

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
OF
WASHINGTON INSURANCE EXAMINING BUREAU
SEATTLE, WASHINGTON**

DECEMBER 31, 2006

Order No. 08-85
Washington Insurance Examining
Bureau
Exhibit A

SALUTATION

Seattle, Washington
May 15, 2008

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Washington Insurance Examining Bureau

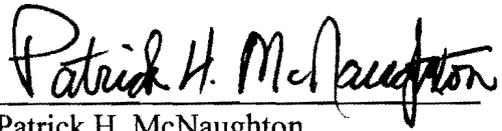
of

Seattle, Washington

hereinafter referred to as "WIEB" or the "Bureau," at the location of its home office, 2101 4th Avenue, Suite 300, Seattle, Washington 98004. This report is respectfully submitted showing the condition of the Bureau as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Washington Insurance Examining Bureau of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2006.



Patrick H. McNaughton
Chief Examiner

5-15-2008

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006 and comprises a comprehensive review of the books and records of the Bureau. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Bureau's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Bureau's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Bureau's audited 2006 Annual Statement as part of the examination. This review was performed to determine if the Bureau completed the 2006 Annual Statement in accordance with cash basis of accounting, which is a comprehensive basis of accounting other than GAAP, and to determine if the Bureau's accounts and records were prepared and maintained in accordance with Title 48 RCW and Title 284 WAC. No instructions were required.

COMMENTS AND RECOMMENDATIONS

1. The Bylaws and Articles of Incorporation Have Outdated Information

WIEB's Bylaws and Articles of Incorporation contained outdated information such as shareholder name and registered office address. No amendments have been made to the Bylaws and Articles of Incorporation since 1947, the date of incorporation.

It is recommended that the Bureau amend its Bylaws and Articles of Incorporation to conform to current insurance and business statutes.

2. Employee Dishonesty and Theft Coverage

The Bureau does not have a fidelity bond; however, it has employee dishonesty and theft coverage as part of its commercial policy with a limit of \$50,000.

Based on the FCEH exposure index, it is recommended employee dishonesty and theft coverage be increased to the suggested minimum amount of \$100,000. In addition, coverages for the following risks should be included in the policy:

- Forgery and alteration of written documents and handwritten signatures (including facsimile);
- Securities and other instruments;
- Counterfeit currency and money orders;
- Computer fraud.

3. Business Contingency Plan

The Bureau's written business contingency plan is not complete, nor does it comprehensively address exposures recommended by the NAIC. The contingency plan should address all significant business activities, financial functions, telecommunications services and data processing services.

It is recommended that the Bureau prepare a formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC.

4. Disaster Recovery Plan

The Bureau's disaster recovery plan is not complete, nor does it comprehensively address exposures recommended by the NAIC. The disaster recovery plan should address escalation procedures to address operational failures in a timely manner.

It is recommended that the Bureau write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner, as recommended by NAIC Guidelines.

5. Investment Policy and Approval of Investments by the Board

The Bureau does not have a formal investment policy. In addition, the Board of Directors (BOD) does not review investment transactions during the BOD's meetings.

It is recommended that the Bureau develop a formal investment policy. It is also recommended that the BOD review and approve all purchases and sales of investments.

BUREAU PROFILE

Bureau History

WIEB is a licensed, non-profit, public service organization established for the purpose of examining fire and allied lines insurance policies written on property in the state of Washington. The statutory authority for its existence is codified under RCW 48.19.410 and WAC 284-20-006. Operation of WIEB in the state of Washington has been continuous since 1906. WIEB was incorporated in 1947 and its stock was held in trust for insurers pursuant to a trust agreement approved by the OIC.

Territory and Plan of Operation

WIEB examines property policies issued by insurers licensed to do business in the state of Washington for the purpose of ascertaining that lawful loss costs, rules, and forms are used. WIEB obtains revenue from assessments to companies authorized to transact property insurance business in the state of Washington. The assessments are based on the individual insurer’s total written property premium for a specific calendar year as reported by the insurer to the OIC.

Growth of Bureau

The Bureau’s growth, as reported in its audited financial statements, is illustrated below:

<u>Year</u>	<u>Assessments</u>	<u>Net Investment Income</u>	<u>Disbursements</u>
2002	\$340,347	\$4,420	\$354,171
2003	371,462	2,085	382,925
2004	394,368	1,644	371,592
2005	444,203	5,271	366,105
2006	474,553	6,283	345,964

Affiliated Entities

Washington Surveying and Rating Bureau (WSRB) is a licensed, non-profit corporation providing services to insurance bureau subscribers, their representatives, property owners and tenants, and to other customers. WSRB is operated as a public service institution, and functions in accordance with Chapter 48.19 RCW. WSRB functions as a separate entity but shares some common board members with WIEB.

Contracts with Affiliated Entities

WIEB and WSRB entered into a joint operating agreement on January 18, 1985, to share certain functions and facilities in order to realize efficiencies and cost savings. The agreement included pro rata cost sharing of rents, leases, facilities, furniture, equipment, services, supplies, personnel time and other goods, services or functions as may be mutually beneficial.

MANAGEMENT AND CONTROL

Ownership

WIEB is a non-profit corporation. It was organized under Washington State corporation statutes in 1947. WIEB's stock is held in trust for the benefit of insurance companies pursuant to a trust declaration dated September 22, 1947. WIEB is in the process of restructuring stock ownership and creating a trust agreement that would mirror WSRB's trust agreement to comply with RCW 48.19.170(2)(b) as discussed in the Subsequent Events section of this report.

Board of Directors

Directors as of December 31, 2006:

Wayne Christophersen
Rex Clark
Mark Cole
Brian Upton-Rowley

Officers

Officers as at December 31, 2006:

<u>Name</u>	<u>Position Held</u>
Wayne Christophersen	President
Mark Cole	Vice President
Brian Upton-Rowley	Secretary
Rex Clark	Treasurer

Committees

The BOD has no committees.

Conflict of Interest

The Bureau requires the annual completion of a conflict of interest statement by officers and directors. All are required to disclose to the BOD relevant outside interests, memberships, associations, and affiliations.

Fidelity Bond and Other Insurance

The Bureau is covered as a named insured under a commercial insurance policy. The Bureau does not have a fidelity bond; however, it has employee theft coverage as part of its commercial policy with a limit of \$50,000. Based on the FCEH exposure index, it is recommended employee dishonesty and theft coverage be increased to the suggested minimum amount of \$100,000. (See Comment and Recommendation No. 2)

Officers' and Employees' Welfare and Pension Plans

The Bureau maintains a defined benefit pension plan for employees hired prior to December 31, 2003 through a multiple-employer defined benefit plan. Participants are 100% vested after five years of service. Pension contributions include a level amount to fund the unfunded accrued liability. Because the Bureau is on a cash basis of accounting, it provides for the unrecorded liability by accepting the actuarial contribution recommendation.

The Bureau provides 401(K) benefits to eligible employees through an employee savings plan. An employee becomes 100% vested after three years. The Bureau's non-elective contribution is determined by management.

CORPORATE RECORDS

Corporate records were reviewed for the period under examination. There have been no amendments or restatements to the Articles of Incorporation or Bylaws for this period. (See Comment and Recommendation No. 1)

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Bureau maintains its accounting records on cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The Bureau is audited annually by a certified public accountant firm Dennis Johnson, CPA. The Bureau received an unqualified opinion for all years under review. The Bureau's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

Management is sufficiently knowledgeable of the information system (IS) process. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls implemented to maintain data security. The Bureau has sufficient internal controls in place to monitor system activity and processes.

The Bureau does not have a formal, written disaster recovery plan that includes appropriate escalation procedures to resolve operational failures. (See Comment and Recommendation No. 4) The Bureau does not have a fully complete written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC Guidelines. (See Comment and Recommendation No. 3)

SUBSEQUENT EVENTS

There were no material events adversely impacting the Bureau between the examination date and the last day of our fieldwork.

WIEB is in the process of restructuring stock ownership and creating a trust agreement that would mirror WSRB's trust agreement to comply with RCW 48.19.170(2)(b).

In January 2007, the Bureau established a cash balance pension plan for employees hired on or after January 1, 2004. This plan is indexed to the results of the one year Treasury constant maturity rate and funded at the normal current accrual rate. The Bureau began making payments into the plan as of January 1, 2007.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The Bureau remedied all prior examination instructions and implemented the recommendations.

FINANCIAL STATEMENT

WASHINGTON INSURANCE EXAMINING BUREAU STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
RECEIPTS			
Assessments	\$474,553	\$0	\$474,553
Interest	6,283		6,283
Total Receipts	480,836	0	480,836
DISBURSEMENTS			
Salaries & Wages	214,197		214,197
Employee Benefits	69,681		69,681
Rent	22,490		22,490
Professional Fees	11,837		11,837
Taxes & Licensing	9,484		9,484
Postage, Telephone and Printing	8,553		8,553
Administration Expenses	4,382		4,382
Insurance	3,290		3,290
Education	1,379		1,379
Miscellaneous	671		671
Total Disbursements	345,964	0	345,964
NET RECEIPTS	134,872		134,872
Cash-Beginning	233,618		233,618
Cash-Ending	\$368,490	\$0	\$368,490

NOTES TO THE FINANCIAL STATEMENT

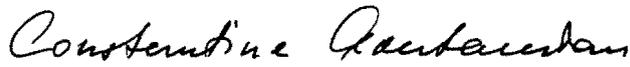
1. The Bureau has no special consents, permitted practices or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers of the Washington Insurance Examining Bureau during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, Assistant Chief Examiner; Susan Campbell, CPA, CFE, Life Field Supervisor; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Cynthia Clark, Financial Examiner; and Zairina Othman, Financial Examiner; all from the Washington State Office of Insurance Commissioner who participated in the examination and the preparation of this report.

Respectfully submitted,



Constantine Arustamian, CPA, CFE
Examiner-in-Charge
State of Washington

