

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



**FINANCIAL EXAMINATION  
OF  
WASHINGTON SURVEYING AND RATING BUREAU  
SEATTLE, WASHINGTON**

**DECEMBER 31, 2006**

Order No. 08-86  
Washington Surveying and  
Rating 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 Surveying and Rating Bureau

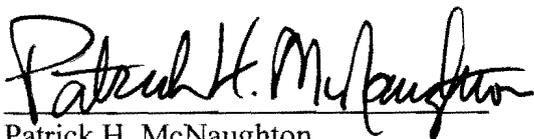
of

Seattle, Washington

hereinafter referred to as "WSRB" 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 Surveying and Rating 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. 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 on quarterly basis.**

### **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.**

## **BUREAU PROFILE**

### **Bureau History**

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.

The Bureau operated as a Fire Insurance Rating Organization in the state of Washington continuously since 1906. WSRB, as an independent rating bureau, was established in 1911, when the Washington State legislature revised the insurance laws and specified in Chapter 48.19 RCW the need for the formation of a rating bureau. The Bureau was operated as a proprietorship until 2001 when it was incorporated. Its stock is held in an irrevocable trust, approved by the OIC, for the benefit of its subscribers.

## **Territory and Plan of Operation**

WSRB is licensed as an insurance rating organization with authority to act as such within Washington State. WSRB's revenues are derived from assessments from subscribers to the Bureau. WSRB provides subscribing insurers, property owners, or tenants with independent bureau services including the development and dissemination of property insurance loss costs, rules, forms, training seminars, underwriting reports, or other reports and services, as well as FAIR (Fair Access to Insurance Requirements) Plan inspection reports. WSRB also compiles and analyzes statistical data and submits filings for approval, on behalf of its subscribers, to the OIC. WSRB activities are conducted at its main office in Seattle and a branch office in Spokane.

## **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	\$4,105,529	\$38,138	\$3,713,313
2003	4,651,731	18,045	4,017,846
2004	4,120,895	20,323	4,142,592
2005	4,577,066	36,228	4,267,436
2006	4,585,216	96,299	4,650,289

## **Affiliated Entities**

Washington Insurance Examining Bureau (WIEB) is a non-profit corporation and was organized on September 25, 1947. The statutory authority for its existence is codified under RCW 48.19.410 and WAC 284-20-006. WIEB functions as a separate entity but shares some common board members with WSRB.

## **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**

WSRB is a corporation organized under the Non-profit Miscellaneous and Mutual Corporations Act. WSRB was authorized to issue 600 shares of stock. All shares are held in an irrevocable trust for the benefit of WSRB's subscribers in compliance with RCW 48.19.170(2)(b). The OIC approved the trust agreement on August 11, 2004.

WSRB operates for the benefit of its subscribers but acts independently of the subscribers as provided in Chapter 48.19 RCW. WSRB is a non-profit, public service institution.

### **Board of Directors**

Directors as of December 31, 2006:

Brian Upton-Rowley  
Rex Clark  
Gary Raid

### **Officers**

Officers as at December 31, 2006:

<u>Name</u>	<u>Position Held</u>
Brian Upton-Rowley	President and CEO
David Bruell	Vice President
Rex Clark	Secretary
Wayne Christophersen	Treasurer
Tracy Skinner	Compliance and Subscriber Services Manager
Daniel Ander	Information Technology Manager
Robert Lacy	Field Manager

### **Committees**

The BOD has a compensation committee, which determines the salaries of the president and other executives.

### **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. The Bureau also provides post-retirement benefits to qualifying retirees.

### **CORPORATE RECORDS**

WSRB's Articles of Incorporation were adopted on March 30, 2001. They were amended in their entirety on July 19, 2004. The Articles of Incorporation were amended on September 9, 2005 to correct the statutory reference from RCW 48.19.070 to RCW 48.19.170.

WSRB's Corporate Bylaws were adopted on January 29, 2001. They were restated in their entirety on July 19, 2004. The Bylaws were amended on September 9, 2005 to provide for annual audits by an independent certified public accounting firm chosen by the BOD.

### **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 the certified public accounting firm of Moss Adams, LLP. 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**

In January 2007, the Bureau formed a wholly-owned for-profit subsidiary, Building Metrix, Inc. (BMI), which provides information, inspection, and consulting services regarding buildings to insurance, real estate, banking and other enterprises.

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 SURVEYING AND RATING 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>
<b>RECEIPTS</b>			
Assessments:			
Current assessments	\$ 5,099,890	\$ 0	\$ 5,099,890
Final reapportionment	(628,037)		(628,037)
Future assessments	113,363		113,363
Net Assessments	<u>4,585,216</u>		<u>4,585,216</u>
Washington Fair Plan and Vendor License	6,314		6,314
Interest Income	96,299		96,299
Other Income	37,994		37,994
<b>Total Receipts</b>	<u><b>4,725,823</b></u>	<u><b>0</b></u>	<u><b>4,725,823</b></u>
<b>DISBURSEMENTS</b>			
Salaries	1,833,124		1,833,124
Employee benefits	772,650		772,650
Insurance service assessment	546,746		546,746
Furniture, equipment and software	393,014		393,014
Professional fees	269,239		269,239
Taxes, principally payroll	253,880		253,880
Travel and business relations	204,880		204,880
Rent and related expenses	200,678		200,678
Telephone	70,401		70,401
Printing and subscriptions	58,191		58,191
Insurance	34,630		34,630
Postage	11,632		11,632
Other	1,224		1,224
<b>Total Disbursements</b>	<u><b>4,650,289</b></u>	<u><b>0</b></u>	<u><b>4,650,289</b></u>
<b>NET RECEIPTS</b>	75,534		75,534
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of Year	2,649,786		2,649,786
End of Year	<u><u><b>\$ 2,725,320</b></u></u>	<u><u><b>\$ 0</b></u></u>	<u><u><b>\$ 2,725,320</b></u></u>

## **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 Surveying and Rating 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

