuse and established control procedures, we will review the results of our testing to determine what changes should be made to our audit plan. These changes will be incorporated as part of our procedures on the financial data in Phase V. If non-compliance with laws, regulations, contracts and grants, or abuse is noted during our testing, we will notify the Executive Director, Chief Financial Officer and Accounting Manager regarding the nature and scope of the non-compliance or abuse.

### **Phase V: Testing of Financial Data**

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, review of invoices and calculations supporting payments, review of individual contract documentation and approvals, analytical procedures, and tests of detailed transactions comprising accounting balances, for example.

### **Phase VI: 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 partner and engagement quality control review partner prior to submission to CPRB management for review and comment, including the drafting of management's response to any findings noted, once management's responses have been incorporated, final reports will be issued to the CPRB.

All drafts and final signed reports will be issued in accordance with the timetable described in Attachment D of the request for proposal.

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### CLIENT PREPARATION ASSISTANCE PACKAGE

We have included the audit client assistance package as Appendix D. The listing provides a detailed listing of the information that the CPRB will be requested to provide for the audit to begin. It will be necessary for all items on this listing to be provided on the dates specified to ensure that the audit can be completed as required in the Timetable for Completion of Audit included in Attachment D to the request for proposal.

### USE OF SUBCONTRACTORS

All audit work will be conducted by the employees of Gibbons & Kawash. The only subcontractor that will be utilized is the consulting actuary, Actuarial Risk Management. Their resumes are included in this proposal.

**Section 2.4.1.2:** It is preferred that the firm performing the audit have at least five years experience in performing GAAS audits.

- It is strongly preferred for the firm to have been in business in West Virginia at least 10 years and have at least 5 years experience conducting governmental audits. It is also strongly preferred that the firm have experiencing auditing defined benefit and defined contributions pension plans.
- It is strongly preferred that the firm currently have on staff at least 10 accounting professionals with at least half of those holding a CPA certification in West Virginia or similar certification.
- In addition, it is strongly desirable for the firm to incorporate into the response a list of those specific clients and engagements, including contact information, which they have performed within the last three years that are similar in nature to CPRB, including contact names and numbers where available and appropriate. It is strongly desirable that these be ranked on the basis of staff hours for the engagement. The state of West Virginia reserves the right to contact these clients.
  
- **Vendor Response:**

### GIBBONS & KAWASH'S PRACTICE

Gibbons & Kawash is a regional accounting corporation (founded in 1992) based in Charleston, West Virginia, with a staff of 29 professionals (of which 15 are certified public accountants) who provide accounting, assurance, business advisory, and tax services to a broad spectrum of clients, including governmental entities and employee benefit plans, throughout West Virginia and surrounding states for over 19 years. We direct significant resources to serving the needs of governmental entities and employee benefit plans. This focus is 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.

AN INDEPENDENT MEMBER OF THE



Gibbons & Kawash is an independent member of the BDO Seidman Alliance, a nationwide association of local and regional accounting and consulting firms. Membership enables us to access a level of expertise

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in specialties which are usually available only from large national and international CPA firms, without the high overhead costs.

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

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

### GOVERNMENTAL SERVICES PRACTICE

This practice includes three partners, two managers, and seven senior auditors who have extensive experience serving government clients. The core engagement team for the audit of the Board has been selected from this pool of highly qualified professionals. The team's public sector experience includes cities, authorities, and 17 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.

Gibbons & Kawash has a long tradition of providing the highest quality professional services to government clients. We immediately became members of the AICPA's Governmental Audit Quality Center upon its formation. This quality center is dedicated to improving the quality of government audits primarily through information sharing, training, and education.

#### *Governmental Audit Quality Center*

Gibbons & Kawash is a member of the three audit quality centers including the Governmental Audit Quality Center established by the American Institute of Certified Public Accountants. This Center has established increased continuing education and quality control requirements for its voluntary membership to enhance the quality of governmental audits.



#### *Professional Licensure*

The Firm of Gibbons & Kawash and all certified professionals are licensed to practice in the State of West Virginia, by the Board of Accountancy. Gibbons & Kawash is in good standing with the Unemployment Compensation Division.

Our governmental clients served in the past three years include:

#### State of West Virginia Agencies

- West Virginia Consolidated Public Retirement Board
- West Virginia Housing Development Fund
- West Virginia Board of Treasury Investments
- West Virginia Parkways Authority
- West Virginia Lottery Commission

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- West Virginia Alcohol Beverage Control Administration
- West Virginia Jobs Investment Trust
- West Virginia Regional Jail and Correctional Facility Authority
- School Building Authority of West Virginia
- West Virginia Infrastructure and Jobs Development Council
- West Virginia Solid Waste Management Board
- West Virginia Water Development Authority
- West Virginia Water Pollution Control Revolving Fund

### Other Governmental Entities

- Kanawha County Commission
- Kanawha Valley Regional Transportation Authority
- Central West Virginia Regional Airport Authority
- Region VII Planning and Development Council

A listing of clients similar to the CPRB, including contact information, is attached in Appendix F.

Gibbons & Kawash has extensive experience auditing financial statements for governmental entities to determine that they are presented fairly in accordance with accounting principles generally accepted in the United States of America (GAAP), having performed this service for all of the entities listed above.

Gibbons & Kawash also has extensive experience auditing the schedules and information required by FARS for 14 of the above entities. We have communicated and worked with FARS personnel to develop and resolve numerous financial reporting issues.

### **GFOA'S CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

Obtaining a Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers Association (GFOA) is a goal for many governmental entities. Gibbons & Kawash is well qualified to assist governments in obtaining and maintaining these certificates. Gibbons & Kawash has provided technical assistance in obtaining the Certificate to the West Virginia Department of Transportation, Division of Highways for ten years, the West Virginia Lottery Commission for eleven years, the West Virginia Parkways Authority for ten years, the West Virginia Housing Development Fund for six years, the West Virginia Board of Treasury Investments for 5 years, and the West Virginia Prepaid College Tuition Fund for one year.

### **EMPLOYEE BENEFIT PLAN PRACTICE**

Gibbons & Kawash audits more than 30 employee benefit plans each year of which 11 are defined benefit plans, and understands that specialized knowledge and experience in this area are crucial to ensure the execution of effective and efficient employee benefit plan audits. One of the plans that Gibbons & Kawash audits is a registered plan with the Securities and Exchange Commission. Steps we have taken during the last year to maintain and enhance our competency in this area include firm-wide continuing education courses specific to the employee benefits plan industry and participation in the AICPA's national employee benefits conference in Washington, D.C. We were also among the first CPA firms in West Virginia to join the AICPA Employee Benefit Plan Audit Quality Center. Membership in the Center requires that we:

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- Designate an audit partner to have firm-wide responsibility for the quality of the firm's ERISA employee benefit plan audit practice.
- Establish a program to ensure that all ERISA employee benefit plan audit engagement personnel possess current knowledge, appropriate to their level of involvement in the engagement, of applicable professional standards, rules and regulations for ERISA employee benefit plan audits. This includes the completion of a minimum of 8 hours of employee benefit plan-specific continuing professional education (CPE) within the three year period (or within the firm's or individual's most recent CPE period ending within the three year period) prior to signing an ERISA employee benefit plan audit opinion or managing an ERISA employee benefit plan audit engagement. Thereafter, the individual must have a minimum of 8 hours of employee benefit plan-specific CPE every three years (or within the firm's or individual's CPE period covering a three year period) where an individual continues in this capacity for ERISA employee benefit plan audits.
- Establish policies and procedures specific to the firm's ERISA employee benefit plan audit practice to comply with the applicable professional standards and Center membership requirements. In addition to meeting the quality control standards requirement for monitoring, establish annual internal inspection procedures that include a review of the firm's ERISA employee benefit plan audit practice by individuals possessing current experience and knowledge of the accounting and auditing practices specific to ERISA employee benefit plan audits. Make publicly available information about its most recently accepted peer review.
- Have its ERISA employee benefit plan audits selected as part of the firm's peer review reviewed by individuals employed by a Center member firm.

**Section 2.4.1.3:** The firm should have sufficient controls in place to ensure that a quality audit product is produced that meets all requirements.

- The firm should provide copies of the firm or firms internal control document as well as a copy of the most recent external quality control review. Should the written report of the most recent external quality control review disclose significant matters that would leave doubts as to the ability of the firm to maintain quality control, a written explanation should be attached to say what steps have been taken by the firm to improve their quality control procedures. The quality control review should have included a review of specific governmental engagements.
- The firm should provide with the proposal the results of any federal or state desk reviews or field reviews of its audits during the past three years.
- The firm should identify the managing partner of the office from which the engagement will be performed. The contact information for the managing partner should include the name of the managing partner, his address, his direct dial telephone number, fax number, and email address. This information is intended for use in the unlikely event that CPRB is unable to obtain satisfactory responses from the audit team and need to have direct contact with management.
- The proposal should set forth a work plan, including an explanation of the methodology to be followed, to perform the services required in this request for proposals. The work plan should include the key quality control points in the audit process.



## ATTACHMENT A - VENDOR RESPONSE SHEET

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### ◦ Vendor Response:

#### AUDIT QUALITY

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.

Gibbons & Kawash strongly supports the rendering of quality services to our governmental clients. The following few paragraphs demonstrate the Firm's dedication to each aspect of audit quality.

#### *External Quality Control Review*

Gibbons & Kawash is a member of the American Institute of Certified Public Accountants' Peer Review Program. The Program has established a self-regulatory process which includes requirements for peer review of the member firms every three years. These reviews, which are performed by knowledgeable independent CPAs from other firms, periodically evaluate and test systems of quality control of member firms. Our system of quality control provides assurance that we maintain, on a continuing basis, the highest professional standards to which we are committed. Our most recently released external quality control review, which was completed on May 12, 2009, was performed by Rea & Associates, Inc. Their opinion, which was "pass" (the highest possible rating under the new peer review standards), is on file with the AICPA and is included as Appendix C. This quality control review included governmental audit engagements. Our quality control document is included as Appendix E.

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.

#### *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. As part of our quality control program, Gibbons & Kawash requires a minimum of forty (40) hours of continuing professional education credits annually for each professional. In addition, Gibbons & Kawash provides internal and external training on governmental accounting, auditing, reporting and operations in excess of the GAO requirements.

#### *Regulatory Registration*

Gibbons & Kawash is a registered firm with the Public Company Accounting Oversight Board (PCAOB) to conduct audits of public companies. The PCAOB is a nonprofit corporation established by Congress to

## ATTACHMENT A - VENDOR RESPONSE SHEET

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oversee the audits of public companies in order to protect the interest of investors and further the public interest in the preparation of informative, accurate and independent audit reports.

### EXPERTISE IN COMPUTERIZED SYSTEMS

#### *Computerizing the Audit*

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



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



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

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

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



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



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

### GIBBONS & KAWASH MANAGING PARTNER

Valerie R. Ellis  
707 Virginia Street, East  
Chase Tower, Suite 300  
Phone: (304) 345-8400  
Fax: (304) 345-8451  
Email: [vellis@gandkcpas.com](mailto:vellis@gandkcpas.com)

# ATTACHMENT A - VENDOR RESPONSE SHEET

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## AUDIT WORKPLAN

### Audit Work Plan by Financial Statement Component

The following contains a brief description of substantive testing procedures that may be performed in the respective financial statement components or transaction classes. The actual procedures to be performed will be determined once the preliminary planning has been completed and the audit programs have been developed (see vendor response to section 2.4.1.1 for detailed discussion of the phases of the audit and the components of the planning phase).

#### *Management's discussion and analysis*

- a. Read the MD&A and compare the financial data reported to the audited financial statements
- b. Compare the information components presented to the provisions of GASB Statement #34, as amended
- c. Determine that no factually inaccurate information is presented by management

#### *Cash*

- a. Confirm all significant cash accounts
- b. Agree all cash reconciliations to the general ledger and test reconciling items as appropriate
- c. Review auditee-prepared schedule of disclosures for cash balances
- d. Evaluate compliance with laws, regulations, grant agreements, contracts and bond indentures

#### *Investments*

- a. Confirm all significant investment accounts with the custodian
- b. Agree all investment reconciliations to the general ledger and testing reconciling items as appropriate
- c. Evaluate investment valuation under the provisions of GASB Statement No. 31
- d. Perform analysis of the amount of investment income earned
- e. Evaluate compliance with laws, regulations, grant agreements, contracts and bond indentures

#### *Receivables*

- a. Confirm account balances
- b. Trace a sample of receivables to subsequent collections or source documents
- c. Obtain an understanding of the Board's allowance for doubtful accounts methodology and test the reasonableness of the account balance in relation to historical collection experience and other relevant factors
- d. Evaluate compliance with laws, regulations, grant agreements, and contracts

#### *Accounts payable and accrued liabilities*

- a. Perform tests of controls over cash disbursement transaction class (including payroll) to determine appropriate assessed level of control risk
- b. Obtain auditee-prepared schedule of liabilities at June 30. Compare these schedules to the amounts reported on the general ledger

## ATTACHMENT A - VENDOR RESPONSE SHEET

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- c. Perform a search for unrecorded liabilities by tracing significant disbursements subsequent to year end to supporting documentation for determination if such transactions should be a liability at year end.
- d. Recalculate other liabilities such as compensated absences, interest payable, etc., including evaluating the actuarial calculation used to convert unused sick leave to post-retirement health care coverage.
- e. Evaluate compliance with laws, regulations, grant agreements, and contracts

### *Equity (Net assets held in trust for pension funds)*

- a. Obtain an auditee-prepared schedule progressing net assets for the financial statements
- b. Evaluate the classification of restrictions of net assets for compliance with generally accepted accounting principles

### *Member and Employer Contributions*

- a. Perform tests of contributions received to a list of participating entities
- b. Tests of amounts contributed for compliance with applicable rules and regulations
- c. Tests of amounts from employer contribution reports to/from individual participant records of amounts contributed
- d. Confirm or perform other substantial tests of amounts received and receivable with selected entities

### *Benefit Expense*

- a. Tests of computations and approvals of benefits in accordance with Plan rules and state regulations, and participant options selected
- b. Perform tests of eligibility of participants
- c. Tests of selected individual participant records provided to plan actuary for incorporation of appropriate demographic, service history, and contribution data

### *Required Supplementary Information*

- a. With the assistance of a consulting actuary, obtain an understanding of the Plan actuary's scope of work, methods and assumptions, and the consistency of application of such methods and assumptions
- b. Perform certain tests of completeness and accuracy of participant data (census data) provided to the Plan actuary for use in the actuarial valuation as advised by our consulting actuary.

### **Audit Work Plan – Key Quality Control Points**

- The planning phase, including updating the understanding of the entity, internal control evaluation, and risk assessment will be completed by the Supervising Senior and reviewed by the Audit Manager, Engagement Partner, and Engagement Quality Control Review Partner prior to the beginning of our substantive audit procedures.
- As the audit work process, the audit areas completed by the staff will be reviewed by the Supervising Senior while all work completed by that individual will be reviewed by either the Audit Manager, Engagement Partner or both depending of the significance and risks associated

## ATTACHMENT A - VENDOR RESPONSE SHEET

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- with that audit area for compliance with auditing standards, firm quality control document, analysis or results, proper testing of balances, continually evaluate assessments.
- At the conclusion of the audit field work all deliverables and audit evidence will be thoroughly reviewed by Engagement Partner. Once the Engagement Partner's review has been completed, then the engagement, including the audit evidence, working papers, and deliverables we be subjected to Gibbons & Kawash's engagement quality control review. Under this review a Partner in the assurance department of the firm will conduct an evaluation of the audit evidence and deliverables to ensure that the audit was conducted in accordance with professional standards and the audit report and other deliverables are appropriate.

**Section 2.4.1.4:** It is preferred that at least 60% of the work on the audit be performed by someone who is at a supervisor level or higher within the firm.

- The firm should identify the principal supervisory and management personnel to be included in the engagement including the engagement partner, reviewing partners, managers, other supervisors and specialists, as well as the estimated number of hours each will spend on the engagement. These personnel may be changed if those personnel leave the firm, are promoted, or are assigned to another office.
  - It is strongly desired that the bidder submit resumes for all persons proposed to be included on the audit team.
  - It is strongly preferred that all personnel assigned to the engagement have at least one year of auditing experience in public accounting or a similar environment.
- **Vendor Response:**

### ENGAGEMENT TEAM

The ultimate quality of our professional services to the West Virginia Consolidated Public Retirement Board 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.

Your client service team will include:

**Engagement Partner** - John D. Galloway, CPA, is an audit partner in Gibbons & Kawash's audit practice with 16 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 the CPRB throughout the engagement to ensure that services and resources are provided to the CPRB 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. In addition to his prior six years of experience auditing the Consolidated Public Retirement Board, John serves as the audit partner on numerous State of West Virginia component unit audits ranging in size up to \$2.4 billion in assets. His experience also includes assisting three entities with 16 successful submissions under the GFOA's Certificate of Achievement for Excellence in Financial Reporting program.

We estimate that John will spend approximately 30 hours on this engagement.

## ATTACHMENT A - VENDOR RESPONSE SHEET

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**Engagement Quality Control Review Partner** - Robert R. Denyer, CPA, a partner with Gibbons & Kawash with over 30 years experience in serving governmental clients, will serve as engagement quality control review partner. The role of the engagement quality control 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 27 successful submissions for the certificate. His extensive experience with State of West Virginia entities will be of substantial benefit on this engagement. In addition to his experience on the audit team for the Consolidated Public Retirement Board for the past six years, Bob has served as partner in charge of numerous employee benefit plan audits, including defined benefit plans.

We estimate that Bob will spend approximately 16 hours on this engagement.

**Audit Manager** - Robert Henson, CPA is an audit manager in Gibbons & Kawash's audit practice with many years of specialized experience with governmental entities and nonprofit organizations. Rob will be responsible for the initial review of the engagement plan developed by the supervisory senior auditor, coordinating the efforts of the engagement team, identifying and researching technical issues, and administrative matters. Rob will be in contact with you on a regular basis to ensure your needs and deadlines are met.

We estimate that Rob will spend approximately 40 hours on this engagement.

**Supervising Senior Auditor** - Elizabeth Semder is a supervising senior auditor with five years of experience. Her experience includes supervising the audit of the Board and audits of employee benefit plans, including defined benefit plans. Liz will develop the preliminary engagement plan that will be reviewed by the Audit Manager and Engagement Partner. Liz will be in charge of the daily field work to ensure the efficient and effective execution of the engagement plan by the audit staff.

We estimate that Liz will spend approximately 154 hours on this engagement.

**Staff Auditor** - Robert Alatis, CPA will serve as a staff auditor on this engagement. Rob will be responsible for conducting detailed testing and the gathering of audit evidence. Rob has over 2 years of audit experience, including audits of the CPRB and audits of other employee benefit plans, including defined benefit plans.

We estimate that Robert will spend approximately 80 hours on this engagement.

**Staff Auditor** - Jessica Simmons will serve as a staff auditor on this engagement. Jessica will be responsible for conducting detailed testing and the gathering of audit evidence. Jessica has 2 years of audit experience, including audits of the CPRB and audits of the employee benefit plans.

We estimate that Jessica will spend approximately 75 hours on this engagement.

The certified public accountants on your client service team are licensed to practice as certified public accountants in West Virginia and, along with Ms. Semder, will be assigned to this engagement. Any changes to the engagement team will only be made with the prior approval of the CPRB.

## ATTACHMENT A - VENDOR RESPONSE SHEET

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

**Section 2.4.1.5:** It is preferred that the audit team includes an actuary.

- It is strongly preferred that the auditing firms have an actuary on the engagement team. A large portion of the audit relies on the review of an accredited actuary. Proposals should state the experience and qualifications of the consulting actuary who would be performing work throughout the course of the engagement. The proposal should also estimate the review time the actuary will spend on the audit.
- **Vendor Response:**

### **EXPERTISE OF CONSULTING ACTUARIAL STAFF**

Actuarial Risk Management (ARM) will serve on the engagement team as consulting actuaries for the audit of the West Virginia Consolidated Public Retirement Board. Their consulting actuaries possess the actuarial credentials, industry experience requirements and review expertise needed to adequately discharge these responsibilities.

#### **About Actuarial Risk Management**

ARM has been an independent member of the BDO Seidman Alliance since 2006, and provides risk management and actuarial services. ARM covers all sectors, including Insurance, Managed Care, Employee Benefits, Retirement, and Banking. Our objective is to provide independent practical advice and creative solutions to complex risk problems facing insurance, business, and government entities.

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

#### **Services**

- Actuarial Valuation Services

The centerpiece of traditional actuarial consulting services is the annual actuarial valuation of the Plan. In this valuation, Plan liabilities and costs are computed, an analysis of experience during the past year is prepared, and all relevant accounting information is presented.

- Actuarial Audits and Reviews

ARM provides a range of actuarial audit and review services. We have performed full actuarial audits for some of the largest systems in the U.S., and frequently review the work of other actuaries for various systems, including several large state systems.

- Actuarial Experience Studies

The key information determining the assumptions adopted by the CPRB to compute actuarial liabilities and costs comes from a periodic actuarial experience study. Such studies are vital for

## ATTACHMENT A - VENDOR RESPONSE SHEET

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exploring past rates of death, disability, retirement, and termination among active and inactive plan participants.

### Consulting Actuaries

The consulting actuaries that would comprise the review team for the West Virginia Consolidated Public Retirement Board are as follows:

<u>Consulting Actuary</u>	<u>Industry Experience</u>	<u>Actuarial Credentials</u>
Dan Homan	25 years	EA, MAAA
Frederick Bass	25 years	FSA, MAAA

We have also enclosed biographical sketches in Appendix B for each of these consulting actuaries. These biographical sketches note the relevant actuarial credentials and industry work experience. The review team will be led by Dan Homan, who will serve as the lead actuary. Appendix G includes information about ARM's practice.



## ATTACHMENT B - MADATORY SPECIFICATION CHECKLIST

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### Section 2.5.1: Mandatory Requirement 1 - Required Reports

Vendor Response: Explain how you will meet this requirement including approach and timeline.

Following the completion of each audit of the fiscal year's financial statements, we shall issue our reports on the fair presentation of the financial statements in conformity with generally accepted accounting principles and in accordance with *Government Auditing Standards* that will include all CPRB Plans and funds. We will provide to the Director of the Financial Accounting and Reporting Section (FARS) of the Department of Administration, 2101 Washington Street East, Building 17, 3rd floor, Charleston, WV 25305, under the authority of Section 5A-2-23 of the State Code, an immediate, written report of all fraud, irregularities and illegal acts of which we become aware. Additionally, a copy of all such reports will be given to the Executive Director of CPRB, the Chief Financial Officer of CPRB, and to the Accounting Manager of CPRB. We will inform the Executive Director of CPRB, the Chief Financial Officer of CPRB, and the Accounting Manager of CPRB in writing of each of the following:

1. The auditor's responsibility under generally accepted auditing standards.
2. Significant accounting policies.
3. Management judgments, accounting estimates and projections.
4. Significant audit adjustments and significant revisions of past and current estimates and projections.
5. Other information in documents containing audited financial statements and/or estimates and projections.
6. Disagreements with management.
7. Consultation with other accountants and actuaries.
8. Major issues discussed with management prior to retention.
9. Difficulties encountered in performing the audit.

We will also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

We will meet all deadlines listed in the "Timetable for Completion of Audit" included as Attachment D of the request for proposal. See our detailed discussion of the audit timetable in Attachment A, in response to Section 2.4.1.1. See our detailed discussion of our audit approach in Attachment A, in response to Section 2.4.1.1.

### Section 2.5.2: Mandatory Requirement 2 - Management Communication

Vendor Response: Explain how you will meet this requirement including approach and timeline.

We understand that the CPRB's financial statements are to be included in the financial statements of the State of West Virginia. We will provide any special assistance to the State's auditors, and the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration. Gibbons & Kawash has extensive experience providing assistance to FARS and working with the State's auditor. We have audited over 17 State of West Virginia agencies and component units and with this experience we have developed a thorough understanding of the needs of FARS.

## ATTACHMENT B - MADATORY SPECIFICATION CHECKLIST

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### Section 2.5.3: Mandatory Requirement 3 - Working Paper Retention and Access

Vendor Response: Explain how you will meet this requirement including approach and timeline.

All working papers and reports will be retained, at our expense, for a minimum of five (5) years, unless we are notified in writing by CPRB of the need to extend the retention period. We will make the working papers available, upon request, to the following parties or their designees:

- Executive Director of CPRB
- Chief Financial Officer of CPRB
- Accounting Manager of CPRB
- Director Financial Accounting and Reporting Section Department of Administration State of West Virginia

In addition, we will respond to the reasonable inquiries of successor auditors and allow them to review working papers relating to matters of continuing audit significance.

### Section 2.5.4: Mandatory Requirement 4 - Additional Audit Procedures

Vendor Response: Explain how you will meet this requirement including approach and timeline.

We will cooperate with the FARS and perform procedures related to the State's net pension obligation necessary for its inclusion in the State of West Virginia Comprehensive Annual Financial Report. Since the adoption of GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, the testing of the census information supporting the actuarial valuations required for the State's net pension obligations is not required under auditing standards generally accepted in the United States of America, thus a separate billing will not be necessary.

### Section 2.5.5: Mandatory Requirement 5 - Report Preparation

Vendor Response: Explain how you will meet this requirement including approach and timeline.

Final report preparation, editing, and printing will be Gibbons & Kawash's responsibility. We will deliver 50 copies of the bound final audit report for CPRB to 4101 MacCorkle Avenue SE, Charleston, West Virginia 25304 by the delivery date specified in Attachment D to the request from proposal. We will also provide a PDF format file of the complete audit report to CPRB for use on its website.

### Section 2.5.6: Mandatory Requirement 6 - Delivery Dates

Vendor Response: Explain how you will meet this requirement including approach and timeline.

We understand at the dates in the Schedule of Delivery Dates for Reports are required delivery deadlines. We further understand that failure to deliver the required reports by the dates specified will result in liquidated damages as described in section 5.10 and will be considered grounds for immediate termination of this contract at the discretion of CPRB. Our audit approach and work plan are designed to ensure that these required delivery dates are met. This includes the use of interim procedures to allow as much testing as possible to be completed prior to year end closing of the

## ATTACHMENT B - MADATORY SPECIFICATION CHECKLIST

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CPRB. See our detailed discussion of the audit timetable in Attachment A, in response to Section 2.4.1.1.

We also understand that if renewal of this contract for services in subsequent years occurs, the contract change order will contain the delivery dates for the renewal period as specified in Attachment D to the request for proposal.

### **Section 2.5.7: Mandatory Requirement 7 - Independence**

Vendor Response: Explain how you will meet this requirement including approach and timeline.

The credibility of the audit results is critical for oversight by the Consolidated Public Retirement Board members 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 with respect to the CPRB in all respects, and will carefully guard and maintain our independence during the course of any audit services provided to the CPRB and State of West Virginia. Specialists used during the course of the audit of the CPRB, including the consulting actuaries, are considered members of the engagement team and meet all independence requirements.

### **Section 2.5.8: Mandatory Requirement 8 - License to Practice in West Virginia**

Vendor Response: Explain how you will meet this requirement including approach and timeline.

The firm of Gibbons & Kawash and all certified professionals are licensed to practice in the State of West Virginia by the Board of Accountancy. The firm of Gibbons & Kawash is licensed to perform audit services. Gibbons & Kawash is in good standing with the Unemployment Compensation Division and is current on its premiums for workers compensation.

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.

### **Section 2.5.9: Mandatory Requirement 9 - Quality Control**

Vendor Response: Explain how you will meet this requirement including approach and timeline.

Gibbons & Kawash is a member of the American Institute of Certified Public Accountants' Peer Review Program. The Program has established a self-regulatory process which includes requirements for peer review of the member firms every three years. These reviews, which are performed by knowledgeable independent CPAs from other firms, periodically evaluate and test systems of quality control of member firms. Our system of quality control provides assurance that we maintain, on a continuing basis, the highest professional standards to which we are committed. Our most recent external quality control review, which was completed on May 12, 2009, was performed by Rea & Associates, Inc. Their opinion, which was "pass" (the highest possible rating under the new peer

## ATTACHMENT B - MADATORY SPECIFICATION CHECKLIST

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review standards), is on file with the AICPA and is included as Appendix C. This quality control review included governmental audit engagements and employee benefit plan 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.

See our detailed discussion of the audit timetable in Attachment A, in response to Section 2.4.1.1.

### Section 2.5.10: Mandatory Requirement 10 - Reporting to USDHHS

Vendor Response: Explain how you will meet this requirement including approach and timeline.

Gibbons & Kawash will provide to the CPRB, for submission to the US Department of Health and Human Services by October 30 of the following fiscal year, an Annual Report prepared by us as the independent auditor, documenting the total annual contribution to PERS required under this Agreement, as well as all annual employer contributions otherwise required to be made to PERS under State law. The Annual Report will be in the format set forth in Attachment E, Addendum B to the request for proposal. The procedures over this data will be performed during audit procedures over the financial statements.


### Section 2.5.11: Mandatory Requirement 11 - Additional Services

Vendor Response: Explain how you will meet this requirement including approach and timeline.

Gibbons & Kawash will be available as requested or required by the CPRB to provide additional accounting and auditing consulting services as needed at the hourly rates specified in our Cost Proposal, Attachment C.

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

Gibbons & Kawash, CPAs A.C.

  
\_\_\_\_\_  
John D. Galloway, CPA  
Shareholder

Phone: (304) 345-8400

Fax: (304) 345-8451

5/3/11  
\_\_\_\_\_  
Date

**APPENDIX A**

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



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

# Request for Quotation

RFQ NUMBER  
**CPR11018**

PAGE  
**1**

ADDRESS CORRESPONDENCE TO ATTENTION OF  
**KRISTA FERRELL  
 304-558-2596**

RFQ COPY  
 TYPE NAME/ADDRESS HERE

VENDOR

SHIP TO

**CONSOLIDATED PUBLIC RETIREMENT BOARD  
 BUILDING 5, ROOM 1000  
 1900 KANAWHA BOULEVARD, EAST  
 CHARLESTON, WV  
 25305-0720 558-3570**

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
03/23/2011				

BID OPENING DATE: **04/26/2011** BID OPENING TIME **01:30PM**

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
0001	1	LS		946-20		
<p><b>ANNUAL FINANCIAL STATEMENT AUDIT FOR CPRB</b></p> <p><b>REQUEST FOR PROPOSAL (RFP)          OPEN END CONTRACT</b></p> <p>THE WEST VIRGINIA STATE PURCHASING DIVISION FOR THE AGENCY, THE WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD (CPRB) IS SOLICITING PROPOSALS TO PROVIDE THE AGENCY WITH AUDITING SERVICES TO PERFORM THE ANNUAL FINANCIAL STATEMENT AUDIT OF THE CONSOLIDATED PUBLIC RETIREMENT BOARD PER THE ATTACHED SPECIFICATIONS.</p> <p>TECHNICAL QUESTIONS CONCERNING THIS RFP MUST BE SUBMITTED IN WRITING TO KRISTA FERRELL IN THE WEST VIRGINIA STATE PURCHASING DIVISION. PLEASE SEE SECTION 1.5 OF THE ATTACHED SPECIFICATIONS FOR MORE INFORMATION.</p> <p>LIFE OF CONTRACT: THIS CONTRACT SHALL BE EFFECTIVE UPON AWARD AND A SHALL EXTEND FOR A PERIOD OF ONE (1) YEAR. PLEASE SEE SECTION 5.5 OF THE ATTACHED SPECIFICATIONS FOR MORE INFORMATION.</p> <p>EXHIBIT 10</p> <p>REQUISITION NO.: <b>CPR11018</b></p> <p>ADDENDUM ACKNOWLEDGEMENT</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
	304-345-8400	May 3, 2011
TITLE	FAX	ADDRESS CHANGES TO BE NOTED ABOVE
Shareholder	55-0738985	

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

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

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

### INSTRUCTIONS TO BIDDERS

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



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

# Request for Quotation

RFQ NUMBER  
**CPR11018**

PAGE  
**2**

ADDRESS CORRESPONDENCE TO ATTENTION OF  
**KRISTA FERRELL  
 304-558-2596**

RFQ COPY  
 TYPE NAME/ADDRESS HERE

**CONSOLIDATED PUBLIC RETIREMENT BOARD  
 BUILDING 5, ROOM 1000  
 1900 KANAWHA BOULEVARD, EAST  
 CHARLESTON, WV  
 25305-0720 558-3570**

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
03/23/2011				

BID OPENING DATE: **04/26/2011** BID OPENING TIME **01:30PM**

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
<p>I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.</p> <p>ADDENDUM NO.'S:</p> <p>NO. 1 ..... <b>X</b> .....</p> <p>NO. 2 .....</p> <p>NO. 3 .....</p> <p>NO. 4 .....</p> <p>NO. 5 .....</p> <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, A.C.            .....            COMPANY            May 3, 2011            .....            DATE         </p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE <b>304-345-8400</b>	DATE <b>May 3, 2011</b>
TITLE <b>Shareholder</b>	FEIN <b>55-0738985</b>	ADDRESS CHANGES TO BE NOTED ABOVE

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





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

# Request for Quotation

RFQ NUMBER  
**CPR11018**

PAGE  
**3**

ADDRESS CORRESPONDENCE TO ATTENTION OF  
**KRISTA FERRELL  
 304-558-2596**

RFQ COPY  
 TYPE NAME/ADDRESS HERE

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**CONSOLIDATED PUBLIC RETIREMENT BOARD**  
 BUILDING 5, ROOM 1000  
 1900 KANAWHA BOULEVARD, EAST  
 CHARLESTON, WV  
 25305-0720 558-3570

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
03/23/2011				

BID OPENING DATE: **04/26/2011** BID OPENING TIME **01:30PM**

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
<p>NOTE: THIS ADDENDUM ACKNOWLEDGEMENT SHOULD BE SUBMITTED WITH THE BID.</p> <p>REV. 09/21/2009</p> <p style="text-align: center;">NOTICE</p> <p>A SIGNED PROPOSAL MUST BE SUBMITTED TO:</p> <p style="text-align: center;">DEPARTMENT OF ADMINISTRATION          PURCHASING DIVISION          BUILDING 15          2019 WASHINGTON STREET, EAST          CHARLESTON, WV 25305-0130</p> <p>THE PROPOSAL SHOULD CONTAIN THIS INFORMATION ON THE FACE OF THE ENVELOPE OR THE PROPOSAL MAY NOT BE CONSIDERED:</p> <p>SEALED PROPOSAL:</p> <p>BUYER: KRISTA FERRELL-FILE 21</p> <p>RFQ. NO.: CPR11018</p> <p>TECHNICAL PROPOSAL OPENING DATE: 04/26/2011</p> <p>TECHNICAL PROPOSAL OPENING TIME: 1:30 PM</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS		
SIGNATURE 	TELEPHONE 304-345-8400	DATE May 3, 2011
TITLE Shareholder	FAX 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  
 Department of Administration  
 Purchasing Division  
 2019 Washington Street East  
 Post Office Box 50130  
 Charleston, WV 25305-0130

# Request for Quotation

RFQ NUMBER  
**CPR11018**

PAGE  
**4**

ADDRESS CORRESPONDENCE TO ATTENTION OF:  
**KRISTA FERRELL  
 304-558-2596**

RFQ COPY  
 TYPE NAME/ADDRESS HERE

VENDOR

SHIP TO

**CONSOLIDATED PUBLIC RETIREMENT BOARD  
 BUILDING 5, ROOM 1000  
 1900 KANAWHA BOULEVARD, EAST  
 CHARLESTON, WV  
 25305-0720 558-3570**

DATE PRINTED	TERMS OF SALE	SHIP VIA	FOB	FREIGHT TERMS
03/23/2011				

BID OPENING DATE: **04/26/2011** BID OPENING TIME **01:30PM**

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
PLEASE PROVIDE A FAX NUMBER IN CASE IT IS NECESSARY TO CONTACT YOU REGARDING YOUR BID: <b>304-345-8451</b>						
CONTACT PERSON (PLEASE PRINT CLEARLY): <b>John D. Galloway</b>						
***** THIS IS THE END OF RFQ CPR11018 ***** TOTAL:						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE <b>304-345-8400</b>	DATE <b>May 3, 2011</b>
TITLE <b>Shareholder</b>	FAX <b>55-0738985</b>	ADDRESS CHANGES TO BE NOTED ABOVE

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

**APPENDIX B**

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**ENGAGEMENT TEAM QUALIFICATIONS AND EXPERIENCE**

## APPENDIX B

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**John D. Galloway, CPA**

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

### *Engagement Responsibilities*

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

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

### *Experience*

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

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

### *Professional Activities*

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

### *Education*

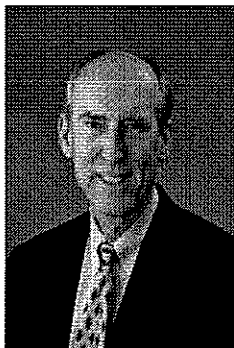
John graduated from the University of Charleston with a bachelor of science degree in business administration.

### *Continuing Professional Education*

John is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Robert R. Denyer, CPA**

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

### *Engagement Responsibilities*

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

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

### *Experience*

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

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

### *Professional Activities*

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

### *Education*

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

### *Continuing Professional Education*

Bob is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Robert Henson, CPA**

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

### *Engagement Responsibilities*

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

### *Experience*

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

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

### *Professional Activities*

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

### *Education*

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

### *Continuing Professional Education*

Rob is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Elizabeth Semder**

**SUPERVISING SENIOR**

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

### *Engagement Responsibilities*

The supervising senior is responsible for developing the engagement plan, supervising and coordinating the efforts of the engagement team. Liz will be in contact with the Chief Financial Officer and Accounting Manager on a daily basis to ensure the deadlines are met. Liz will be in charge of the daily field work to ensure the efficient and effective execution of the engagement plan by the audit staff.

### *Experience*

Liz has five years of experience providing audit, tax, and consulting services to numerous organizations, including State of West Virginia agencies and component units, employee benefit plans, colleges and universities, foundations, churches, and various health and welfare organizations. Her professional and supervisory service to nonprofit organizations includes the following:

- Alderson-Broaddus College
- Appalachian Bible College
- West Virginia Alcohol Beverage Control Administration
- **West Virginia Consolidated Public Retirement Board**
- West Virginia Lottery Commission
- West Virginia Wesleyan College
- The University of Charleston
- Over 10 employee benefit plans, including three defined benefit retirement plans

### *Education*

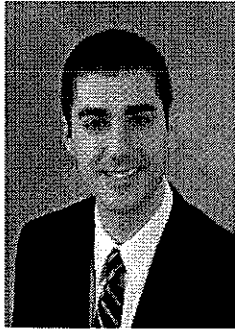
Liz graduated from the University of Kentucky with a Bachelor of Science degree in business administration.

### *Continuing Professional Education*

Liz is in compliance with all applicable CPE requirements.

## APPENDIX B

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**Robert Alatis, CPA**

**STAFF AUDITOR**

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

### *Engagement Responsibilities*

The staff auditor is responsible for conducting the detailed testing and the gathering of the audit evidence. Rob has over 2 years of audit experience, including audits of the CPRB and audits of employee benefit plans, including defined benefit plans.

### *Experience*

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

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

### *Education*

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

### *Continuing Professional Education*

Rob is in compliance with all applicable CPE requirements.



## APPENDIX B

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**Jessica Simmons**

**STAFF AUDITOR**

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

### *Engagement Responsibilities*

The staff auditor is responsible for conducting the detailed testing and the gathering of the audit evidence. Jessica has 2 years of audit experience, including audits of the CPRB and audits of employee benefit plans, including defined benefit plans.

### *Experience*

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

- Appalachian Bible College
- Capitol Market, Inc.
- Kanawha County Dental Health Council, Inc.
- Kanawha County Regional Development Authority
- Kanawha Valley Regional Transportation Authority
- Logan Mingo Area Mental Health, Inc.
- Nicholas Community Action Partnership, Inc.
- Westbrook Health Services, Inc.
- West Virginia Alcohol Beverage Control Administration
- West Virginia Board of Treasury Investments
- **West Virginia Consolidated Public Retirement Board**
- West Virginia Department of Transportation, Division of Highways
- West Virginia Department of Transportation
- West Virginia Lottery Commission
- Six employee benefit plans (not including the CPRB)

### *Education*

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

### *Continuing Professional Education*

Jessica is in compliance with all applicable CPE requirements.

## APPENDIX B

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### CONSULTING ACTUARIES



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

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

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

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

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

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

Public sector plan clients in the last 5 years:

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

## **APPENDIX C**

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### **EXTERNAL PEER REVIEW**



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

## System Review Report

May 12, 2009

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

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

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

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

*Rea & Associates, Inc.*

**APPENDIX D**

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**CLIENT PREPARATION ASSISTANCE PACKAGE**

## APPENDIX D

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### West Virginia Consolidated Public Retirement Board *Appendix D – Client Preparation Assistance Package* June 30, 2011

#### General

1. Copies of the current Actuarial Valuation Reports for each plan.
2. Listing of all pending or threatened litigation as of June 30, 2011 or subsequent to year end, including the nature of the case, parties named, attorney assigned by CPRB, management's intentions regarding defense of case, etc.
3. Listing (including mailing address) for all attorneys utilized during 2011
4. Listing of member employers in each plan.
5. June 30, 2011 trial balance for each plan and the internal service fund in paper and electronic format (preferably MS-Excel).
6. Make available all internal audit reports issued from July 1, 2010 to present by the internal auditor.
7. Provide a copy of any legislative Audit Reports issued to management, including management's response to the findings.
8. Make available all minutes of meeting of the governing board and any committees of that board.

#### Financial Reporting

9. Copy of preliminary financial statements including the required supplementary information (RSI) and Management's Discussion and Analysis (MD&A).

#### Cash with State Treasurer

10. Copies of the June 2011 PFY 2011 Auditor's Account Status Report and Monthly Line-Item Report by FIMS Fund. (Auditors Runs)
11. Provide a reconciliation of the cash with state treasurer to the June 2011 PFY 2011 Auditor's Account Status Report for each plan.
12. Provide a copy of the "Opening Balance Report" provided by WV FARS.

#### Investments

13. Schedule of investments for each plan reconciled to the June 30, 2011 IMB Statements.
14. Copies of the IMB statements as of June 30, 2011.

#### Contributions Receivable

15. Schedule of contributions receivable by Plan (reconciled to the trial balance), including the employer and date that subsequent payment was received.

#### Participant Loans Receivable

16. Aged schedule of participant loans as of June 30, 2011.
17. Loan master listing as of June 30, 2011.
18. Listing of delinquent loans by plan as of June 30, 2011.
19. Provide analysis of the need for a valuation allowance for the loans in each plan

## **APPENDIX D**

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### **Miscellaneous Receivables**

20. Provide as schedule of these receivables as of June 30, 2011

### **Prepaid Expenses**

21. Provide as schedule of these assets as of June 30, 2011

### **Accrued Expenses and Other Payables**

22. Schedule of these payables by plan as of June 30, 2011.
23. Schedule of accrued payroll in the internal service fund as of June 30, 2011.
24. Copy of "check register" for each plan for the period of July 1, 2011 to present.

### **Compensated Absences**

25. Provide a listing of vacation hours by employee including employee name, number of hours accrued as of year end, employee's hourly rate of pay as of June 30, 2011, and the extended value of the vacation. Please total this report for both hours and the extended value.
26. Provide a listing of sick leave hours by employee, including employee name, number of hours accrued as of year end, and employees start date. Please sort report by employee start date and total by dates differentiating the level of benefit for sick leave.

### **Plan Equity**

27. Provide a schedule progressing ending equity for each plan to the beginning of the fiscal year balance per the trial balance.

### **Contributions Revenue**

28. Provide a schedule of individual (i.e. each remittance to CPRB) contributions by plan by participating employer for the fiscal year. Provide breakdown between employer and employee contributions.
29. Provide a schedule of wages by employee sort by employer, as applicable, for each plan.
30. Provide census date of active participation for each month during the Fiscal Year for each plan.

### **Other Income**

31. Provide a detail schedule of other income during the fiscal year by plan.

### **Benefits Expense**

32. Provide a listing of all benefit payments made during year by each plan. This listing can be extracted from WVFIMS for both warrants written and direct deposit transactions. This listing should reconcile to the amount of benefit expense on the trial balance for each plan.
33. Provide a listing by plan of all new benefit recipients during 2011.
34. Provide census data for participants receiving benefits for both 2010 and 2011 by plan.
35. Provide the census data provided to the actuaries as of July 1, 2010, used to determine the actuarial data for each plan.

## **APPENDIX D**

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### **Transfers (To) From Other Plans**

36. Provide a listing of all transfers from one plan to another. This listing should identify the plan transferred from and the plan transferred to, the amount of the transfer and a brief explanation on the reason for the transfer.

### **Distributions/Refunds**

37. For the Defined Benefit Plans, provide a schedule of distributions/refunds made during the year by plan.

### **Forfeitures (TDC)**

38. Provide a schedule of all forfeitures of contributions during the year under the TDC.

### **Administrative Expense**

39. Provide a detailed schedule of administrative expenses by natural classification (i.e. salaries, benefits, office expense, rent, etc.) charged to the Administrative Fund for both 2011 and 2010.



**APPENDIX E**

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**INTERNAL QUALITY CONTROL DOCUMENT**

## APPENDIX E

### GIBBONS & KAWASH, A.C. QUALITY CONTROL DOCUMENT Amended and Restated Effective August 1, 2010

The firm's quality control policies and procedures for the six elements of quality control are presented below. All employees of the firm are provided copies and 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 director to annually advise each audit partner that AICPA membership is mandatory. Also, as required by the membership requirements of the respective Centers, the managing director 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 quality of the firm's ERISA employee benefit plan practice.

Any questions, concerns, or recommendations about the firm's quality control system should be communicated to the managing director.

#### **LEADERSHIP RESPONSIBILITIES FOR QUALITY**

It is the firm's policy to promote a culture of quality that is pervasive throughout the firm's operations through the development of its system of quality control. Firm management, under the direction of the managing director, assumes responsibility for the firm's system of quality control and designs the system (a) to emphasize the importance of performing work that complies with professional standards and regulatory and legal requirements and (b) to issue reports that are appropriate in the circumstances. In maintaining a culture of quality, the firm emphasizes the importance of ethics and integrity in every decision that personnel make, particularly at the engagement level. The firm ensures compliance with this policy by implementing the following procedures:

1. The firm dedicates sufficient and suitable resources to its quality control system and quality initiative and assigns the operational responsibility for the firm's quality control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary QC policies and procedures. The firm appropriately communicates clear, consistent, and frequent actions and messages that emphasize the firm's quality control policies and procedures. Such actions and messages include:
  - Providing a copy of the firm's system of quality control document to all new professional employees and reviewing the document and its importance with them.
  - Reviewing the firm's quality control policies and procedures, especially in areas where questions or problems have arisen, with personnel during firm training sessions.
2. The partners evaluate client relationships and engagements to ensure that commercial considerations are not placed ahead of the firm's commitment to quality control. Additionally, the

firm's compensation and advancement policy and procedures (covered in the human resources QC document) do not place commercial considerations ahead of the quality of work performed.

3. The partners in the firm demonstrate the importance of quality by their actions. Such actions include:
  - Making decisions with a focus on the public interest and emphasizing that personnel do the same.
  - Demonstrating the importance of creating and maintaining a good public reputation.
  - Ensuring partners and staff have sufficient time and resources to solve engagement challenges.
  - Following the spirit, as well as the letter, of professional, regulatory, and legal standards.
  - Displaying enthusiasm and sincerity in communicating its commitment to a quality initiative.
  - Demonstrating consistency.
4. The firm establishes and maintains a positive work environment by combining the firm's quality objectives with the personnel's needs to be valued and appreciated.
5. The firm hires, compensates, and promotes individuals who possess and exhibit high levels of integrity, as covered in the human resources QC policies and procedures.
6. The firm does not allow unethical behavior to occur unchallenged and addresses instances of noncompliance with the firm's quality control system through swift disciplinary action or, in extreme cases, termination of the offending employee.
7. At least annually, the firm's leadership responsibilities policy and procedures are reviewed to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

## RELEVANT ETHICAL REQUIREMENTS

It is the firm's policy that all professional personnel be familiar with and adhere to relevant ethical requirements of the AICPA, contained in the *Code of Professional Conduct*, the State of West Virginia Board of Accountancy, and the West Virginia Society of CPAs in discharging their professional responsibilities. Furthermore, it is the policy of our firm that, for engagements subject to *Government Auditing Standards*, Public Company Accounting Oversight Board (PCAOB) standards, and other applicable regulatory agencies, all professional personnel be familiar with and adhere to the relevant ethical requirements included in those standards and that personnel will always act in the public interest. Any transaction, event, circumstance, or action that would impair independence or violate the firm's relevant ethical requirements policy on an audit, attestation, review, compilation engagement, or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under Rules 201 and 202) is prohibited. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach has occurred. The firm will take appropriate action to eliminate those threats or mitigate them to

an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach.

Although not necessarily all-inclusive, the following are considered to be prohibited transactions and relationships:

1. Investments by any partner or professional employee in a client's business during the period of a professional engagement, including a commitment to acquire any direct or material indirect financial interest in a client.
2. An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors, or any partner 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:
  - a. An individual on an attest engagement team.
  - b. An individual in a position to influence the attest engagement by doing any of the following:
    - evaluating the performance or recommending the compensation of the attest engagement partner,
    - directly supervising or managing the attest engagement partner and all of that partner's superiors,
    - consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or
    - participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
  - c. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
    - the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
    - he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
  - d. A partner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
  - e. The firm and its employee benefit plans.
3. Borrowing from or loans to a client, or client's personnel during the period of a professional engagement by any of the individuals listed in items 2. a.-e., except as grandfathered or permitted.
4. Accepting or offering gifts or entertainment from or to a client unless reasonable in the circumstances and approved by the managing director.

5. Certain family relationships between professional personnel and client personnel. (Consult the managing director for a ruling on such relationships.)

Notwithstanding the preceding policy and list of prohibited transactions and relationships, at the managing director'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 standards.

The firm ensures compliance with this policy by implementing the following procedures:

1. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. Such signed representation letters are also required from part-time, seasonal, and contract professionals and any other individuals who work on accounting and auditing engagements and are required to be independent.
2. All professional personnel review the firm's current client list in conjunction with completing the representation letter for identification of threats to, or breaches of, independence. The current client list is maintained by the Chief Operating Officer (COO) and changes to the list are communicated on a timely basis by a memorandum from the COO. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility. To ensure that independence is properly addressed at the engagement level, the engagement partner will consider relevant information about client engagements and evaluate the overall effect, if any, on independence requirements as part of the engagement and acceptance decision. The work programs and forms in the accounting and auditing manuals used by the firm contain steps requiring an evaluation of independence on each new and recurring engagement. Furthermore, those manuals contain reporting guidance for the types of engagements where a lack of independence is allowed.
3. All professional personnel are required to promptly notify the managing director or director of assurance services of any circumstances or relationships that may create a potential threat to independence (such as a potential prohibited transaction) or an independence breach, so that appropriate action can be taken. To acknowledge that responsibility, professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list known circumstances and relationships that may create a potential threat to independence or violate the firm's relevant ethical requirements policy. The representation letter references the professional standards of relevant ethical requirements that govern the firm. Professional standards, including the AICPA's *Conceptual Framework for AICPA Independence Standards*, and the advice of the managing director may be consulted if an employee is unsure if a threat to independence should be reported to firm management.)
4. If a potential threat to independence is identified, the managing director accumulates and communicates relevant information to appropriate personnel so (a) firm management and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) the firm can maintain current independence information.
5. If the 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 the client. The auditing manuals used by the firm contain examples of representation letters to use in such situations. Furthermore, in a review 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 the firm contain steps to ensure compliance with this procedure.

6. The engagement partner (or the accountant in charge under the partner's supervision) 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 unbilled fees should be considered in making this determination. In addition, the managing director has secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
7. The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services impair independence with respect to that client. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the firm. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in *Government Auditing Standards* for ongoing, planned, and future audits. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure.
8. The engagement partner has the primary responsibility for determining whether actual or threatened litigation has an effect on the firm's independence with respect to the client. The firm's independence could be impaired by litigation (a) between the client and the firm, (b) with the client company's securities holders, and (c) from other third parties.
9. If the firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If the firm is engaged as principal auditor to report on a major fund, nonmajor fund, internal service fund, fiduciary fund, or governmental component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the firm reports on. The engagement partner has the primary responsibility for determining whether the firm's relationship with entities in the governmental financial statements has an effect on independence.
10. The managing director has the primary responsibility for determining whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.
11. The managing director is responsible for obtaining the representation letters, reviewing them for completeness, and accumulating relevant information relating to identified threats to relevant ethical requirements matters (including questions from the representation letters and those from other sources). In determining a resolution, firm management should consider the AICPA's *Conceptual Framework for AICPA Independence Standards* and, when necessary, consult the AICPA or the West Virginia Society of CPAs for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of a relevant ethical requirements matter should be filed in the client's permanent workpaper files. Firm management 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, requiring additional training, drafting a reprimand letter, or even termination.
12. The managing director is responsible for monitoring the firm's independence of attest clients at which partners 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.

13. If a breach of independence is identified, the firm promptly communicates the breach and the required corrective actions to (a) the engagement partner, who (along with the firm) has the responsibility to address the breach and (b) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the firm when required corrective actions related to the breach and noncompliance with these policies and procedures have been taken.
14. At least annually, the managing director reviews the firm's relevant ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

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

It is the firm's policy that, for all compilation, review, audit, and attestation engagements, the acceptability of the client and the engagement be evaluated before the firm agrees to provide professional services and that the firm will accept only engagements where it has considered the integrity of the client, and believes the engagement can be completed with professional competence after considering the risks associated with providing professional services in the particular circumstances. The firm ensures compliance with this policy by implementing the following procedures:

1. For each prospective client (or existing tax or consulting client) that requests for the first time a compilation, review, audit, or attestation service, the partner making initial contact with the client is required to complete an engagement acceptance form. (The engagement acceptance form is located in the accounting and auditing manuals used by the firm.) That form documents, among other things, background information including financial information regarding the client and its operations; an assessment of the apparent integrity of management or its officers based on contacts or discussions with others; possible independence problems or conflicts of interest; an assessment of the firm's competence, capabilities, and resources; the results of communications with the client's prior accountants (if applicable); and consideration of the risks associated with the engagement. The completed acceptance documentation and engagement letter are routed to the concurring partner who evaluates whether to accept or reject the prospective client and who documents that conclusion on the form.
2. For existing clients, a committee of partners meets at least annually and reviews the Firm's client list and reevaluates 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. In making the continuance decision, the firm considers whether any significant issues have arisen during the course of the relationship with the client and how such issues affect the ongoing client relationship. Reasons that might surface in either the firm-wide or individual engagement review that would cause the firm to consider discontinuing services if the information had been available earlier include the following:
  - a. Significant changes in the client and its operations, such as retirement of senior management, other ownership changes, a decline in the perceived integrity of management, a decline in financial stability, or specific risks associated with the particular engagement.
  - b. Changes in the nature or scope of the engagement, including requests for additional services the firm may not be adequately prepared to render.

- c. Significant changes in the composition of the firm, such as 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 collectability 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.
  - g. More time is required to perform the engagement than the firm can provide.
  - h. The client has ignored prior firm recommendations, such as recommendations regarding the interpretation of accounting standards or the correction of internal control deficiencies.
3. A committee of partners, consisting of the managing director, director of assurance services, and the engagement 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, for example, requiring a down payment on fees before work begins, pay-as-you-go billing arrangements, alternative engagement procedures, etc.
4. The engagement partner documents how issues identified during the acceptance and continuance process were overcome and resolved so that the firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusions, and the basis for the conclusions.
5. If situations occur after the commencement of an engagement and while work is in progress that indicates the firm should consider withdrawing from the engagement, the managing director and director of assurance services should be notified of the circumstances. In this situation, the firm should consider any professional or legal responsibilities of the firm to the client, in addition to the possibility of withdrawing from the engagement or even discontinuing the client relationship, if appropriate. 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 or significant deficiencies in the entity's internal control.
  - d. The client provides information that is incorrect, incomplete, or otherwise unsatisfactory and refuses to provide additional or revised information.



- e. The inability to perform the inquiry and analytical 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 an audit or a SSARS or SSAE review and, for a SSARS review, it is not appropriate to issue a compilation report.
  - g. The client's refusal to allow the sending of a request for legal representation to legal counsel.
  - h. In an SSAE review engagement, the client is the responsible party and does not provide a written assertion.
  - i. Other information in a 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.
6. If, based on the facts and circumstances identified in performing procedures 2 and 4, the committee concludes that the firm should discontinue providing all or certain services to a client or withdraw from a current engagement, the committee should determine how the client should be informed about that decision. Furthermore, the committee should consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by the committee of the name of any client to which services are discontinued. Significant issues, consultations, conclusions, and the basis for the conclusions should be documented when withdrawal from an engagement or from both the engagement and the client relationship occurs.
  7. 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, as well as the identification of the engagement partner and his or her role.
  8. If the firm discovers a potential conflict of interest during the acceptance and continuance decision, the managing director, the director of assurance services, and the engagement partner determine whether it is appropriate to accept the engagement. If the engagement is accepted, the ethical requirements under AICPA Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, *Integrity and Objectivity*, are considered.
  9. At least annually, the quality control director reviews the firm's acceptance and continuance of client relationships and specific engagements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

## **HUMAN RESOURCES**

### **Overall**

The success of the firm is dependent upon its professional staff. It is the firm's intent to succeed in the marketplace by having partners and staff who possess the capabilities, competence, and commitment to ethical principles to assure that engagements performed by the firm are in accordance with professional standards and regulatory and legal requirements and that appropriate reports are issued. Having effective QC policies and procedures over the human resources element will help ensure the proficiency of its personnel. The activities of a comprehensive human resources QC system include:

1. Recruitment and hiring.

2. Determining capabilities and competencies.
3. Assignment of personnel to engagements.
4. Professional development.
5. Performance evaluation, compensation, and advancement.

Policies and procedures for these activities are described below. At least annually, the managing director reviews the firm's human resources policies and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

### **Recruitment and Hiring**

It is the firm's policy that recruitment and hiring decisions for the professional staff be based on an objective evaluation of the firm's personnel needs, that candidates possess the appropriate characteristics to perform competently, and that new employees are adequately informed of the firm's policies and procedures. The firm ensures compliance with this policy by implementing the following procedures:

1. Periodically, a committee of partners assesses the personnel needs of the professional staff by considering, among other things, firm criteria such as ability to service clientele, anticipated growth, personnel turnover, individual advancement, staff workload, quality of life, and succession plans.
2. In fulfilling the firm's recruitment and hiring plans, the firm seeks to employ individuals with high levels of integrity, competence, intelligence, maturity, and motivation. In this regard, the firm normally hires college graduates whose academic training will enable them to take the CPA exam. However, paraprofessionals who do not possess a college degree, but whose accounting experience and personal qualifications indicate a likelihood of adequate abilities, may also be hired.
3. Determination of the techniques to be used to recruit candidates and actual employment decisions will be made by the managing director. Other personnel who are involved in the recruitment and hiring process will be informed of the techniques to be used.
4. When evaluating a prospective employee, the firm considers, among other things, the candidate's work experience, grade point average and college course concentration in accounting and related courses (with more emphasis given to them for candidates who are new graduates), 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 managing director.
5. The firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.

### **Determining Capabilities and Competencies**

It is the firm's policy to determine whether individual members of the professional staff possess the requisite capabilities and competencies. In making this determination, the firm primarily considers qualitative measures, as opposed to quantitative ones. The firm ensures compliance with this policy by implementing the following procedures:

1. Periodically, a committee of partners assesses the capabilities and competencies of engagement partners to help assure proper engagement performance. The following capabilities and competencies are assessed based on the characteristics of the particular client, industry, and service provided:

- a. An understanding of the role of the firm's QC system and the *Code of Professional Conduct*.
  - b. An understanding of the performance, supervision, and reporting aspects of the service to be performed.
  - c. An understanding of the applicable accounting, auditing, and attestation professional standards, including those directly related to any special industries. 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.
  - d. Proficiency and seasoned judgment in discharging assigned responsibilities.
  - e. 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. The firm considers other engagement partner capabilities and competencies as needed in the circumstances, which may include:
    - a. Various personal attributes, such as integrity and ethics, professionalism, project management skills, etc.
    - b. Leadership qualities, including strategic thinking and planning, negotiating and persuading, teamwork, problem solving, coaching and empowerment, etc.
    - c. Perspective on business issues, such as managing and developing people, marketing and selling, knowledge of best practices, business advisory skills, etc.
  3. The firm determines how engagement partners and other personnel can best obtain additionally needed capabilities and competencies.
  4. Performance evaluations are conducted, at least quarterly, to determine the capabilities and competencies possessed by each professional staff other than partners.

### **Assignment of Engagement Teams**

It is the firm's policy that each engagement be supervised by an engagement partner with appropriate authority. Additionally, staff assigned to engagements (including partners) should possess the necessary capabilities, competence, and available time to (a) perform engagements that comply with professional standards and regulatory and legal requirements and (b) enable the firm to issue reports that are appropriate in the circumstances. The firm ensures compliance with this policy by implementing the following procedures:

1. In addition to assessing the engagement partner's capabilities and competencies (see the Determining Capabilities and Competencies section), a committee of partners clearly defines and communicates the responsibilities and authority of an engagement partner to the partner, and evaluates the partner's work load to ensure that he or she has the time to adequately perform the role.
2. The identity and role of the engagement partner are communicated to client management and those charged with governance through a written engagement letter.

3. Periodically, the directors of assurance services and tax and consulting services assess the staffing (including partner assignments) requirements of each client and engagement and develop a partner and staff assignment plan for their respective departments. Any considerations that emerge from this assessment that affect the hiring plans of the firm are communicated to those responsible for recruitment and 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.
  - c. New or emerging professional standards 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 continuing education requirements of the 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 performance 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*. (*Government Auditing Standards - July 2007 Revision* preclude personnel who provided the nonaudit services from planning, conducting, or reviewing audit work of subject matter involving the nonaudit service under the overarching principle that auditors cannot audit their own work.)
  - k. The extent of supervision required by each member.
  - l. Non-CPA partners cannot be ultimately responsible for any compilation, review, attestation, or audit engagement.

The staffing schedules for each department are available to all employees via the firm's network.

4. The firm recognizes that many modifications to the staffing schedule will be required because of changes in client circumstances that affect the competencies appropriate for the client engagement, ongoing consideration of competencies possessed by firm partners and personnel assigned to particular engagements, 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 managers affected by the changes and after a reconsideration of the planning factors discussed in Assignment of Engagement Teams, Procedures 1-3. Any disputes regarding assignment of personnel are resolved by the directors of each department. Members of the staff are informed of staffing changes and new assignments either orally or by reviewing the posted staffing schedule.

## Professional Development

It is the firm's policy that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the AICPA, the West Virginia State Board of Accountancy, the AICPA Governmental Audit Quality Center, the AICPA Employee Benefit Plan Audit Quality Center, the U.S. Government Accountability Office, and other regulatory agencies if applicable; that all professional staff maintain an adequate awareness and understanding of current developments in professional standards; that all non-licensed professional staff work toward passing the CPA exam; and that all professional staff assist in the training and development of staff members under their supervision. The firm ensures compliance with this policy by implementing the following procedures:

1. Annually, the director of assurance services and the director of tax and consulting services assess their department's continuing professional education (CPE) needs and plans the firm's professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours needed by each professional to comply with the CPE rules governing the firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging professional standards; and the firm's needs for specialists or experts in a particular industry or service area.
2. The directors monitor employee progress toward meeting the CPE plan.
3. Generally, only CPE alternatives that qualify for credit under the CPE rules that govern the firm will be considered when planning the firm's PD program. Such alternatives normally include seminars and conferences sponsored by the AICPA, state society, or other professional organizations; video training courses, satellite conferences, and webcasts; self-study courses, including online and Internet training; in-house seminars and programs; acting as an instructor, speaker, or discussion leader; 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.
  - h. Before program materials are used, they should be reviewed to the extent necessary by a qualified person(s) other than the preparer(s) to ensure the program is technically accurate, it is based on current professional standards, and it is sufficient to achieve the stated learning objectives.

- i. The reviewer's technical competence and knowledge of instructional design should at least equal that of the developer.
  - j. Instructors should be qualified with respect to both program content and teaching methods used.
  - k. The number of participants and physical facilities should be appropriate for the teaching method(s) specified.
4. Each program should include an effective means for evaluating quality.
5. Individuals who work on audits and attestation engagements subject to the *Government Auditing Standards*, including planning, directing, performing fieldwork, or reporting, should complete at least 24 hours of CPE every two years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book assignments and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book assignments are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits or attestation engagements. In other words, everyone working on a Yellow Book engagement has to meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement, or who do not spend at least 20% of their time annually on Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement.
  - a. In accordance with the membership requirements of the AICPA Governmental Audit Quality Center's membership requirements, the partner assigned firmwide responsibility for the quality of the firm's governmental audit practice must meet both the 24-hour and 80-hour CPE requirements even if that partner would not otherwise be subject to those requirements. The partner must also participate in the annual Center sponsored webcast on recent developments in governmental auditing.
  - b. Individuals who sign audit opinions and/or manage ERISA employee benefit plan audit engagements and individuals who work on ERISA employee benefit plan audit engagements must meet the CPE requirements of the AICPA Employee Benefit Plan Audit Quality Center.
6. To comply with the documentation requirements of the AICPA, the state board of accountancy, the U.S. Government Accountability Office, and other regulatory agencies for CPE credit, the firm maintains appropriate CPE records, among which are the following:
  - a. For each professional for the most recent five years, a worksheet is maintained that contains the following information for each credit hour claimed:
    - Type of CPE activity (seminar, in-house program, self-study, independent study, etc.).
    - Sponsor.
    - Title of program and description of content.
    - Dates attended or completed.

- Location of program.
  - CPE contact credit hours claimed.
- b. For each in-house CPE program sponsored by the firm, the following records are maintained for the most recent five years:
- A record of participation, indicating the number of CPE hours claimed for each participant.
  - 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, recommended CPE credit, and relevant administrative policies.
  - The location(s) of the program.
  - A copy of the program materials (reading materials, problems, case studies, visual aids, instructors' manuals, etc.).
  - A summary of the participants' evaluations, the instructor's evaluation(s), and the sponsor's evaluation of the instructor(s).
  - If the course was developed in-house, a record of the name(s) and qualification(s) of the developer(s) and reviewer(s).
  - 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:
- For group and independent study programs, a certificate or other verification supplied by the program sponsor.
  - For a university or college course that is successfully completed for credit, a record of the grade the person received.
  - For a self-study program, a certificate of satisfactory completion of an examination provided by the program sponsor.
  - 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.
7. Each professional in the 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 disseminates 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 director any news item that they believe should be disseminated within the office.

8. 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.
9. The firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in PD activities such as completing external professional development programs, becoming members of professional organizations, serving on professional committees, writing for professional publications, and speaking to professional groups.

### **Performance Evaluation, Compensation, and Advancement**

It is the firm's policy that performance evaluation, compensation, and advancement 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, including partners, be based on the quality of their work. The firm ensures compliance with this policy by implementing the following procedures:

1. Personnel classification levels are used to designate experience, to evaluate individual performance, and to establish criteria for promotion and compensation. The following personnel 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:
    - Become familiar with the firm's policies and procedures.
    - Assist the firm's professional staff in performing controllership and bookkeeping services for clients.
    - Assist the firm's professional staff in entering data for computer applications and preparing workpapers, trial balances, depreciation schedules, and engagement correspondence.
    - Assist the firm's professional staff in gathering data for tax return preparation, maintaining the tax library, and maintaining the 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, advancement 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:
- Become familiar with the firm's policies and procedures.
  - Understand professional standards and regulatory and legal requirements.
  - Progress professionally by working toward passing the CPA exam as soon as possible.
  - If assigned primarily to financial statement engagements:
    - Become familiar with pronouncements of the FASB, AICPA, and other accounting and auditing regulatory bodies, as applicable.
    - Become proficient at preparing financial statements.
    - Obtain exposure on the types of financial statement engagements offered by the firm.
    - Assume responsibility for segments of audits under the supervision of more experienced staff.
  - If assigned primarily to tax engagements:
    - Become familiar with pertinent IRC sections and regulations.
    - Obtain a working knowledge of research techniques and the various research sources in the firm library.
    - Become proficient in the preparation of corporate, individual, partnership, fiduciary, and other tax returns prepared by the firm.
    - 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 the CPA exam. Seniors are expected to:
- Know and understand the reasons behind the firm's policies and procedures.
  - Possess technical knowledge sufficient to supervise staff accountants.
  - Begin acquiring the skills necessary to develop quality client relationships and loyalty.
  - If assigned primarily to financial statement engagements:
    - Begin to develop a command of GAAP, OCBOA, unique or specialized accounting principles, and financial statement presentations.

- Obtain a thorough understanding of generally accepted auditing standards and common audit procedures and techniques.
- Assume responsibility for efficiently supervising both audit and nonaudit engagements.
- If assigned primarily to tax engagements:
  - Begin developing a command of pertinent IRC sections and regulations.
  - Become proficient at tax research, including a knowledge of the reference sources available to the firm.
  - Assume responsibility for the supervision of tax return preparation engagements.
- d. **Manager** - Individuals at this level are CPAs and have had a minimum of three years' experience as a senior accountant (or equivalent experience as deemed appropriate by the partner) and have exhibited technical proficiency and the ability to supervise complete engagements. Managers are expected to:
  - Plan, supervise, and complete routine engagements.
  - Supervise both staff accountants and seniors, provide feedback to them, and evaluate their progress.
  - Become experts in their assigned areas.
  - Develop new client contacts and relationships beneficial to the firm.
  - Assist in firm administrative functions as assigned by the partners.
  - Recognize opportunities to provide additional services to existing clients.
- e. **Senior Manager** - Responsibilities of senior managers are similar to those of partners. Most senior 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. Senior Managers are expected to:
  - Manage multiple complex engagements.
  - Perform assigned administrative duties.
  - Develop new client contacts and relationships beneficial to the firm.
- f. **Partner** - Individuals at this level are normally CPAs and have had a minimum of three years' experience as manager (or equivalent experience as deemed appropriate by the partners) and have exhibited superior capabilities and competencies, such as superior technical expertise, managerial abilities, and a commitment to quality. Partners are expected to:

- Provide firm leadership through example.
  - Be ultimately responsible for all engagements performed under them.
  - Perform assigned administrative duties.
  - Represent the firm through civic and community activities.
2. In addition to the evaluation criteria enumerated in the preceding personnel classifications, each firm member will be evaluated on attributes such as, but not limited to, the following:
    - a. Commitment to quality.
    - b. Competency and technical knowledge.
    - c. Integrity.
    - d. Personal attitude.
    - e. Analytical skills and professional judgment.
    - f. Communication skills.
    - g. Leadership and training skills.
    - h. Client relationships.
    - i. Professional demeanor and appearance.
  3. Firm personnel are provided copies of the performance evaluation, compensation, and advancement policy and procedures, which include the criteria for their compensation and advancement. The policy and procedures address performance, quality, adhering to ethical principles, and the consequences of failure to adhere to firm policies and procedures related to quality performance and ethical principles.
  4. At the completion of engagements to which a professional staff member contributed 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 submitted to the partner primarily responsible for that individual's supervision, who in turn conducts a counseling interview with that individual if deemed necessary. 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. The counseling interview includes the evaluation(s) and may include other matters. A failure to adhere to firm policies and procedures related to quality performance and ethical principles may result in more training, additional time at the present level, or even dismissal for more egregious failures.
  5. At least annually, and on an *ad hoc* basis if necessary, the partners meet as a committee to discuss advancement, compensation, and termination decisions. In considering advancement and compensation decisions, staff performance evaluations and progress within staff classifications are given great priority; however, economic conditions, such as profits and future growth potential, must also be considered in each decision.

## **ENGAGEMENT PERFORMANCE**

### **Overall**

Engagement performance encompasses many aspects of performing an engagement, from the initial planning stages to the issuance of the report and assembly of the workpapers. Additionally, it is not uncommon for the firm's engagement teams to occasionally encounter complex or contentious issues that result in the need for consultation or that create differences of opinion. The firm believes in a strong

quality control system and supports frequent engagement quality control review. While all of these activities are part of the engagement performance element of the QC system, the firm has chosen to differentiate certain activities within this section of the QC document for ease of understanding. The activities are segregated as follows:

- Engagement performance and documentation.
- Engagement quality control review.
- Consultation and differences of opinion.

Policies and procedures for these activities are described below. At least annually, the managing director reviews the firm's engagement performance policies and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

### **Engagement Performance and Documentation**

It is the firm's policy that all compilation, review, audit, and attestation (including forecast and projection) engagements be properly planned, performed, supervised, reviewed, documented, and reported or communicated in accordance with the requirements of professional standards, regulatory and legal requirements, and the firm. In this regard, the procedures listed below are followed by all personnel assigned to those engagements:

1. The firm's engagement performance quality control steps are documented in the firm's engagement performance bridging documents. The firm maintains separate bridging documents for audit, attestation, and compilation and review services, which are attached as an appendix to this document. The use of such bridging documents facilitates consistency in the quality of engagement performance and application of engagement procedures.
2. The responsibilities of the engagement partner and engagement team for implementing the firm's QC steps are indicated on the engagement performance bridging documents.
3. Certain steps in the firm's system of engagement performance QC steps are not applicable or are optional for some engagements. The engagement performance bridging documents indicate the applicability of each step to the particular 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 engagement performance bridging documents.
5. The firm complies with time limits established by professional standards, and laws and regulations that address the assembly of final engagement files for specific types of engagements.
6. The firm retains engagement documentation for a period of time sufficient to meet the needs of the firm, professional standards, and laws and regulations. Any uncertainties regarding the retention of engagement documentation are addressed by the firm's managing director, with the assistance of firm legal counsel and insurance carriers, as appropriate.
7. The firm protects the confidentiality, custody, integrity, accessibility, and retrievability of engagement documentation through staff training regarding client confidentiality rules and adequate and appropriate controls over the custody, integrity, accessibility, and retrievability of the firm's engagement documentation.

The firm adopts and integrates within its quality control system the use of PPC accounting and auditing manuals and practice aids as more fully described in the 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. 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.

### **Engagement Quality Control Review**

It is the firm's policy to evaluate all engagements against criteria established by the firm to determine whether an engagement quality control review should be performed, and to perform an engagement quality control review for all engagements that meet these criteria. Engagement quality control reviews are completed before the report is released. The firm ensures compliance with this procedure by implementing the following procedures:

1. The firm establishes criteria for performance of an engagement quality control review (EQCR). In establishing such criteria the firm considers:
  - a. The structure and nature of the firm's practice.
  - b. The nature of the engagement, including whether it involves a matter of public interest.
  - c. Whether unusual circumstances or risk have been identified relating to the engagement, engagement service type, or industry.
  - d. Whether laws or regulations require an engagement quality control review to be performed.
2. The firm establishes criteria for each major type of service provided (i.e., compilations, reviews, audits, and attestation engagements). All engagements are evaluated against the established criteria. An engagement quality control review is performed for all engagements that meet the established criteria. If no engagements meet the criteria established by the firm for EQCR, no reviews are required to be performed.
3. The firm has currently determined that EQCR will be performed for full-disclosure compilations, reviews, audits, and attestation engagements. The firm may periodically make changes to the established criteria based on changes in the firm's practice.
4. Performing an engagement quality control review includes the following procedures:
  - a. An objective evaluation of significant judgments made and the conclusions reached in formulating the report.
  - b. Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
  - c. Considering the evaluation of the firm's and the engagement team's independence in relation to the specific engagement.
  - d. Reading the financial statements or other subject matter information and the report and considering whether the report is appropriate.

- e. A review of selected engagement documentation relating to the significant judgments and the conclusions reached.
  - f. A discussion with the engagement partner about significant findings and issues.
  - g. The EQCR may be conducted at various stages throughout the engagement to ensure that significant issues may be resolved to the reviewer's satisfaction before the report is released.
  - h. The extent of the EQCR may depend upon, among other things, the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.
5. If differences of opinion occur between the engagement partner and the engagement quality control reviewer, appropriate differences of opinion procedures will be followed (see the Consultation and Differences of Opinion section of this QC document), and documentation of the resolution of conflicting opinions will be finalized before the release of the report.
6. The firm prepares appropriate documentation of the engagement quality control review, including documentation that reflects:
- a. The engagement quality control review procedures required by firm policies have been performed.
  - b. The engagement quality control review was completed before the report was released.
  - c. The reviewer was not aware of any unresolved matters that would have caused him or her to believe that significant judgments made and conclusions reached were not appropriate.
7. The firm addresses the appointment of engagement quality control reviewers and the technical qualifications required to perform the role, including the necessary experience and authority. In selecting appropriate engagement quality control reviewers, the following criteria are followed:
- a. The engagement quality control reviewer has sufficient and appropriate experience, technical expertise, and authority for the particular engagement to be reviewed.
  - b. Engagement quality control reviewers maintain appropriate ethical requirements, such as objectivity, due professional care, and independence. The engagement quality control reviewer satisfies the independence requirements relating to the engagement reviewed.
  - c. The engagement quality control reviewer does not participate in the performance of the engagement except in a consulting role, for example, the engagement partner may consult the engagement quality control reviewer during the engagement to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Both the engagement quality control reviewer and the engagement team are careful to maintain the reviewer's objectivity.
8. When a firm does not have qualified personnel to perform the engagement quality control review, the firm contracts with qualified external individuals or other firms to perform the review. The criteria in Procedure 7 are followed in selecting qualified external engagement quality control reviewers.

## Consultation and Differences of Opinion

It is the firm's policy that personnel refer to authoritative literature or other sources when appropriate. The firm also recognizes the need for a constant exchange of ideas and opinions about technical issues on all professional engagements, and it is the firm's policy that all professional personnel seek consultation, on a timely basis, within or outside the firm whenever differences of opinion occur or uncertainty exists about the answer to a technical question; the application of a professional procedure or standard; the application of a rule, regulation, or procedure of a tax or other regulatory agency; or the application of a firm policy. The firm ensures compliance with this policy by implementing the following procedures:

1. The firm maintains or provides ready access to an adequate and up-to-date reference library that includes materials related to clients served and 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 consultation, the following situations, due to their complexity, may require 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. Accounting for complex or unusual transactions.
  - f. Emerging practice problems.
  - g. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made.
  - b. 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.
  - c. Filing requirements of regulatory agencies.
  - d. 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 within the engagement team or between the engagement partner and the engagement quality control reviewer (if applicable), the issue is first discussed by the members of the engagement team and the partners. If engagement partner and engagement quality control reviewer agree that the issue is resolved at this level, additional consultation is not necessary. However, if any member of the engagement team disagrees with the resolution, Procedure 8 should be followed.
4. If the engagement partner or engagement quality control reviewer believes additional consultation 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 the name of an individual in the firm who possesses such knowledge or experience, the director of quality control should be consulted for the name of such an individual. The

engagement team provides all relevant facts known to those consulted. If, in the opinion of the engagement quality control reviewer, 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, Procedure 8 should be followed.

5. If the engagement partner and/or engagement quality control reviewer believes that additional consultation beyond that 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 and CPAs or tax attorneys in other firms. The engagement team provides all relevant facts known to those consulted. 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 or her areas of expertise, as appropriate.
  - b. The reputation and standing of the specialist in the views of his or her peers and others familiar with the specialist's capability or performance.
  - c. The relationship, if any, of the specialist to the client.

If, in the opinion of the engagement quality control reviewer, 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, Procedure 8 should be followed.

6. Certain accounting, audit, or attestation 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, Procedure 8 should be followed.
7. All consultations involving unusual, contentious, unfamiliar, or difficult issues should be sufficiently documented to facilitate understanding of the issue for which the consultation was needed, the results of the consultation, the decisions made and the basis for those decisions, and how those decisions were implemented.
8. If a difference of opinion occurs within the engagement team, between the engagement partner and the engagement quality control reviewer, or with those consulted within or outside the firm, that difference be resolved using Procedures 4, 5, and 6, if possible. If not, the matter should be brought to the attention of the managing director. The managing director (with the assistance of other practitioners or regulatory entities if desired) will resolve the dispute regarding the proper course of action to be taken by the firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented should be documented. The firm will not release the report until any differences of opinion are resolved. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion may document his or her disassociation from the resolution of the matter.

## MONITORING

It is the firm's policy that the quality control system be monitored on an ongoing basis to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the elements of quality control are relevant, adequate, operating effectively, and being effectively applied.



Monitoring activities include engagement quality control review (EQCR), inspection, and postissuance review. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the firm's QC system. The policy and procedures relating to EQCR are addressed in the ENGAGEMENT PERFORMANCE section of this document. The retrospective monitoring activities performed by the firm relate to inspection and postissuance review (collectively referred to as *inspection/review*) and are the primary activities addressed in these monitoring policy and procedures.

As an integral part of the monitoring process, inspection/review procedures are performed on all elements of the firm's quality control system at least annually to determine whether the firm has complied with applicable professional standards and its stated quality control policies and procedures. The firm ensures compliance with this policy by implementing the following procedures:

1. At least annually, the managing director selects a team (hereafter referred to as "inspectors") to perform inspection/review procedures on the firm's quality control system. The inspectors 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 each will inspect/review. The director of assurance services will normally be designated as the in-charge inspector. The inspection/review will include a review of the governmental audit practice and each type of plan in the firm's 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/review, developing the inspection/review procedures, and performing the inspection/review. The managing director can require at his or her discretion that the inspection/review scope and procedures be approved by him or her before the inspection/review commences. The in-charge inspector should follow the guidelines listed below when determining the scope and the inspection/review procedures:
  - a. The inspection/review should be completed timely.
  - b. The inspectors will use the appropriate monitoring checklists in *PPC's Guide to Quality Control* as a work program. The inspection will cover all of the firm's stated quality control procedures and will include a representative sample of administrative files, personnel files, engagement workpapers, and other documentation. The inspection 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:
    - 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) and the numbers of each in the practice.
    - A cross-section of the firm's ERISA employee benefit plan audit practice considering each of the types of plan audits (e.g., defined benefit, defined contribution, health and welfare, multiemployer, ESOPs, limited and full scope).
    - A cross-section of PCAOB engagements.
    - Other specialized, complex, and high-risk engagements.

- First-year engagements. □ A cross-section of engagements based on the level of service performed (e.g., audit, review, compilation, and attestation).
  - A cross-section of engagements from various partners and management level personnel having accounting and auditing responsibilities.
  - Significant client engagements.
  - 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 or legal requirements, or the firm's system of quality control.
  - Engagements involving complex issues requiring consultation.
  - Engagements in which there were significant disagreements among team members or between the engagement quality control reviewer and the engagement partner.
- c. The inspection/review procedures should include inspection, observation, and inquiries to determine whether:
- The firm's guidance materials and practice aids are appropriate and checklists, forms, programs, or other documentation required by the firm's QC system have been properly completed
  - Administrative and personnel policies have been complied with and are appropriately documented.
  - Procedures performed on engagements are in accordance with the requirements of professional standards, regulatory and legal requirements, and firm policies.
  - The engagement workpapers provide adequate evidence to support conclusions, opinions, and presentations resulting from that engagement.
  - The financial statements, reports, and other presentations resulting from the engagements conform to the measurement, presentation, and disclosure requirements of professional standards.
- d. The inspection scope, procedures, and findings will be documented in the work program.
3. At the conclusion of the inspection/review, the inspectors are responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed, and (b) discussing the results of the inspection/review with the supervisory personnel responsible for each of the engagements selected for review and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagements. Once identified, 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.

4. The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection:
  - a. Remedial action directed toward the individual engagement or person.
  - b. Revise the firm's quality control policies and procedures.
  - c. Discipline individuals who fail to follow the firm's QC policies and procedures.
  - b. Communicate the findings to those responsible for training and professional development.
5. At least annually, the firm prepares and distributes a formal inspection/review report to all professional personnel. This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such procedures, and (c) any systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them.
6. In addition to the firm's inspection/review and other monitoring procedures, the firm is subject every three years to a peer review in accordance with the requirements of the AICPA and the West Virginia Board of Accountancy. The managing director is responsible for scheduling and coordinating that review. The firm may elect to have its peer review count as its inspection for each year in which a peer review is performed.
  - a. In accordance with the membership requirements of the AICPA Governmental Audit Quality Center and the AICPA 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/review results (including those specific to the firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection/review) and monitoring communication are made available to the firm's peer review team.
7. Based on the results of the inspection/review, the annual monitoring communication, and, if appropriate, the peer review report, letter of comments, letter of response, and exit conference with the (peer) reviewer, the managing director and director of assurance services determine any corrective actions that should be pursued to improve, amend, or revise the QC system.
8. The partners meet annually (or more frequently as needed on an interim basis) and discuss the monitoring process, the results of the inspection/review, and the corrective actions determined to be needed by the committee of partners and consider the implications for the firm.
9. The managing director is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
10. Complaints and allegations may be received from within or outside the firm related to the (a) failure to comply with professional standards and regulatory and legal requirements, and (b) noncompliance with the system of quality control, and as a result of investigation into such matters, deficiencies in the design or operation of the firm's quality control policies and

procedures, or noncompliance therewith may be identified. The managing director periodically reminds personnel during staff meetings that any concerns regarding complaints or allegations may be communicated to the firm without fear of reprisals. The firm appropriately addresses complaints and allegations by:

- a. Establishing channels of communication for complaints and allegations and communicating that information to employees.
  - b. Investigating complaints and allegations (whether originating from within or outside the firm) and involving legal counsel if considered necessary. The firm assigns individuals to this process who are trained and knowledgeable about firm procedures and who are not otherwise involved in the engagement relating to the complaint or allegation.
  - c. Documenting all complaints and allegations, and the responses to them.
11. The firm documents the performance of each element of its QC system on an ongoing basis, as well as in conjunction with documenting its monitoring of the system.
12. The firm retains monitoring documentation for a time sufficient to allow those monitoring the QC system, including peer reviewers, to evaluate the firm's compliance with its system. The firm generally retains such documentation until the next peer review report has been completed. Documentation includes:
- a. Evidence of the monitoring procedures performed, including how engagements were selected for review.
  - b. Evaluation of the firm's adherence to professional standards and regulatory and legal requirements.
  - c. Evaluation of whether the QC system is appropriately designed and effectively implemented.
  - d. Evaluation of whether QC policies and procedures are operating effectively so that reports issued are appropriate in the circumstances.
  - e. Identification of deficiencies noted, an evaluation of their effect on the QC system, and the basis for determining what further actions were necessary, if any.

### 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	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
2. Obtain an engagement letter.	O	ET	Yes	Yes	Yes	Engagement Letter	AFI, 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	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
4. Gain an understanding of internal control.	ET	O	No	No	Yes	Planning and Evaluation Forms	AFI, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
5. Perform preliminary analytical procedures	ET	O	No	No	Yes	Step on Work Program	AFI, 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	AFI, ALG, ASB, CON, EBP, HUD, NPO, PCAOB
7. Prepare a work program.	ET	O	Yes	Yes	Yes	Standardized Program	AFI, ALG, ASB, CAR, CON, EBP, HUD, NPO, PCAOB
8. Develop a time estimate.	ET	O	Opt	Opt	Opt	Budget Form	AFI, 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	AFI, 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	AFI, CAR, FAP, NTE	
2. Obtain an engagement letter.	O	ET	Yes	Yes	Yes	Yes	Yes	Yes	Engagement Letter	AFI, 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	AFI, 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	Yes	No	Planning and Evaluation Forms/Step on Work Program	AFI, FAP, NTE	
7. Prepare a work program.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Standardized Program	AFI, 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	AFI, CAR, FAP, NTE	
10. Supervise work (including work of other accountants).	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Work Program	AFI, 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	N/A	-	Not Illustrated
13. Resolve any professional disputes.	O	ET	Yes	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	Yes	Numerous illustrations	AFI, CAR, FAP, GAR, NTE
15. Perform analytical procedures.	ET	O	No	Opt	No	Yes	Yes	Opt	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	N/A	Checklist	CAR, FAP
17. Review for contingencies and obtain legal representation letters.	ET	O	No	Opt	No	No	No	Opt	No	-	Not Illustrated
18. Obtain a management representation letter.	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Representation Letter	AFI, CAR, FAP, NTE
19. Review the workpapers.	O & ET	-	Yes	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	No	-	-
21. Obtain an independent internal review.	O	ET	Yes	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	N/A	-	-
23. Determine that all review points and open items have been cleared.	ET	O	Yes	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 O	Secondary Responsibility ET	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
25. Evaluate the staff's performance.	ET	O	Opt	Opt	Opt	Opt	Opt	Opt	Opt	Evaluation Form	GQC
26. File the workpapers (subject to monitoring review).	ET	O	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Filing Examples	AFI, CAR, FAP, NTE

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 F**

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**ENGAGEMENTS SIMILAR TO THE CONSOLIDATED PUBLIC RETIREMENT BOARD  
PERFORMED WITHIN THE LAST THREE YEARS**

## APPENDIX F

### Engagements Similar to the Consolidated Public Retirement Board Performed Within the Last Three Years

	Scope of Engagement	Years Served	Engagement Partner	Total Hours	Principal Client Contact	Phone Number
West Virginia Alcohol Beverage Control Administration	GAS	2010	John D. Galloway	250	Frank Ciordia	558-2481
West Virginia Consolidated Public Retirement Board	GAS	2008, 2009, 2010	John D. Galloway	625	Terasa Miller	558-3570
West Virginia Department of Transportation	A-133	2009, 2010	John D. Galloway	1,200	Keith Chapman	558-2811
West Virginia Housing Development Fund	A-133	2008, 2009, 2010	John D. Galloway	600	Erica Boggess	345-6475
West Virginia Board of Treasury Investments	GAS	2008, 2009, 2010	Robert R. Denyer	500	Glenda Probst	340-1578
West Virginia Lottery	GAS	2008, 2009, 2010	Robert R. Denyer	400	James Toney	558-0500
West Virginia Parkways Authority	GAS	2008, 2009, 2010	John D. Galloway	350	Greg Barr	926-1900
West Virginia Regional Jail and Correctional Facility Authority	GAS	2008	John D. Galloway	300	Tony Davis	558-2110
West Virginia Water Development Authority	GAS	2008, 2009, 2010	Robert R. Denyer	275	Chris Jarrett	558-3612
West Virginia Infrastructure and Jobs Development Council	GAS	2008, 2009, 2010	Robert R. Denyer	275	Chris Jarrett	558-3612
School Building Authority of West Virginia	GAS	2008, 2009, 2010	John D. Galloway	175	Dr. Mark Manchin	558-2541
West Virginia Solid Waste Management Board	GAS	2008, 2009, 2010	Robert R. Denyer	100	Dick Cook	558-0844
West Virginia Jobs Investment Trust	GAS	2008, 2009, 2010	John D. Galloway	100	Andy Zulauf	345-6200

30 Employee Benefit Plans (11 of which are defined benefit plans)

GAS - Government Auditing Standards  
A-133 - OMB Circular A-133

**APPENDIX G**

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**ACTUARIAL RISK MANAGEMENT'S PRACTICE**

# When it comes to actuarial services ARM yourself with the best

Enhance your actuarial services with the expertise of Actuarial Risk Management (ARM). Reducing risk at a lower cost is YOUR best choice.

Discover what BDO Seidman knows, the next generation in actuarial delivery . . .

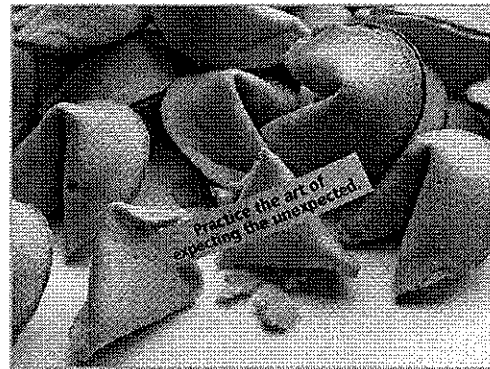
Actuarial Risk Management (ARM), an independent member of the BDO Seidman Alliance since 2006, is your single source to risk management and actuarial services. ARM covers all sectors, including Insurance, Managed Care, Employee Benefits, Retirement, and Banking. Our objective is to provide independent practical advice and creative solutions to complex risk problems facing insurance, business, and government entities.

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

## ARM divides its expertise into three divisions: **Actuarial, Management and Compliance.**

### *Actuarial services include:*

- Valuation and Financial Reporting
- Predictive Modeling, Loss Forecasting and Corporate Modeling
- Reinsurance Expertise
- Expense Allocations and Analysis
- Capital Management
- Mergers and Acquisitions, Due Diligence
- Expert Witness Testimony
- Statutory and GAAP Audits of Actuarial Assets and Liabilities
- Data Management
- Product Development and Competitor Analysis
- Sarbanes-Oxley Assistance
- Enterprise Risk Management
- Credit Risk Modeling



**ARM yourself today!**

**Call 1-866-480-RISK**  
and put ARM to work for you.

**It's that simple.**

**ARM covers all "actuarial" matters for  
the public and private sectors:**

### ***Employee Benefits***

Health & Welfare / OPEB  
Retirement / Pension / DB Plans

### ***Insurance & Financial Services***

Life / Annuity / Health  
Property & Casualty  
Reinsurance / Captives / Self-Insurance  
Banking

### ***Health Care***

Providers (Hospitals, Clinics, LTC Facilities)  
Payors (Managed Care, Insurers)  
Product Suppliers (PBM, Claims Managers)

As a member of YOUR team ARM seamlessly delivers the actuarial services you need with proven expertise and guaranteed quality and speed.

Contact an ARM representative today.

Call 1-866-480-RISK (7475)

Email us at [consult@actrisk.com](mailto:consult@actrisk.com)



*Actuarial Risk Management  
is an independent member  
of the BDO Seidman Alliance*



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www.actrisk.com

## ARM Employee Benefit Practice

Actuarial Risk Management (ARM) takes a direct approach to solving employee benefit program concerns or problems, ranging from plan changes to funding constraints to cost containment initiatives. Our mission is simple—we help our clients design rewarding employee benefits at affordable costs. Although challenges may be similar, no two companies are exactly alike. Accessible and results-driven, our benefit consultants ensure clients a flexible hands-on partnership to address all areas of employee benefits and compensation, from executive-level to the rank-and-file's retirement and health & welfare programs. Combined with the wealth of knowledge and industry expertise those consultants representing ARM continues to earn the trust and respect of a growing number of public and private organizations.

Our firm provides turn-key “retirement” services:

- Retirement Plan Designs (one of the core services covering strategy, design, and implementation of defined benefit, cash balance, and choice plans)
- Executive Benefits Consulting (strategy, design, analysis and funding of all types of executive benefits)
- Plan Administration/Outsourcing (we have a team that can provide this outsource solution)
- Compliance Reporting (we can manage the reporting of Form 5500 & PBGC Filing)
- Non-discrimination Testing (we provide testing for all kinds of pension plans either on a benefits or contributions basis)

On the “health & welfare” front, our services are equally as comprehensive:

- Health and welfare plan design (developing of all types of health and welfare plans including medical, dental, vision, prescription drug and disability based on customer objectives – we design program alternatives, comparison of benefit levels, provide impact analysis of plan changes)
- Funding strategy evaluations (as mentioned above we look at the cost/benefit of alternative solutions, like fully insured to partially insured to self-funded arrangements)
- Navigation of ObamaCare.

These are our general offerings that most people think of when they need actuarial assistance:

- Actuarial Valuations (ERISA and FAS 87, 106 and 112, GASB 43/45 valuations for pension, retiree, medical and related plans)
- Forecasts (we analyze plan risk dynamics, plan design changes, and asset allocation strategies plus assisting plan sponsors by analyzing data, price plan modifications and model economic changes).
- Financial Reporting (include Incurred But Not Reported (IBNR) claim liability and other reserve valuations for VEBA funding and other accounting purposes)
- Merger & Acquisition Support (typically mergers and buy/sell arrangements overlook the employee benefit & employer risk programs which can turn a good deal into a bad deal – we provide due diligence support and financial modeling in this area).

ARM is well positioned as a true employee benefit partner with cost-effective solutions and innovative programs that improve the bottom line while mitigating future risk.

## A Sample of Past Employee Benefit Engagements

We illustrate some of ARM's consultants' past assignments, whether in their current positions or in the past:

- Valued (using a ROI approach) all existing employee / retiree health management and pension programs and structures
- Provided guidance and implementation strategies in new program designs
- Assisted with risk / reward analysis for alternative CDHP and account-based health plans
- Consulted on new or existing disease management programs using predictive modeling
- Developed innovated and value-based benefit designs
- Quantified the real returns from health promotion and disease management initiatives
- Developed some employer/provider partnerships to lower costs
- Provided financial risk guidance with onsite health care initiatives
- Engaged to provide funding analyses and optimization initiatives to current structures
- Consulted on new self insurance and captive alternatives
- Engaged to revamp DC/DB/Hybrid programs, including evaluations, valuations, plan designs, and optimization
- Provided pension plan analysis due to changes in design, administrative services, legislative changes
- Provide ongoing plan administration and consulting across the full spectrum of DC plan recordkeeping
- Assisted with various PBM drug cost audits / reviews
- Provide alternative investment strategies to minimize unfunded liability scenarios

Since 2006 and as a result of ARM's position in the BDO global organization, ARM has provided support, both advisory and audit, to BDO offices and BDO Alliance firms throughout the U.S. In those engagements, our consultants have reviewed both employee benefit (H&W and retirement) programs and their respective benefit valuations but also relevant employer-risk programs for those BDO audit clients with a non-fully insured approach. These assignments have scopes ranging from the reviews of stop loss arrangements to validity of liabilities set up for claims liabilities in both internal programs and offshore captives to reasonableness of pension plan assumptions.

## Why Actuarial Risk Management?

We believe our uniquely assembled employee benefit team rivals that of larger competitors. Our professionals have a wealth of experience modeling and studying the impact of proposed pension and health care reforms, experience working with public and private employers including testifying about the results of our analyses, experience presenting complex concepts to non-technical audiences such as press conferences and governmental briefings, experience in the health insurance and pension markets on both a theoretic and practical level, vast experience in working with organizations looking for creative ways to finance and management the ever changing employee benefit landscape.

## Actuarial Risk Management's Senior Employee Benefit Consultants

ARM has ample resources, including leading experts in their fields to the necessary support staff, all of which combine to produce a high quality deliverable for our customers. A sample ARM's EBP practitioners include:

### **Tom Donlon, *Senior Health & Welfare Actuarial Consultant***

Mr. Donlon has more than 20 years of experience specializing in the health care area. He works with a wide range of clients including insurers, public sector clients, health care providers and employers. He worked with a



variety of different health and welfare plans. These include large group self-insured plans, small group insured plans, dental plans, disability plans and group life insurance plans. He provides consulting expertise with ARM, via his independent consulting boutique, Donlon & Associates.

Previously, he was an Executive Vice President with Aon Consulting, and the National Practice Leader for the Health & Welfare Consulting Practice. Prior to joining Aon, He was a Principal with William M. Mercer, Inc. (Mercer). There he consulted with both large employers and health care providers. While at Mercer, Mr. Donlon served as a member of the National Managed Care Strategic Planning Committee and Regional Quality Assurance Committee. He is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries since 1980.

**Kimberly A. Gittens, Senior Health & Welfare Consultant**

Ms. Gittens provides support to ARM through her firm G-S Consulting, Inc. G-S Consulting provides an in-depth consulting service for many government entities, hospitals, corporations and legal firms.

Ms. Gittens has been in the employee benefits field, primarily Health and Welfare consulting, for major corporations for over 25 years. She is the managing director for several major national clients. Her areas of expertise include negotiating renewals, designing and pricing of health plans, statistical forecasting of plan costs, analyzing claim experience, conducting reserve adequacy evaluations, modeling flexible benefit plans, negotiating collective bargaining plans, chairing informational meetings and rate development. She also consults for a large association in Michigan. In addition, she is responsible for developing new business and enhancing current client relations.

Ms. Gittens was employed by Aon (formerly named Miller Mason and Dickenson, Inc.) for six and a half years. She was a Vice President and managed over \$3,000,000 of consulting revenues. She managed a staff of six consultants and technicians who reported to her. She is an expert in all areas of health and welfare benefits.

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

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

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

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

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

Mr. Homan has experience working with both qualified and non-qualified retirement plans for private and public sector clients, including multiemployer clients. He has specialized in pension plans and accounting valuations for postretirement benefit plans other than pension under FAS 106 and GASB 45. His experience includes the delivery of actuarial services, plan design work and merger and acquisition work. He is an Enrolled Actuary and a member of the American Academy of Actuaries.

**James P. Galasso, Senior Health Care Actuarial Consultant**

Mr. Galasso is ARM's Senior Health Care Consultant. Mr. Galasso has over 25 years of experience in all aspects of the health care insurance and managed care industry, as the Chief Financial Officer of two major Healthcare Companies, as a Chief Actuary and as a Partner with Ernst & Young LLP. He provides consulting expertise with ARM, via his independent consulting boutique, Actuarial Modeling.

Mr. Galasso developed several sophisticated proprietary software models focused on the health care industry (IBNR estimation models, software used to "recast" financial statements to reflect the most current actuarial estimates and to analyze trend patterns, and a model used for projecting financial results and evaluating health care firms). He has substantial due diligence experience having reviewed several health care industry transactions (for example, Prudential Healthcare, MetLife Healthcare, and Oxford Health Plans). He has provided substantial services reviewing major managed care companies' credit risks for a consortium of banks led by Bank of America. Mr. Galasso frequently speaks at various actuarial conferences and has published several actuarial papers. Mr. Galasso is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

## **Actuarial Risk Management's Peer Review Standards**

All projects must follow the ARM peer review standards. These standards require that:

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

ARM stipulates that all consultants must conduct the work on a best-efforts basis and we expect our results will at least meet the clients' objectives. Professional personnel having the required skills, experience and competence will perform the work. In any event, our liability for damages, direct or consequential, resulting from this work will be limited to the amount paid for the assignment.

VENDOR PREFERENCE CERTIFICATE

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

- 1. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is an individual resident vendor and has resided continuously in West Virginia for four (4) years immediately preceding the date of this certification; or, Bidder is a partnership, association or corporation resident vendor and has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or 80% of the ownership interest of Bidder is held by another individual, partnership, association or corporation resident vendor who has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or, Bidder is a nonresident vendor which has an affiliate or subsidiary which employs a minimum of one hundred state residents and which has maintained its headquarters or principal place of business within West Virginia continuously for the four (4) years immediately preceding the date of this certification; or,
2. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is a resident vendor who certifies that, during the life of the contract, on average at least 75% of the employees working on the project being bid are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,
3. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is a nonresident vendor employing a minimum of one hundred state residents or is a nonresident vendor with an affiliate or subsidiary which maintains its headquarters or principal place of business within West Virginia employing a minimum of one hundred state residents who certifies that, during the life of the contract, on average at least 75% of the employees or Bidder's affiliate's or subsidiary's employees are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,
4. X Application is made for 5% resident vendor preference for the reason checked: Bidder meets either the requirement of both subdivisions (1) and (2) or subdivision (1) and (3) as stated above; or,
5. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked: Bidder is an individual resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard and has resided in West Virginia continuously for the four years immediately preceding the date on which the bid is submitted; or,
6. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked: Bidder is a resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard, if, for purposes of producing or distributing the commodities or completing the project which is the subject of the vendor's bid and continuously over the entire term of the project, on average at least seventy-five percent of the vendor's employees are residents of West Virginia who have resided in the state continuously for the two immediately preceding years.

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

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

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

Bidder: Gibbons & Kawash, A.C. Signed: [Signature]
Date: May 3, 2011 Title: Shareholder

\*Check any combination of preference consideration(s) indicated above, which you are entitled to receive.