



Judy Schurke, Director  
**Washington Department of Labor and Industries**  
**7273 Linderson Way SW**  
Tumwater, WA 98501

**MANAGEMENT LETTER BASED ON PROCEDURES PERFORMED IN CONJUNCTION  
WITH AGREED UPON PROCEDURES**

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We have performed the agreed upon procedures to the statutory financial statements of the **Washington Department of Labor and Industries, Industrial Insurance Fund** for the year ended June 30, 2007, and have issued our letter of comments thereon dated December 13, 2007.

During the course of our review, we look for areas within the Agency that may not currently be a concern but have potential to be a concern in the future. Below summarizes the four items discovered during the course of the review.

*Application of Statutory Accounting Principles*

We noted two concerns in the financial statements that need correction in preparing future financial statements on a basis consistent with Statements of Statutory Accounting Principles (SSAPs). The first concern is the lack of detailed support for the not admitting of premium receivables outstanding in excess of 90 days in accordance with SSAP 6. Eide recommends that practices and procedures be established that will enable the production of a listing of premiums receivable over 90 days old.

The second concern regards the use of bond principal payments allocated to various expense accounts in lieu of depreciation in the Statement of Income. Bond principal payments are not expenses and should not be included in the expenses shown in the income statement. Depreciation is the correct expense to be shown in the Statement of Income while bond principal payments should be excluded. Eide recommends that in future financial statements prepared on a basis consistent with Statements of Statutory Accounting Principles.

We noted also that the accounting staff corrected the income statement by removing the bond principal payments and adding depreciation expense through Other Administrative Expenses so the Net Income (Loss) Before Contributions and Transfers in the Statement of Income was materially correct.

### *Statutory Accounting Staff*

As a result of our review, it was readily apparent to Eide that L&I is in need of additional staff to perform the duties and processes required to properly and timely perform the accounting and reporting requirements for statutory accounting principles. It is our recommendation that L&I employ two additional staff members, preferably experienced in statutory accounting and reporting, to be responsible for the maintenance of the statutory accounting records, preparation of statutory financial statements and responding to the needs and requests of the independent auditors of the statutory financial statements.

### *Statutory Reporting Software*

Because of the highly structured nature of statutory accounting and the formal presentation of financial statements required by the National Association of Insurance Commissioners (NAIC), Eide recommends that L&I acquire a software package for the preparation of the annual and quarterly NAIC statutory financial statements for the Industrial Insurance Fund. Such a software package will reduce the time needed to prepare these financial statements as well as reduce the mistakes inherent in the manual preparation of them.

### *Independent Auditor for Statutory Financial Statements*

Under the provisions of the Revised Code of Washington at RCW 51.44.115, L&I is required to have annual audits of the Industrial Insurance Fund on the basis of generally accepted accounting principles (GAAP) and statutory accounting principles (SAP). This results in the use of two different independent auditing firms to perform the required audits thus resulting in the cost of the audits being duplicated. Most of the procedures and information requirements for a SAP audit are nearly the same as those required for a GAAP audit, thus the costs and hours for two independent auditors to perform the same procedures are unnecessary. For future audits, Eide recommends the use of one auditor to perform both GAAP and SAP audits resulting in the saving of such unnecessary fees and redundant employee time for preparation or duplicative information and documentation.

This letter is intended solely for the information and use of the Director and management of **Washington Department of Labor and Industries, Industrial Insurance Fund** and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation, timely and accurate information and open access we received during the course of the review. We thank the **Washington Department of Labor and Industries, Industrial Insurance Fund** for the opportunity to be of service.



Fargo, North Dakota  
December 13, 2007