



CERTIFIED PUBLIC ACCOUNTANTS

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

December 11, 2007

Judy Schurke, Director
The Workers' Compensation Program
of the State of Washington
Tumwater, Washington

In planning and performing our audit of the financial statements of Workers' Compensation Program of the State of Washington as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States, we considered its 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We noted the following significant deficiencies:

Management Review of Financial Statements

Management performs a review of year end financial statements and investigates unusual variances between current and historical operating results or management's expectations. However, we noted that management did not complete an extensive review of all material financial statement items. For instance, during our audit we noted that fines, penalties, and interest income were not recorded in a consistent manner and adjustments were necessary to accurately present the activity. The necessary adjustment was not material. An extensive review of financial statements during the closing process may allow management to identify and correct unintentional posting errors. This review should also include an analysis of balances in the year end financial statements taken as a whole considering all other information that becomes available subsequent to the financial statement date.

Review of Detailed Calculations in Support of Journal Entries

Accounting procedures require that detailed information supporting journal entries be reviewed by an individual other than the preparer. During our audit, we noted that calculation of the annual leave accrual and the sick leave accrual included an error that was not detected by the review process. Management recorded an adjustment to the year-end liability balances to correct the error. The necessary adjustment was not material. We recommend that the review of detailed information supporting journal entries be completed with an appropriate level of skepticism. The assumptions used in calculations should be challenged by the reviewer. These review procedures may allow management to efficiently identify potential errors.

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In addition, we noted certain other matters which we are submitting for your consideration, along with recommendations designed to help you improve the internal control (and achieve operational efficiencies). Our comments reflect our desire to be of continuing assistance to you.

Completeness of Reported Liabilities

Adequate procedures to identify liabilities that have been incurred, but not paid as of year end are not in place. We recommend that procedures be implemented to identify and accrue liabilities that arise from judgments and the receipt of goods or services for which a disbursement has not been made prior to year end. These procedures should include a search for unrecorded liabilities based on a review of subsequent cash disbursements, judgments, shipping documents, and unmatched purchase orders.

The accounting records do not provide information supporting the balance of amounts received for self insurance surety bonds and self insurance pension reimbursements broken-down by specific employers. Therefore, management cannot identify which employers have deposits for such purposes. We recommend the payments for self insurance surety bonds and self insurance pension reimbursements be tracked by employer to ensure that the liabilities are complete.

Capital Assets

Management did not measure the impact on the change in fund equity for changes to detailed capital asset records resulting from revisions to the estimated useful lives. The impact of such changes is combined with depreciation expense in the accounting records. This practice does not allow management to separately identify and report depreciation expense and the impact of changes in estimates in the financial statements. Further, without this information, it may be difficult for management to determine if the amount recorded for depreciation expense and changes in estimates are proper. We recommend that management implement procedures requiring the impact of changes to estimated useful lives of assets to be quantified and recorded separately.

The gain or loss on disposals of capital assets is not properly calculated by the software utilized to track the activity of capital assets. Specifically, the software does not properly recognize the cumulative amount of depreciation expense recorded on capital assets for purposes of computing the gain or loss on disposal. We recommend that management implement procedures to track the cumulative amount of depreciation expense on disposed capital assets.

Management does not conduct an extensive analysis about whether the costs related to internally developed software should be capitalized or expensed as incurred. During our audit, we noted that the cost of post implementation software maintenance was improperly capitalized. Management elected to record an adjustment to correct the error during our audit. The necessary adjustment was not material. We recommend management review supporting documentation for all costs related to internally developed software and determine whether to capitalize or expense as incurred.

Bond Interest

Interest expense on bonds payable is currently recorded on a cash basis, or when interest payments are made. We recommend that management accrue interest on bonds payable based on stated interest rates as of each month end in accordance with the accounting policy for the Workers' Compensation Program.

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

We wish to express our appreciation for the courtesy and cooperation extended to us by all of your employees. We would be pleased to discuss these matters with you in more detail and to provide any assistance you may desire in their implementation.

/S/ PETERSON SULLIVAN PLLC