



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

Request for Quotation

RFQ NUMBER
INS12015

PAGE
1

ADDRESS CORRESPONDENCE TO ATTENTION OF
SHELLY MURRAY 304-558-8801

RFQ COPY
 TYPE NAME/ADDRESS HERE

VENDOR

INSURANCE COMMISSION

SHIP TO

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

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

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

LINE	QUANTITY	UOP	CAT NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
----- ADDENDUM NO. 2 -----						
THIS ADDENDUM IS ISSUED TO ADDRESS THE QUESTIONS RECEIVED PRIOR TO THE QUESTION SUBMISSION DEADLINE OF 05/11/2012 THAT ALSO INCLUDES A CD ATTACHMENT.						
C001	1	IS		946-20		
AUDITING SERVICES						
EXHIBIT 10						
REQUISITION NO.: INS12015						
ADDENDUM ACKNOWLEDGEMENT						
I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.						
ADDENDUM NO.'S:						
NO. 1						
NO. 2						
NO. 3						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE		TELEPHONE		DATE
TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE		

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

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

1. Awards will be made in the best interest of the State of West Virginia.
2. The State may accept or reject in part, or in whole, any bid.
3. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required \$125 fee.
4. All services performed or goods delivered under State Purchase Order/Contracts are to be continued for the term of the Purchase Order/Contracts, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods this Purchase Order/Contract becomes void and of no effect after June 30.
5. Payment may only be made after the delivery and acceptance of goods or services.
6. Interest may be paid for late payment in accordance with the *West Virginia Code*.
7. Vendor preference will be granted upon written request in accordance with the *West Virginia Code*.
8. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.
9. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.
10. The laws of the State of West Virginia and the *Legislative Rules* of the Purchasing Division shall govern the purchasing process.
11. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.
12. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.
13. **HIPAA BUSINESS ASSOCIATE ADDENDUM:** The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, is available online at www.state.wv.us/admin/purchase/vrc/hipaa.html 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
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BID OPENING DATE: 05/30/2012 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
	NO. 4					
	NO. 5					
<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>..... SIGNATURE</p> <p>..... COMPANY</p> <p>..... DATE</p> <p>NOTE: THIS ADDENDUM ACKNOWLEDGEMENT SHOULD BE SUBMITTED WITH THE BID.</p> <p>----- END OF ADDENDUM NO. 2 -----</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

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TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE
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RFP # INS12015
Addendum #2
Questions & Answers

1. What were the prior year fees and audit hours?

Answer: Total audit fees for FY 2011 were \$129,500. Total hours were 854.85.

2. What was the amount of additional out-of-scope fees billed by the auditor in the prior year?

Answer: Zero. No additional out-of scope fees billed during the prior year.

3. Did OIC staff or the external auditors prepare the prior year financial statements and footnotes thereto?

Answer: The OIC staff prepares the financial statements and footnotes.

4. Per the RFP section 2.4.4, DHG is to provide technical assistance to the OIC accounting staff in the preparation of financial statements, reports, and documents. Historically, are there any parts of these documents that the OIC staff has had significant difficulties preparing?

Answer: No. The technical assistance comment is included in the event that a highly unusual or complex accounting matter that requires considerable research should arise. It could potentially include discussions between the OIC staff and the audit firm on interpretation and application of new accounting pronouncements as they are issued. There are no parts of the financial statements that the OIC staff has difficulties preparing.

5. The independent auditors' report on the prior year financial statements indicates that the audit was conducted in accordance with auditing standards generally accepted in the United States, but not Government Auditing Standards (GAS). Was the prior year audit also conducted in accordance with GAS, and if so, can you please provide a copy of the prior year GAS reports on the financial statements and on internal control?

Answer: Yes, the audit was conducted with GAS. Report attached.

6. Please provide copies of the internal control communications issued by the prior year auditors describing any material weaknesses, significant deficiencies or management letter comments noted during the prior year audit.

Answer: See copy of GAS report attached. Management letter also attached.

7. Does the Board of Treasury Investments and the Investment Management Board provide the OIC with all the information necessary to complete the detail investment footnote disclosures?

Answer: Yes.

8. How many employees does the OIC currently have?

Answer: 401.

9. In Section 2.2 of the Request for Proposal, it was noted that the OIC will be transitioning from WVFIMS to an ERP system, known as OASIS, during the duration of the contract. Will the transition occur subsequent to the June 30, 2012 audit?

Answer: Yes.

10. The RFP indicates that the OIC had been receiving federal funds under the Affordable Care Act. Do you expect the funds received to reach the level of materiality to be considered a major program under the Single Audit Act for the fiscal year ended June 30, 2012? If not, it is expected reach the threshold in fiscal year 2013?

Answer: We do not expect to reach the level of materiality to be considered a major program under the Single Audit Act for FY 2012. We are uncertain about FY 2013, as the precise direction that the State will take with regard to the Health Care Exchange and related grants is not finalized.

11. What independent actuarial consulting firm estimates the liabilities for unpaid claims and claims adjustment expense associated with the Workers' Compensation and Access WV funds? Have the previous auditors had any issues with their actuarial estimates?

Answer: Pinnacle Actuarial Resources, Inc. is currently contracted to provide the annual claims liability reserve study for the OIC. The previous auditors have had no issues with the actuarial estimates provided.

12. Does the OIC have an in-house actuary on staff? If so, how is the in-house actuary involved in the claims reserve estimation process?

Answer: The OIC does not have an in-house actuary. However, we do have a highly skilled, full time actuarial analyst who coordinates the data analysis with the consulting actuarial firm.

13. What internal controls exist over the data utilized by the actuaries to estimate the unpaid claims and claims adjustment liabilities for workers compensation and Access WV claims?

Answer: The data used by the actuaries to estimate the claims liabilities is extracted by the TPAs, analyzed by the OIC's actuarial analyst and reconciled to the OIC's records prior to delivery to the consulting actuaries. The data is simultaneously delivered to the independent audit firm.

14. The notes to the financial statements indicate that Workers Compensation claims are processed by American Mining Claims Services, Sedgwick CMS, and Wells Fargo. Well SSAE 16 reports covering claims processing be available from these TPA's that we can rely on?

Answer: We receive SSAE 16 (formerly SAS 70) reports for Sedgwick CMS & for Wells Fargo. These two TPAs handle the vast majority of claims for the OIC. American Mining Claims Services does not submit an attestation on internal controls. However, given the small number of claims that American Mining is handling, the absence of the SSAE 16 is not deemed to be material to the financial statements overall. The OIC has received a statement of no material deficiencies for American Mining from their independent audit firm.

15. Does the OIC utilize a third party administrator for claims processing for Access WV claims? If so, will a SSAE 16 report over claims processing be available?

Answer: Yes. Access WV claims are handled by Wells Fargo TPA. A SSAE 16 will be available.

16. Will we be able to get the claims paid data electronically so that we can utilize computer assisted audit techniques?

Answer: Yes.

17. Are any claims processed in-house? If so, what type of claims and what software is used?

Answer: No claims are processed in house.

18. Who are the OIC's actuaries and if the OIC has received those actuarial reports can they be provided?

Answer: Pinnacle Actuarial Services, Inc. currently holds the contract to provide the OIC with consulting actuarial services for worker's compensation related matters. We have provided a copy of the FY 2011 report. See disc attached.

19. Does the OIC utilize external service organizations, and if so can you please list them and for what purposes they are utilized by the OIC, and can you provide any SOC 1 reports by the service organization's auditors?

Answer: The OIC utilizes TPAs to provide claims management services for the worker's compensation and the Access WV claims processing. We can provide the SOC reports to the OIC's audit firm. See also questions #14 & #15.

20. What is the dollar amount of Federal financial assistance that has been received under the Patient Protection and Affordable Care Act and under what Federal CFDA number is the financial assistance provided?

Answer: CFDA #93.511 - \$208,084.97; CDFA #93.519 - \$73,018.41; CFDA #93.525 - \$1,344,664.51

21. Based on the wording of the RFQ, it is our understanding that an audit under OMB Circular A-133 is not contemplated. Please confirm this understanding.

Answer: The OIC is unclear as to the meaning of this question as it is worded.

22. It is our understanding that the audit will be conducted in accordance with auditing standards generally accepted in the United States of America issued by the Auditing Standards Board of the AICPA, and that Government Auditing Standards issued by the Comptroller General of the United States of the United States Government Accountability Office. Please confirm.

Answer: Confirmed. That is correct.

23. The RFQ provides that "The auditing firm will provide technical assistance to the OIC accounting staff in the preparation of financial statements, reports, and documents necessary for compliance with the Comprehensive Annual Financial Report of the State of West Virginia and the requirements of the West Virginia Financial Accounting and Reporting Section of the Department of Administration." Will the drafting of the financial statements, reports and documents required for compliance with the CAFR be performed by the staff of the Financial Accounting Division of the OIC with review and technical recommendations by the audit firm, or will the audit firm be expected to draft such information with review and approval by the OIC?

Answer: The drafting of the financial statements, reports and documents required for compliance with the CAFR will be performed by the OIC staff with review by the audit firm.

24. With respect to the OIC's financial statements, required supplementary information that is to be included with the audit firm's audit reports, will the initial drafting of the OIC's

Basic financial statements, required supplementary information, and other financial information be performed by the staff of the Financial Accounting Division of the OIC?

Answer: Yes, the OIC Financial Accounting Division will prepare all of the financial statements, RSI and supplemental information for the statements.

25. Does the OIC have an internal audit function, and if so will the successful auditor have access to them and be able utilize their work product and their assistance?

Answer: The OIC does not have an internal auditor or internal audit unit on staff.

26. What were the prior year fees and number of hours incurred in conjunction with the audit of the 2011 OIC financial statements?

Answer: See also question #1. The FY 2011 audit fees were \$129,500 and engagement hours were 854.85.

27. Can you please provide copies of the written communications resulting from the 2011 audit that disclosed any deficiencies in internal control over financial reporting and whether or not such deficiencies rose to the level of significant deficiencies or material weaknesses?

Answer: See response to Questions #5 & #6. Reports provided.

28. Have there been any substantial changes in internal control over financial reporting since the prior audit?

Answer: No substantial changes have occurred.

29. Outside of WVFIMS, does the OIC utilize any other general ledger and/or integrated subsidiary accounting software, and if so what brand is it?

Answer: No GL software or integrated accounting software is utilized. However, the OIC has developed a general ledger on Excel in order to automate portions of the financial reporting process.

30. Does the OIC have an IT Department separate from that of the West Virginia Office of Technology?

Answer: Yes.

31. Has the OIC experienced any significant turnover in key audit positions during the past year or is the OIC aware of any pending resignations or retirements of key personnel which may impact the audit?

Answer: No turnover in key audit positions or any pending retirements or resignations that will impact the audit.

32. What were the audit fees for the annual audits relating to WVIC's fiscal years 2011 and 2010? What were the total out of scope fees for fiscal years 2011 and 2010 and what was the nature of the out of scope items?

Answer: See also questions #1 & #2 & #26. No out of scope fees were incurred for either year. Fiscal year 2010 audit fees were \$129,500.

33. Per Note 1 of the most recent audited financial statements, the WVIC utilizes the following third party administrators (TPAs): American Mining Claims Services, Inc., Sedgwick CMS, and Wells Fargo Disability Management.

Have there been any changes to the TPAs being used: Are any changes anticipated?

Answer: No changes during this fiscal year.

What percentage of each line of business (i.e. black lung, etc.) does each TPA handle? Are there any lines of business that are not processed by a TPA? Is any part of the claims process being performed by the WVIC?

Answer: Sedgwick CMS handles 84% of the worker's compensation non-federal black lung (FBL) claims, Wells Fargo handles 10%, and American Mining handles 6%. Sedgwick does not handle any (federal black lung) FBL claims, Wells Fargo handles 15% of the FBL, while American Mining handles 85% of the FBL. Of the total universe of 19,889 claims, 95% of claims are non-FBL and only 5% of the claims are federal black lung. All claims are handled by a TPA. No claims are processed by the OIC. The only part of the claims process that is handled by the OIC is the submission of the TPA generated file to the State Treasurer's office for the execution of checks & ACH payments.

34. Do all of the TPAs provide service auditors reports (SSAE16)(formerly SAS70) relating to the processes utilized by WVIC, including reporting? Were there any exceptions identified in the opinion? Do the reports cover the minimum of nine months of WVIC's fiscal year? If not, is a bridge letter obtained?

Answer: Sedgwick CMS, Wells Fargo, and Express Scripts provide SSAE 16 reports. No exceptions in opinions. The reports cover the minimum 9 months and / or the bridge letters are obtained.

35. Have you received a material weakness or significant deficiency regarding the design or operating effectiveness of internal controls in the prior year? Have you received a management comment letter? If so, can you provide copies of our review?

Answer: The OIC has received no findings of material weakness or significant deficiencies for the past 5 years. A copy of the FY 2011 management letter is attached.

36. Have controls been identified and tested regarding the Self-Insured Guaranty Risk Pool and Self-Insured Security Risk Pool?

Answer: Yes.

37. Is the financial condition of self-insured employers assessed annually, quarterly, etc.? How has the rate of default increased or decreased over the past three years?

Answer: The financial condition of self-insured employers is formally assessed annually, based on the employer's audited financial statements. SEC filings are monitored on a quarterly basis. There have been no defaults for the Guaranty Risk Pool in the past three years.

38. Has the litigation related to Footnote 8 progressed in an unfavorable manner for the WVIC? If so, has the WVIC assessed how many additional claims will be filed from self-insured employers for overpaid claims?

Answer: The litigation disclosed in Footnote 8 has not progressed in an unfavorable manner for the WVOIC.

39. Can you provide a copy of the most recent actuarial report?

Answer: Yes. See disc attached.

40. What data is provided to WVIC's actuary to calculate the claims liability? Can you provide descriptions, field layouts, etc. of the data provided?

Answer: See finalized data request for the FY 2011 reserve study attached.

41. Does the WVIC provide the data to the actuary in a consolidated format or does it come directly from the TPAs? Do all TPAs provide claims information in similar formats so loss triangles can be easily recreated and analyzed? If the data comes from the TPA's, without consolidation by the WVIC, is the data consistent between TPA's in both form and content? Does WVIC reconcile the data to internal records?

Answer: The OIC has developed a template for use by the TPAs in order to enhance uniform reporting of data by the TPAs. The data is extracted by the TPAs and provided to the OIC for review and reconciliation to OIC records prior to submission to the consulting actuarial firm.

**West Virginia
Offices of the Insurance Commissioner**

Report to the Commissioner

October 14, 2011



October 14, 2011

West Virginia Offices of the Insurance Commissioner
Charleston, West Virginia

Attention: Insurance Commissioner

We are pleased to present this report related to our audit of the financial statements of West Virginia Offices of the Insurance Commissioner for the year ended June 30, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the West Virginia Offices of the Insurance Commissioner's financial reporting process.

This report is intended solely for the information and use of the Insurance Commissioner and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the West Virginia Offices of the Insurance Commissioner.

A handwritten signature in cursive script that reads 'Suttle & Stalnaker, PLLC'.

Suttle & Stalnaker, PLLC

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301

Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008

Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102

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A Professional Limited Liability Company

Contents

Required Communications	4 – 6
Summary of Accounting Estimates	7
Summary of Waived Adjustments	8
 Exhibits - Certain Written Communications Between Management and Our Firm	 9
Arrangement Letter	
Representation Letter	
Internal Control Letter	

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditor's Responsibility Under Professional Standards	<p>Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States of America has been described to you in our arrangement letter dated April 4, 2011.</p>
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Commissioner. During the year ended June 30, 2011, the Commissioner adopted GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which intended to improve the clarity and consistency of the fund balance information provided to report users. See Note 2 in the audited financial statements for details about the new classifications.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Alternative Treatments Discussed with Management</p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>

Area	Comments
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates".
Financial Statement Disclosures	In our entrance meeting, we discussed the audit process and any issues that we believed needed to be brought to the attention of management. Specifically, we discussed the financial statements and required disclosures.
Audit Adjustments	There were no audit adjustments made as a result of our audit procedures. Several adjustments were made by management after we received the original trial balance to begin our audit.
Waived Adjustments	Waived adjustments are summarized in the attached "Summary of Waived Adjustments."
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.

Area	Comments
Internal Control Communication	<p>We have separately reported on internal control in our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on our audit of Financial Statements performed in accordance with <i>Government Auditing Standards</i>. No matters were reported in accordance with those standards. We have also communicated in the attached Internal Control Letter that no material weaknesses were noted as a result of our audit procedures, as well as reported certain other control deficiencies.</p>

**West Virginia Offices of the Insurance Commissioner
Summary of Accounting Estimates
Year Ended June 30, 2011**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the West Virginia Offices of the Insurance Commissioner's June 30, 2011 financial statements:

<u>Area</u>	<u>Accounting Policy</u>	<u>Estimation Process</u>	<u>Comments</u>
Valuation of unpaid claims liability	Estimated	Based upon and derived from an actuarial calculation, management determines the net cost of all the unpaid claims and claims adjustment expenses at balance sheet date.	We concur with this process.
Valuation of receivables	Net realizable value	Review of net amounts of anticipated collections, subsequent receipts, established contracts and historical collection information.	We concur with this process.
Compensated Absences	Estimated	Based upon management's calculation of the ultimate liability to be paid.	We concur with this process.
Depreciation of capital assets	Straight-line method	Based upon cost, depreciation is calculated using the straight-line method over the estimated useful life. Annually, management reviews capital assets for impairment.	We concur with this process.
Other Post Retirement Benefits	Estimated	Derived from an actuarial calculation.	We concur with this process.

West Virginia Offices of the Insurance Commissioner
Summary of Waived Adjustments
Year Ended June 30, 2011

During the course of our audit, we accumulated certain waived adjustments that were determined by management to be immaterial, both individually and in the aggregate, to the statements of financial position, results of operations, and cash flows and to the related financial statement disclosures. Following is a summary of those waived adjustments.

Old Fund

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Waived JE # 1			
To correct RAPP A/R and Employer Premium contribution, and to create an allowance for doubtful accounts.			
1114	RAPP installment receivable	167,848.59	
1114A	Allowance for bad debt		82,528.69
4102	7162 employer premium contribution – object code 662		85,319.90
Total		<u><u>167,848.59</u></u>	<u><u>167,848.59</u></u>

Operating Fund

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Waived JE # 2			
To reduce OPEB liability to agree to PEIA billing support.			
2203	OPEB liability – Current	61,784.41	
5244B	160 WV OPEB contribution		61,784.41
Total		<u><u>61,784.41</u></u>	<u><u>61,784.41</u></u>

Self Insured Security Fund

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Waived JE # 3			
To adjust employer contribution to actual at 6/30/2011.			
1801	Cash – WVFIMS Fund #7165 Self Insured Employer Security	361.41	
4811	662 Employer Premium Contribution		361.41
Total		<u><u>361.41</u></u>	<u><u>361.41</u></u>

Certain Written Communications Between Management and Our Firm

Arrangement Letter

Management Representations Letter

Internal Control Letter

ARRANGEMENT LETTER



April 4, 2011

West Virginia Offices of the Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

This letter is to confirm our understanding of the arrangements for the services we are performing for the West Virginia Offices of the Insurance Commissioner (OIC) for the year ended June 30, 2011. We ask that you either confirm or amend this understanding.

Audit Services

We will perform an audit of OIC's governmental activities, business-type activities, and each major fund as of and for the year ended June 30, 2011 which collectively comprise the basic financial statements. We understand that these financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

The financial report will include required supplementary information regarding revenue and reserve development information, claims liabilities by type of contract information, and an operating fund budgetary comparison schedule, and may also include other financial information including budgetary information regarding Access West Virginia and financial statement and budgetary information summarized by the following Workers' Compensation coverage types:

- Workers' Compensation Old Fund Debt Reduction
- Coal Workers' Pneumoconiosis
- Uninsured
- Self-insured
- Private Carrier

Our report on the financial statements will describe the extent of procedures applied to this information and indicate the degree of responsibility taken with regards to such information.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

An audit of financial statements also includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to you and to management any significant deficiencies or material weaknesses that become known to us during the course of the audit.

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A Professional Limited Liability Company

We will also communicate to the Commissioner (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the entity's accounting policies and financial statements.

In addition to our report on OIC's financial statements, we will also issue the following reports:

Report on internal control related to the financial statements. This report will describe the scope of testing of internal control and the results of our tests of internal controls.

Report on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.

A schedule of findings, if any, and responses.

The funds that you have informed us that are to be included as part of the audit are the Operating (General) Fund, Workers' Compensation Fund, and Access West Virginia Fund.

Our report on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circular identified above. Our report on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed by contracts; and any state or federal grant, entitlement of loan program questioned costs of which we become aware, consistent with requirements of the standards identified above.

West Virginia Offices of the Insurance Commissioner's Responsibilities

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management employees who have significant roles in internal control and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

The Commissioner is responsible for informing us of her views about the risks of fraud within the entity, and her knowledge of any fraud or suspected fraud affecting the entity.

OIC agrees that our report on the financial statements will not to be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if OIC intends to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, you agree to provide us with printer's proofs or a master for our review and consent before reproduction and/or release occurs. You also agree to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance system as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client. Accordingly, OIC agrees it will compensate Suttle & Stalnaker, PLLC for any additional costs incurred as a result of the employment of a partner or professional employee of Suttle & Stalnaker, PLLC.

During the course of our engagement, we may accumulate records containing data which should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by organization personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with Melinda Kiss and Cheri Harpold. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

Other Terms of our Engagement

Because Suttle & Stalnaker, PLLC will rely on OIC and its management and audit committee or its equivalent to discharge the forgoing responsibilities, OIC holds harmless and releases Suttle & Stalnaker, PLLC, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of OIC's management which has caused, in any respect, Suttle & Stalnaker, PLLC's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

In the event we are requested or authorized by OIC or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for OIC, OIC will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The working papers for this engagement are the property of Suttle & Stalnaker, PLLC. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested working papers will be provided under the supervision of Suttle & Stalnaker, PLLC audit personnel and at a location designated by our Firm.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

If circumstances arise relating to the conditions of your records, the availability of sufficient, competent evidential matter, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, misappropriation of assets, or noncompliance which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

Any claim arising out of services rendered pursuant to this agreement shall be resolved in accordance with the laws of West Virginia. It is agreed by OIC and Suttle & Stalnaker, PLLC or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of OIC shall be asserted more than two years after the date of the last audit report issued by Suttle & Stalnaker, PLLC.

If any dispute arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association or other association under Rules for Professional Accounting and Related Services Disputes before resorting to litigation. Costs of any mediation proceeding shall be shared equally by all parties.

The two overarching principles of the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the works, and therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, the OIC agrees to the following:

Melinda Kiss will be accountable and responsible for overseeing the routine technical assistance provided by Suttle & Stalnaker, PLLC.

OIC will establish and monitor the performance of the routine technical assistance to ensure that they meet management's objectives.

OIC will make any decisions that involve management functions related to the routine technical assistance and accepts full responsibility for such decisions.

OIC will evaluate the adequacy of services performed and any findings that result.

HIPPA

In connection with compliance with the Health Insurance Portability and Accountability Act (HIPAA):

- (a) Suttle & Stalnaker, PLLC agrees not to use or disclose Protected Health Information (as defined in 45 CFR 160.103) other than as permitted or required by this arrangement letter (the "Agreement"); as required by operation of law; or as required by auditing standards or accounting principles.
- (b) Suttle & Stalnaker, PLLC agrees to use appropriate safeguards to prevent use or disclosure of the Protected Health Information other than as provided for by this Agreement. The Firm agrees to implement administrative, physical, and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of electronic Protected Health Information that it creates, receives, maintains, or transmits.
- (c) Suttle & Stalnaker, PLLC agrees to report to OIC any use or disclosure of the Protected Health Information not provided for by this Agreement and/or any Security Incident (as defined in 45 CFR 164.304) of which it becomes aware.
- (d) Suttle & Stalnaker, PLLC agrees to ensure that any agent, including a subcontractor, to whom it provides Protected Health Information received from, or created or received by Suttle & Stalnaker, PLLC on behalf of OIC agrees to the same restrictions and conditions that apply through this Agreement to Suttle & Stalnaker, PLLC with respect to such information. Moreover, the Firm agrees to ensure that any such agent or subcontractor to whom it provides electronic Protected Health Information agrees to implement reasonable and appropriate safeguards to protect it.

- (e) OIC shall not request Suttle & Stalnaker, PLLC to use or disclose Protected Health Information in any manner that would not be permissible under the Privacy Rule if done by OIC.
- (f) Suttle & Stalnaker, PLLC may use and disclose Protected Health Information (i) for the proper management and administration of its business under this contract, (ii) to provide Data Aggregation Services relating to the Health Care Operations of OIC, and (iii) to report violations of law to appropriate federal and state authorities, all as provided in the Privacy Rule.
- (g) Suttle & Stalnaker, PLLC agrees to document such disclosures of Protected Health Information made by Suttle & Stalnaker, PLLC and information related to such disclosures as would be required for OIC to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with the Privacy Rule. Suttle & Stalnaker, PLLC further agrees to provide OIC or an individual, upon request, with such information to permit OIC to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR Sec. 164.528.
- (h) At no time will Suttle & Stalnaker, PLLC have possession and/or control of OIC's patients' 'Designated Record Sets' or any copies thereof. The Protected Health Information created or maintained by Suttle & Stalnaker, PLLC is not part of the patient's Designated Record Set and is, therefore, not subject to the Privacy Rule's patient access or amendment rights. Consequently, 45 CFR Part 164.524 and 164.526 [and, therefore, 45 CFR Part 164.504(e)(2)(ii) subparts (E) and (F)] are not applicable to Suttle & Stalnaker, PLLC.
- (i) Suttle & Stalnaker, PLLC agrees to make its internal practices, books and records, including policies and procedures and Protected Health Information, relating to the use and disclosures of Protected Health Information received from OIC available to OIC or the Secretary of the U.S. Department of Health and Human Services or his or her designee promptly for purposes of determining the OIC's compliance with the Privacy Regulations.
- (j) Term and Termination
 - (i) The Term of this Agreement regarding Protected Health Information shall be effective as of April 19, 2010, and shall terminate when all of the Protected Health Information provided by OIC to Suttle & Stalnaker, PLLC on behalf of OIC, is destroyed. If it is infeasible to destroy Protected Health Information, protections of this contract are extended to such information, in accordance with the termination provisions in this Section.
 - (ii) Termination for Cause. Upon OIC's knowledge of a material breach by Suttle & Stalnaker, PLLC, OIC shall either:
 - (1) Provide an opportunity for Suttle & Stalnaker, PLLC to cure the breach or end the violation and terminate this agreement if Suttle & Stalnaker, PLLC does not cure the breach or end the violation within the time specified by OIC,
 - (2) Immediately terminate this Agreement, if Suttle & Stalnaker, PLLC has breached a material term of this Agreement and cure is not possible; or
 - (3) If neither termination nor cure are feasible, OIC shall report the violation to the Secretary of the Department of Health & Human Services.
 - (iii) Effect of Termination.
 - (1) Except as provided in paragraph (ii) of this section, upon termination of this Agreement, for any reason, Suttle & Stalnaker, PLLC shall destroy all Protected Health Information received from OIC, or received by Suttle & Stalnaker, PLLC on behalf of OIC in accordance with their audit record retention policy. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of Suttle & Stalnaker, PLLC. Suttle & Stalnaker, PLLC shall retain no copies of the Protected Health Information beyond their normal retention period as required for their compliance with applicable professional standards.

- (2) In the event that Suttle & Stalnaker, PLLC determines that destroying the Protected Health Information is infeasible, we shall provide to OIC notification of the conditions that make return or destruction infeasible. Upon any notice that destruction of Protected Health Information is infeasible, Suttle & Stalnaker, PLLC shall extend the protections of this Agreement to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make destruction infeasible, for so long as Suttle & Stalnaker, PLLC maintains such Protected Health Information.

Fees

Our fees are based on the time required by the individuals assigned to the engagement at the rates included in purchase order number INS091222, and such purchase order is incorporated by reference as part of this letter.

Closing

This letter constitutes the complete and exclusive statement of agreement between Suttle & Stalnaker, PLLC and OIC, superseding all proposals oral or written and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed, for your information.

If this letter defines the arrangements as the OIC understands them, please sign the enclosed copy, and return it to us.

Suttle & Stalnaker, PLLC
 Suttle & Stalnaker, PLLC

Confirmed on behalf of the OIC:

Michaela Roberts
 Signature

Assistant Commissioner
 Title

June 2, 2011
 Date



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

▪ 1200 BATH AVENUE ▪ P. O. BOX 990 ▪ ASHLAND, KENTUCKY 41105-0990 ▪
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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

December 31, 2008

To the Members
Suttle & Stalnaker, PLLC

We have reviewed the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC (the firm) in effect for the year ended May 31, 2008. A system of quality control encompasses the firm's organizational structure, the policies adopted and the procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of conforming with 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 with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests; therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality

control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC in effect for the year ended May 31, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Kelley, Galloway & Company, PSC

Kelley, Galloway & Company, PSC
Ashland, Kentucky

MANAGEMENT REPRESENTATIONS LETTER

STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner



EARL RAY TOMBLIN
Governor

MICHAEL D. RILEY
Acting Insurance Commissioner

October 14, 2011

Suttle & Stalnaker, PLLC
The Virginia Center, Suite 100
1411 Virginia Street, East
Charleston, West Virginia 25301

In connection with your audit of the basic financial statements of the West Virginia Offices of the Insurance Commissioner as of and for the year ended June 30, 2011, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of October 15, 2011 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with the Insurance Commissioner are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. The West Virginia Offices of the Insurance Commissioner is an agency of the State of West Virginia and, accordingly, is included as part of the primary government in the State's Comprehensive Annual Financial Report.



4. We are an other organization for which the nature and significance of our relationship with The State of West Virginia are such that exclusion of our financial information would cause that primary government's reporting entity's financial statements to be misleading or incomplete, as these terms are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
5. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
6. We have properly classified all funds and activities.
7. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria. We have determined the following fund to be major for public interest reasons: AccessWV. We believe that the judgmentally determined major fund is particularly important to the financial statement users.
8. We are responsible for compliance with laws and regulations, contracts and grant agreements applicable to the West Virginia Offices of the Insurance Commissioner including adopting, approving, and amending budgets.
9. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
10. We have made available to you:
 - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
 - b. All minutes of the meetings of any governing or oversight bodies, including committees thereof or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - 1) Statutory, regulatory or contractual provisions or requirements.
 - 2) Financial reporting practices that could have a material effect on the financial statements.
11. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in the internal control, or

- c. Others where the fraud could have a material effect on the financial statements.
12. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
 13. We have no knowledge of any allegations of fraud or suspected fraud affecting the West Virginia Offices of the Insurance Commissioner received in communications from employees, former employees, analysts, regulators, or others.
 14. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
 15. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
 16. We know of no violations of state or Federal statutory or regulatory provisions, grant or other contractual provisions, or of provisions of local ordinances.
 17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 18. The following have been properly recorded and/or disclosed in the financial statements, as applicable;
 - a. Related party transactions, including those with the primary government having accountability for the West Virginia Offices of the Insurance Commissioner as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
 - b. Guarantees, whether written or oral, under which the Government is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.
 - f. Security agreements in effect under the Uniform Commercial Code.
 - g. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

- h. The fair value of investments.
 - i. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - j. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - k. All leases and material amounts of rental obligations under long-term leases.
 - l. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - m. Authorized but unissued bonds and/or notes.
 - n. Risk financing activities.
 - o. Derivative financial instruments.
 - p. Assets and liabilities measured at fair value.
 - q. The effect on the financial statements of GASB Statements or other pronouncements which have been issued, but which we have not yet adopted.
 - r. Special and extraordinary items.
 - s. Deposits and investment securities category of custodial credit risk.
 - t. Impairment of capital assets.
19. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made.
- a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - c. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2011 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2011.

- d. For pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2011.
 - e. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - f. For any material loss to be sustained as a result of purchase commitments.
 - g. For environmental cleanup obligations.
20. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingences Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
21. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingences Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
22. If applicable, the estimated contingent liability for self-insured employers disclosed in the notes to the financial statements is fairly stated at June 30, 2011. This amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expenses because the likelihood of future self-insurer defaults has not and cannot be reasonably estimated. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingences Topic of the FASB Accounting Standards Codification.
23. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private that is not disclosed in the financial statement.

24. We have satisfactory title to all owned assets.
25. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
26. Net asset components and fund balance reserves and designations are properly classified and, if applicable, approved.
27. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
28. Revenues are appropriately classified in the statement of activities within program and general revenues.
29. Capital assets, including infrastructure assets if applicable, are properly capitalized, reported, and depreciated.
30. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, if any, have been properly recorded or disclosed in the financial statements.
31. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
32. Participation in public entity risk pools have been properly reported and disclosed in the financial statements.
33. Investments - The West Virginia Offices of the Insurance Commissioner's investments are made into the West Virginia Consolidated Investment Pool that is managed by the Investment Management Board (IMB) and the Board of Treasury Investments (BTI), the management of which are not under the West Virginia Offices of the Insurance Commissioner's control. Investments are reported by the IMB or BTI at fair value and are accounted for by the West Virginia Offices of the Insurance Commissioner accordingly, with changes in the fair value included in investment income. The earnings from these pooled investments are distributed to investment pool participants based on their pro rata participation in the pools. To our knowledge, none of the West Virginia Offices of the Insurance Commissioner's investments have permanently declined in value to an amount less than the carrying value in the financial statements.

34. Liability for Unpaid Claims and Claim Adjustment Expenses - The unpaid claims and claims adjustment expense liability represents the estimated ultimate net cost of all reported and unreported claims and claim adjustment expenses incurred through June 30, 2011. Such estimates are based on case-basis estimates of losses reported prior to June 30, 2011, the unpaid claims and claim adjustment expenses factors inherent in the West Virginia Offices of the Insurance Commissioner's reported loss experience to date, analysis of the West Virginia Offices of the Insurance Commissioner's operations, and statistical data, and gives effect to estimates of trends in claims severity and frequency. The estimated liability for unpaid claims and claim adjustment expenses has been discounted for GAAP reporting purposes at a 5.0% interest rate at June 30, 2011, which we believe is reasonable. Such liability is reasonable and adequate to discharge the West Virginia Offices of the Insurance Commissioner's obligations for claims incurred but unpaid as of June 30, 2011. Reserves are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

The liability for unpaid claims and claim adjustment expenses was based on the best data available to us; however, because actual claim costs depend on such complex factors as inflation and changes in doctrines of legal liability, these estimates are subject to a significant degree of variability. These estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Although the estimates of the liability for unpaid claims and claims adjustment expenses are reasonable in the circumstances, it is possible that the West Virginia Offices of the Insurance Commissioner's actual incurred claims and claim adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of claims and the related claim adjustment expenses may vary significantly from the estimates included in the West Virginia Offices of the Insurance Commissioner's financial statements. Also, we believe that the footnotes adequately describe this uncertainty.

Due to the inherent variability in the liability for unpaid claims and claim adjustment expenses, we plan to record this liability consistently from year to year.

The West Virginia Offices of the Insurance Commissioner utilizes consulting actuaries to assist with certain components of the actuarial estimation process. All significant matters of judgment utilized in the actuarial estimation process by our consulting actuaries are determined or approved by management or our in-house actuary, if applicable, and we are in a position to make informed judgment on the results of their work. The West Virginia Offices of the Insurance Commissioner agrees with the actuarial methods and assumptions used by the consulting actuary and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the West Virginia Offices of the Insurance Commissioner's consulting actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence of objectivity of the West Virginia Offices of the Insurance Commissioner's consulting actuary.

35. Required supplementary information is properly measured and presented. The supplementary information on Claims Development Information and Reconciliation of Claims Liability by Type has been prepared and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its Statement No. 30.
36. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
37. Management's discussion and analysis (MD&A) is based on facts, decisions, or conditions currently known to management and does not contain forecasts or other prospective information.
38. We are responsible for:
 - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Insurance Commissioner.
 - b. Establishing and maintaining effective internal control over financial reporting.
39. We have identified and disclosed to you:
 - a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
 - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
40. Management has evaluated whether or not a premium deficiency exists at the balance sheet date. We do not believe that such a deficiency exists.
41. We believe that the effects of the uncorrected misstatements, if any, as of and for the year ended June 30, 2011 aggregated by you and summarized on the attached schedule are immaterial, both individually and in the aggregate to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
42. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter have been recognized or disclosed in the financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require recognition or disclosure in the financial statements. We further represent that as of the date of this letter, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

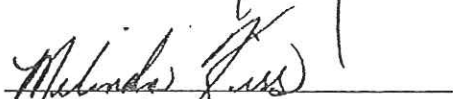
43. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.



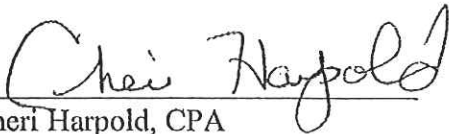
Michael D. Riley
WV Insurance Commissioner



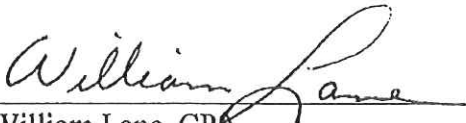
William Kerny
Deputy Commissioner



Melinda Kiss, CPA
Assistant Commissioner of Finance



Cheri Harpold, CPA
Director of Financial Accounting



William Lane, CPA
Financial Specialist

INTERNAL CONTROL LETTER



To the Commissioner
West Virginia Offices of the Insurance Commissioner
Charleston, West Virginia

In planning and performing our audit of the financial statements of The West Virginia Offices of the Insurance Commissioner (WVOIC) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered WVOIC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WVOIC's internal control. Accordingly, we do not express an opinion on the effectiveness of WVOIC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Following is a description of control deficiencies that we determined did not constitute a significant deficiency or material weakness.

Information Technology Management

Management is responsible for ensuring that appropriate tangible and intangible safeguards are in place to ensure financial data integrity. We noted the following matters during our review of WVOIC's various systems.

Password Controls (IComp/WCIS)

A user is never locked out of an account after multiple failed login attempts within the IComp/WCIS system. Lack of user account lockout controls increases the risk of unauthorized access.

We recommend that WVOIC utilize user lockout controls. If the functionality does not currently exist within the application, WVOIC should require this be implemented in the next release.

Administrator Activity Reports

WVOIC does not review administrator activity such as security and parameter file maintenance reports within the WVOIC systems. Security and parameter file maintenance reports highlight significant changes to the application. An independent review of administrative file maintenance activity will maintain data integrity and security. Lack of such review increases the risk of unauthorized changes going unnoticed.

We recommend that WVOIC administrator's activity be reviewed to ensure changes are appropriate. Ideally, this review should be performed by employees who are independent from the WVOIC administration process.

Authorization and termination of user profiles

WVOIC's authorization and termination forms are not properly validated against user account profiles to ensure access has been properly implemented. A formal review and sign off that access has been properly implemented or removed for each authorization form decreases the risk of accidental or deliberate unauthorized access granted, or proper and timely removal of access. It is our understanding that currently one individual will grant access or removal, and work is verified by the individual's supervisor on a periodic basis, however this process is not documented. Date and time of access removal is also not documented so it is impossible to determine if users were removed in a timely manner after termination.

We recommend that WVOIC implement a formal review process for checking authorization and termination forms against user account access rights. This process should be performed by someone different than the person granting the access.

Network Vulnerability Assessment

WVOIC has not had an independent third party perform an external and internal network vulnerability assessment. By completing this review, WVOIC will have greater assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. In addition, performing this testing will validate the effectiveness of WVOIC's patch management process.

We recommend that WVOIC complete a vulnerability assessment of the external and internal network environment.

* * * * *

This communication is intended solely for the information and use of the Commissioner, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Charleston, West Virginia
October 14, 2011

State of West Virginia
 Offices of the Insurance Commissioner Request
 Workers Compensation Funds
 Data Request for Fiscal Year ending 6/30/12

Old Fund Claim Data Files

1. Pending (Open) Claim Information from TPAs as of 6/30/12

- *Claim Number*
- Accident Date
- Claim Type (Fatal, PTD, PP, TT, Med)
- Policy Number
- Business Sequence
- Claim Status
- Claimant DOB
- Claimant Gender
- Claimant Marital Status
- Claimant Year of Death
- Most Recent Monthly Indemnity Benefit
- Fatal Case Reserve
- PTD Case Reserve
- PPD Case Reserve
- TTD Case Reserve
- Medical Case Reserves
- Indemnity Expense Case Reserves
- Medical Expense Case Reserves

2. Paid Information from TPAs as of 6/30/12

- *Claim Number*
- Accident Date
- Claim Type (Fatal, PTD, PP, TT, Med)
- Policy Number
- Business Sequence
- Claim Status
- Incremental Indemnity Paid
- Incremental Medical Paid
- Incremental Indemnity Expense Paid
- Incremental Medical Expense Paid
- Incremental Settlement Paid
- Inception to Date Indemnity Paid
- Inception to Date Medical Paid
- Inception to Date Indemnity Expense Paid
- Inception to Date Medical Expense Paid
- Inception to Date Settlement Paid

3. Dependant Demographic Data from TPAs

For All Open Indemnity Claims

- Claim Number
- Accident Date
- Dependent 1 DOB
- Dependent 1 Gender
- Dependent 1 YOD
- Dependent 1 Type (Spouse, Child, Student, Disabled)
- Dependent 2 DOB
- Dependent 2 Gender
- Dependent 2 YOD
- Dependent 2 Type (Spouse, Child, Student, Disabled)
- Dependent 3 DOB
- Dependent 3 Gender
- Dependent 3 YOD
- Dependent 3 Type (Spouse, Child, Student, Disabled)
- Dependent 4 DOB
- Dependent 4 Gender
- Dependent 4 YOD
- Dependent 4 Type (Spouse, Child, Student, Disabled)
- Dependent 5 DOB
- Dependent 5 Gender
- Dependent 5 YOD
- Dependent 5 Type (Spouse, Child, Student, Disabled)
- Dependent 6 DOB
- Dependent 6 Gender
- Dependent 6 YOD
- Dependent 6 Type (Spouse, Child, Student, Disabled)

4. Claim Counts (TPAs and/or OIC)

- Fiscal Year of Claim
- Number of Claims Closed between 7/1/2011 and 6/30/2012 by claim type
- The Number of Open Claims as of 6/30/2012 by claim type
- Number of Claims Awarded Between 7/1/2011 and 6/30/12 by claim type

5. Specific Final Claim Settlements (entered into since 1/1/2008)

- Claim Number
- Accident Date
- Claim Type Prior to Settlement (Fatal, PTD, PP, TT, Med)
- Policy Number
- Prior Inception to date payment totals

- Settlement Value Paid
6. New Awards (7/1/2011 – 6/30/2012)
- Claim Number
 - Accident Date
 - Claim Type (Fatal, PTD, PP, TT, Med)
 - Award Date

**State of West Virginia
 Offices of the Insurance Commissioner Request
 Workers Compensation Funds
 Data Request for Fiscal Year ending 6/30/12**

Coal Workers Fund - Federal Black Lung

1. Pending (Open) Claim Information as of 6/30/12

- Claim Number
- Accident Date
- Claim Type (Fatal, PTD, PP, Med)
- Policy Number
- Claim Status
- Claimant DOB
- Claimant Gender
- Claimant Marital Status
- Claimant Year of Death
- Most Recent Monthly Indemnity Benefit
- Fatal Case Reserve
- PTD Case Reserve
- PPD Case Reserve
- TTD Case Reserve
- Medical Case Reserves
- Indemnity Expense Case Reserves
- Medical Expense Case Reserves

2. Dependant Demographic Data

(All Open Claims)

- Claim Number
- Accident Date
- Dependent 1 DOB
- Dependent 1 Gender
- Dependent 1 YOD
- Dependent 1 Type (Spouse, Child, Student, Disabled)
- Dependent 2 DOB
- Dependent 2 Gender
- Dependent 2 YOD
- Dependent 2 Type (Spouse, Child, Student, Disabled)
- Dependent 3 DOB
- Dependent 3 Gender
- Dependent 3 YOD
- Dependent 3 Type (Spouse, Child, Student, Disabled)
- Dependent 4 DOB
- Dependent 4 Gender

- Dependent 4 YOD
 - Dependent 4 Type (Spouse, Child, Student, Disabled)
 - Dependent 5 DOB
 - Dependent 5 Gender
 - Dependent 5 YOD
 - Dependent 5 Type (Spouse, Child, Student, Disabled)
 - Dependent 6 DOB
 - Dependent 6 Gender
 - Dependent 6 YOD
 - Dependent 6 Type (Spouse, Child, Student, Disabled)
3. Paid Information as of 6/30/12 from TPAs
- Claim Number
 - Accident Date
 - Claim Type (Fatal, PTD, PP, Med)
 - Policy Number
 - Claim Status
 - Incremental Indemnity Paid
 - Incremental Medical Paid
 - Incremental Indemnity Expense Paid
 - Incremental Medical Expense Paid
 - Inception to Date Indemnity Paid
 - Inception to Date Medical Paid
 - Inception to Date Indemnity Expense Paid
 - Inception to Date Medical Expense Paid
4. New Awards (7/1/2011 – 6/30/2012)
- Claim Number
 - Accident Date
 - Claim Type (Fatal, PTD, PP, Med)
 - Award Date

State of West Virginia

**Offices of the Insurance Commissioner Request
Workers Compensation Funds
Data Request for Fiscal Year ending 6/30/12**

Other State Managed Workers Compensation Funds

Uninsured Employers Fund

Payment and Case Reserve Information as of 6/30/12

- Claim Number
- Fiscal Year
- Incremental (FY 2012) Indemnity Payments
- Incremental (FY 2012) Medical Payments
- Incremental (FY 2012) Indemnity Expense Payments
- Incremental (FY 2012) Medical Expense Payments
- Incremental (FY 2012) Settlement Payments
- Fatal Case Reserves
- PTD Case Reserves
- PPD Case Reserves
- TTD Case Reserves
- Medical Case Reserves
- Indemnity Expense Case Reserves
- Medical Expense Case Reserves

New Awards (7/1/2011 – 6/30/2012)

- Claim Number
- Accident Date
- Claim Type (Fatal, PTD, PP, Med)
- Award Date

Self Insured Employers Guaranty Fund

Payment and Case Reserve Information as of 6/30/12

- Claim Number
- Fiscal Year
- Incremental (FY 2012) Indemnity Payments
- Incremental (FY 2012) Medical Payments
- Incremental (FY 2012) Indemnity Expense Payments
- Incremental (FY 2012) Medical Expense Payments
- Incremental (FY 2012) Settlement Payments
- Fatal Case Reserves
- PTD Case Reserves
- PPD Case Reserves

- TTD Case Reserves
- Medical Case Reserves
- Indemnity Expense Case Reserves
- Medical Expense Case Reserves

New Awards (7/1/2011 – 6/30/2012)

- Claim Number
- Accident Date
- Claim Type (Fatal, PTD, PP, Med)
- Award Date

Security Fund

Payment and Case Reserve Information as of 6/30/12

- Claim Number
- Fiscal Year
- Incremental (FY 2012) Indemnity Payments
- Incremental (FY 2012) Medical Payments
- Incremental (FY 2012) Indemnity Expense Payments
- Incremental (FY 2012) Medical Expense Payments
- Incremental (FY 2012) Settlement Payments
- Fatal Case Reserves
- PTD Case Reserves
- PPD Case Reserves
- TTD Case Reserves
- Medical Case Reserves
- Indemnity Expense Case Reserves
- Medical Expense Case Reserves

New Awards (7/1/2011 – 6/30/2012)

- Claim Number
- Accident Date
- Claim Type (Fatal, PTD, PP, Med)
- Award Date

**State of West Virginia
Offices of the Insurance Commissioner Request
Workers Compensation Funds
Data Request for Fiscal Year ending 6/30/12**

Information from the Files of the OIC

Old Fund Claims

Paid Information as of 6/30/12

- Fiscal Year Ending
- Claim Type (Fatal, PTD, PP, TT, Med)
- Incremental Paid (or)
- Inception to Date Paid

Coal Workers Fund Claims - Federal Black Lung

Paid Information as of 6/30/12

- Fiscal Year Ending
- Claim Type (Fatal, PTD, PP, TT, Med)
- Incremental Paid (or)
- Inception to Date Paid

All Funds Combined

Loss Adjustment Expenses

- Legal Costs Paid during Fiscal Year (ALAE)
- TPA Fees Paid during Fiscal Year (ULAE)