

Writer's Direct Line:

October 27, 2008

Re: **Request for Proposal and Audit of Office of the Special Deputy Receiver and
Certain Estates in Rehabilitation or Liquidation**

I. INTRODUCTION

The Office of the Special Deputy Receiver (OSD) invites accounting firms to submit a proposal for performing audit and related functions on OSD and certain insurance companies under the Director of Insurance of the State of Illinois control and supervised by the OSD.

The purpose of your engagement would be to express an opinion on the fairness of the presentation of the Statement of Assets and Liabilities, Statement of Revenues and Expenses and the Statement of Cash Flows, all prepared on the federal income tax basis, for OSD, as well as the Statements of Cash and Invested Assets and related Statements of Changes in Cash and Invested Assets for Estates in rehabilitation or liquidation and to express an opinion on the OSD's system of internal accounting control at its administrative offices and the OSD's compliance with Articles XIII and XIII ½ of the Illinois Insurance Code. The engagement will also include an audit of the financial statements and supplemental schedules of the Office of the Special Deputy Receiver Savings and Investment Plan, an audit of the Closed Estate Fund Trust and an evaluation of OSD's compliance with section 215 ILCS 5/211.1 of the Illinois Insurance Code.

A. BACKGROUND

Pursuant to the Illinois Insurance Code (Code), the Director of Insurance, Division of Insurance, Department of Financial and Professional Regulation, of the State of Illinois (Director), is appointed as Conservator, Rehabilitator or Liquidator of domestic insurance companies that have been determined by the state courts to be insolvent or to meet provisions or grounds for conservation, rehabilitation or liquidation as specified in the Code. The Director, as Conservator, takes possession and control of the insurance company for the purpose of determining its condition. The Conservator maintains possession and control of the company until the court

vacates the seizure order, either when the Director fails to institute proceedings against the insurance company for rehabilitation or liquidation or upon a court order pursuant to conservation proceedings. As Rehabilitator, the Director conducts the business of the insurance company and implements a plan of rehabilitation, if feasible. As Liquidator, the Director marshals the assets of the insurance company and liquidates such assets as appropriate, while managing the business and affairs of the company as approved by the state courts, including the payment of court approved creditors' claims.

The Director is empowered by the Code to appoint a Special Deputy Receiver as his agent to supervise the conservation, rehabilitation or liquidation of the insurance companies. OSD, an Illinois not-for-profit corporation, supports the activity of the Special Deputy acting in that capacity to manage the affairs of insurance companies placed in conservation, rehabilitation or liquidation (Estates). The OSD commenced corporate operations on July 01, 1991. The activities of rehabilitation and liquidation are conducted at the OSD, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654; (312) 836-9500.

In its capacity of supporting the Director as Conservator, Rehabilitator or Liquidator of insurance companies, the OSD incurs and pays various operating and overhead expenses, which are allocated in their entirety to the Estates for reimbursement to the OSD. In addition, the OSD causes direct expenses of individual Estates to be paid by such Estates.

B. SCOPE OF WORK

1. Financial Audit and Report

- a. The OSD Statement of Assets and Liabilities as of December 31, 2008, the Statement of Revenue and Expenses and the Statement of Cash Flows for the year then ended are to be audited under Generally Accepted Auditing Standards.

The above mentioned statements are prepared on the basis of accounting used for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenue and expenses of the OSD are recognized under this basis to the extent that they are includable or deductible for federal income tax purposes.

- b. The Statement of Cash and Invested Assets of certain estates in rehabilitation and liquidation as of December 31, 2008, and the Statement of Changes in Cash and Invested Assets for the year then ended are to be audited under Generally Accepted Auditing Standards for the following Estates, and any additional estates which may qualify for audit by year end:

1. Administrative Employers Group Inc., In Liquidation
2. Agora Syndicate, Inc., In Liquidation
3. Alliance General Insurance Company, In Liquidation
4. Alpine Insurance Company, In Liquidation
5. American Health Care Providers, Inc., In Liquidation
6. American Horizon Insurance Company, In Liquidation
7. American Mutual Reinsurance Company, In Rehabilitation
8. American Unified Life & Health Insurance Company, In Liquidation
9. Association for Trial Lawyers Assurance
10. Centaur Insurance Company, In Rehabilitation
11. Coronet Insurance Company, In Liquidation
12. Crown Casualty Company, In Liquidation
13. Delta Casualty Insurance Company, In Liquidation
14. Gallant Insurance Company, In Liquidation
15. Illinois Healthcare Insurance Company, In Liquidation
16. Legion Indemnity Company, in Liquidation
17. Municipal Insurance Company of America, In Liquidation
18. National Assurance Indemnity Company, In Liquidation
19. Oak Casualty Insurance Company, In Liquidation
20. Pine Top Insurance Company, In Liquidation
21. RCA Syndicate #1, Ltd., In Liquidation
22. Security Insurance Company, Ltd, In Liquidation
23. Statewide Insurance Company, in Liquidation
24. United Capitol Insurance Company, In Liquidation
25. Valor Insurance Company, In Liquidation

The above-mentioned statements are prepared on the basis of accounting used by the OSD for the purpose of complying with Article XIII of the Illinois Insurance Code, which is a comprehensive basis of accounting other than generally accepted accounting principles.

- c. The Statement of Net Assets Available for Benefits of the Office of the Special Deputy Receiver Savings and Investment Plan as of December 31, 2008, and the related Statement of Changes in Net Assets Available for Benefits for the year then ended are to be audited. Also, the schedules of assets held for investments as of December 31, 2008, and reportable transactions for the year then ended are to be audited.
- d. The Closed Estate Fund Trust as of December 31, 2008, is to be audited in compliance with the Illinois Insurance Code section 215 ILCS 5/211.1 and procedures established by the OSD.
- e. Your work should utilize accounting schedules already prepared by the OSD Accounting Staff.
- f. Upon completion of the audit, you will be expected to facilitate a review of your audit workpapers by the Illinois Office of the Auditor General and possibly answer questions from that Office regarding the audit work performed. You will also be expected to present the audit report (in person) to the OSD Board of Directors or the Board's designated committee.

2. Internal Control Evaluation and Report

- a. The Special Deputy's system of internal accounting control at the administrative offices of OSD for insurance companies in conservation, rehabilitation and liquidation is to be evaluated in accordance with standards established by the American Institute of Certified Public Accountants, with a report being subsequently prepared.
- b. Your report and opinion should follow the guidance in AICPA SAS No. 112 and at a minimum shall identify:
 - i. any material weaknesses identified as a result of the evaluation,
 - ii. your reasonable and cost justifiable recommendation for actions to improve problem areas noted, and
 - iii. the pertinent views of the Special Deputy concerning your findings, conclusions and recommendations.

3. Compliance Review and Report

- a. The Special Deputy's compliance with Illinois Insurance Laws (Article XIII and XIII ½) relating to the financial transactions of insurance companies in rehabilitation and liquidation are to be reviewed and a report prepared.
- b. The report shall include:
 - i. A description of the scope and objectives of this review.
 - ii. A statement of positive assurance on those items on which compliance testing was performed and negative assurance on those items not tested. This statement should include significant instances of non-compliance found during the review.
 - iii. Your reasonable recommendations of actions to improve problem areas noted.
 - iv. The pertinent views of the OSD concerning your findings, conclusions and recommendations.

4. Operational Audit Report

- a. The operations of at least two departments of the OSD are to be

audited and evaluated each year with a report being subsequently prepared. Such audits would cover the department operations of:

- i. Accounting
- ii. Administrative Services
- iii. Claims
- iv. Claims Services
- v. Estate Strategic Planning
- vi. Human Resources
- vii. Information Technology
- viii. Legal
- ix. Reinsurance
- x. Special Projects
- xi. Tax and Compliance.

Selection of the departments is to be determined by the Board of Directors or the Board's designated committee at a later date. A schedule of possible operational audits is attached.

- b Your report and opinion at a minimum shall identify:
 - i. A description of the scope and objectives of this audit,
 - ii. any material weaknesses identified as a result of the evaluation,
 - iii. your reasonable and cost justifiable recommendation for actions to improve problem areas noted, and
 - iv. the pertinent views of the Special Deputy concerning your findings, conclusions and recommendations.

C. **TIME SCHEDULE**

The audit is to start no later than March 31, 2009 with preliminary reports due by June 30, 2009 and final statements and reports due by July 30, 2009. This schedule does not include the operational audit or report which schedule will be determined at a later date.

II. **INSTRUCTIONS REGARDING PROPOSALS**

- A. Proposals, in writing, must be submitted by November 26, 2008, to:

Michael T. Gleeson
Chief Financial Officer
Office of the Special Deputy Receiver
222 Merchandise Mart Plaza
Suite 1450
Chicago, Illinois 60654

- B. Proposals must include resumes of the Partner(s), Manager(s) and senior staff who

will be assigned to this job.

- C. Proposals must include a statement that neither you nor any of your clients has a conflict of interest either with any of the estates listed in Section I.B.1 of this letter or with the Director of Insurance.
- D. Proposals must include a statement as to your understanding of the assignment, scope and direction.
- E. Proposals must include a statement as to range of hours, your hourly rates and range of total cost to perform the job including out-of-pocket expenses. We understand that the costs identified in your proposal are only estimates, and your billings will be based on actual hours. Please consider this a formal notice that these estimates are not to be exceeded unless there is prior written approval from this office. This estimate should not include a time frame or costs for the operational audits, which will be determined at a later date. However, your stated hourly rates would apply to the operational audit.
- F. Proposals must also include assurance that the firm's audit fees will not increase over the next five years (through the 2012 audit) except for changes in scope (i.e. more estates) or reasonable adjustments for inflation.
- G. Proposals must contain a certification that you are currently engaged in conducting audits under the Illinois State Auditing Act.
- H. Proposals must include a statement that upon completion, you agree to facilitate a review of the audit workpapers by the Illinois Office of the Auditor General and assist in answering questions regarding audit work performed and raised as part of that review.

III. EVALUATION AND AWARD

This RFP does not commit the OSD to select or enter into a contract with any firm. The OSD reserves the right to reject any and all proposals. The OSD will use an evaluation committee to review and evaluate proposals.

A. EVALUATION OF COMPLIANCE

The OSD will determine whether the offer complied with this RFP. We must reject your offer if it is submitted after November 26, 2008. Failure to meet other requirements will affect our evaluation and may result in rejection.

B. EVALUATION OF RESPONSIVENESS

A point ranking system or other evaluation methods are tools the OSD often, but not always, uses to aid it in the evaluation process. The OSD reserves the right to use its discretion to eliminate offers that are deemed unacceptable.

We will determine how well offers satisfy Section I.B of the RFP, "Scope of Work" in

terms of “responsiveness” to the requirements. We will rank offers, without consideration of price, from best to least qualified using a point ranking system (unless otherwise specified) as an aid in conducting the evaluation. References will be considered in this portion of the evaluation.

We will determine whether any failure to supply information, or the quality of information, will result in rejection or downgrading the offer. Auditors who do not rank sufficiently high need not be considered for price evaluation and award. The auditor whose offer meets compliance requirements will be eligible for award consideration. The point evaluation system is described below:

1. The total number of points for “responsiveness” is 100.
2. Auditors who do not receive 75 of the total “responsiveness” points will not be considered for price evaluation and award.
3. The elements of responsiveness that will be evaluated and their relative weights are:

Element	Weight
Compliance	10
Insurance Experience	15
Savings & Investment Plan Experience	25
Well Qualified & Experienced Audit Team	40
References	10

C. EVALUATION OF PRICE

Price will be a weighted element. The total number of points for price is 70. We will determine price points using the following formula:

$$\text{maximum price points} \times \frac{\text{lowest price}}{\text{offeror's price}} = \text{price points.}$$

The price points will be calculated using the highest range of hours from your proposal.

The maximum number of points is 170 for responsiveness and price.

D. ALTERNATIVE EVALUATION

If three or fewer offers are received, the offers may be evaluated using simple comparative analysis of the elements of responsiveness (and price where applicable) instead of any announced method of evaluation (such as points).

E. APPROVAL

Please be advised that your proposal/appointment will be subject to approval by the Director of Insurance and the supervising court of each estate.

IV. ADDITIONAL TERMS AND INFORMATION

The information contained herein shall be used for the sole purpose of responding to this RFP. The OSD will not, and is under no obligation to, pay the costs, in whole or in part, incurred by the firm during the preparation of the proposal. The OSD disclaims responsibility and liability for any costs related to the firms participation in this RFP.

If you have any questions regarding this request for proposal, please contact Deborah Muhammad, Audit and Special Projects Manager at (312) 836-9531.

**Office of the Special Deputy
Possible Schedule of Operational Audits by External Auditors****

	2008 Audits	2009 Audits	2010 Audits	2011 Audits	2012 Audits	Total
Annual Audits						
IT Security Environment	X	X	X	X	X	
Year A - Claim & Claim Services						
Operations						
Archive Procedures	X					
Claims (Liquidator) System	X					
Claim Dept Takeover Activities	X					
Claim Evaluation & Adjudication Process	X					
Claim File Coding Procedures	X					
Claim Services Takeover Activities	X					
File Room Procedures	X					
Mailroom Procedures	X					
Proof of Claim Processing	X					
Subrogation & Salvage	X					
Year B -Reinsurance and Special Projects						
Operations						
Assumed Reinsurance		X				
Ceded Reinsurance		X				
Collection of Agents' Balances		X				
Collection of Reinsurance Recoverable		X				
Reinsurance Dept Takeover Activities		X				
Special Projects Dept Takeover Activities		X				
Underwriting		X				
Year C - Information Technology & Tax & Compliance Operations						
IT Operations			X			
IT Takeover Activities			X			
Tax & Compliance Operations			X			
Tax & Compliance Takeover Activities			X			
Year D - Accounting & Administrative Support Operations						
Accounting Dept Takeover Activities				X		
Admin Service Dept Takeover Activities				X		
Bank Reconciliations				X		
Early Access Procedures				X		
Payable/Distribution Procedures				X		
Processing of Petitions & Invoices				X		
Purchasing/Procurement Policy				X		
Real Estate & Fixed Assets				X		
Receipt Procedures				X		
Time Accounting & Cost Allocation				X		
Treasury Management				X		
Unclaimed Property Escheatment				X		
Year E - Legal Department, Human Resources, Estate Closing & Strategic Planning						
Estate Closing & Strategic Planning						
Operations					X	
HR Takeover Activities					X	
Legal Department Operations					X	
Legal Dept Takeover Activities					X	
Payroll Processing					X	
Personnel Functions					X	
Total	11	8	5	13	7	44

** Above list reflects possible departments and audit areas which may or may not be included in the scope of operational audits. The audit scope will be determined by the designated Audit Committee each year of the noted audit period.