



**Local Government Self-Insurance Program
Review
for
Association of Washington Cities RMSA**

August 5, 2008

Independent Reviewer's Report

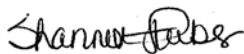
Ms. Gayla Gjertsen, Assistant Director of Insurance Services
Association of Washington Cities Risk Management Service Agency
1076 South Franklin Street
Olympia WA 98501

Dear Ms. Gjertsen:

We have reviewed the Pool's compliance with RCW 48.62, WAC 82.60 and current guidelines established by the State Risk Manager for the years ended December 31, 2003, 2004, 2005, and 2006 and 2007. The accuracy of information provided by the Association of Washington Cities Risk Management Service Agency (AWCRMSA) is the responsibility of the Pool's management. Our responsibility is to express an opinion based on our review.

Our review was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we review, on a test basis, evidence supporting compliance and that we perform such other procedures as we consider necessary under the circumstances. We believe that our review provides a reasonable basis for our opinion.

In our opinion, the Association of Washington Cities Risk Management Service Agency has complied with laws, regulations and guidelines established by the State Risk Manager as set forth above. One recommendation regarding frequency of claims audits was made during our review. This recommendation is communicated as part of the attached report.



Shannon Stuber
Program Administrator
Local Government Self Insurance Program
Office of Financial Management

Summary of Review

**Association of Washington Cities
Risk Management Service Agency
1076 South Franklin Street
Olympia WA 98501**

Our Review

This report contains the results of our independent compliance review of the Association of Washington Cities Risk Management Service Agency (AWCRMSA).

We performed procedures to determine whether the Pool complied with state laws and regulations, in addition to guidelines adopted by the State Risk Manager. The areas reviewed were selected based on an analysis of financial trends and transactions from the period January 1, 2003 through December 31, 2007.

Review Results

The Pool generally complied with state laws and regulations and guidelines adopted by the State Risk Manager. Our report includes one recommendation to the Board of AWCRMSA as follows:

- **Claims Audits**
WAC 82.60.50(3) requires the program obtain a claims audit conducted by an independent qualified professional not currently performing claims administration services to the program. The review is to include claim reserving, adjusting and payment procedures.

While the Pool obtained a claims audit in 2002, it is required to obtain a more frequent audit at least every three years. The Pool experienced significant turnover in the last two years, including replacement of the claims manager, assistant executive director, member services representative and other staff members. Prior to the arrival of the current claims manager, the Pool had an informal claims management policy and no claims manual was used. The Pool has recently adopted a claims handling manual and is currently seeking qualified applicants to conduct a claims audit. We will follow up next year to ensure the Pool obtains a claims audit as required.

Reviewer's Remarks

We appreciate the cooperation and assistance of the staff and management of AWCRMSA during our review.

Areas Reviewed

**Association of Washington Cities
Risk Management Service Agency
1076 South Franklin Street
Olympia WA 98501**

We reviewed the Pool's compliance with state laws and regulations, in addition to guidelines adopted by the State Risk Manager in the following areas:

- **Actuarial Study and Funding**
The pool is required to obtain an actuarial study and fund to the expected losses. The pool obtained the required actuarial study and is funded in excess of the expected losses as of December 31, 2007. Excess funding allows the Pool to maintain unrestricted funds which may be used to maintain rate stability or to provide additional assurance against unexpectedly high or frequent loss patterns.
- **Submission of Timely Quarterly and Annual Reports**
WAC 82.60.60(1) requires financial statements are delivered to the state risk manager within 150 days of year end. In addition, WAC 82.60.60(2) requires that all joint self-insurance programs submit quarterly financial reports to the state risk manager within 60 days of each quarter ending. The pool submitted all reports within the time required. The program is in compliance with applicable laws and regulations for timely reporting.
- **Reporting of Liabilities**
WAC 82.60.031(3) requires that claim financing levels and liabilities for unpaid claims and claims adjustment expenses be determined annually by an actuary and disclosed in the annual financial statements. The actuarial study indicates an outstanding claims liability of \$ 4,966,069 as of December 31, 2007. The pool disclosed this liability in the program's annual financial statements as of year end December 31, 2007.
- **Investments**
RCW 48.62.111 (1) requires the assets of a joint self-insurance program be invested only in accordance with the general investment authority that participating local government entities possess as a governmental entity, or that investment funds are placed with a local county treasurer in which a programs member resides. Investment balances were verified at 5/31/08 as \$11,175,602.25 from an original investment statement issued by the Washington State Treasurer for the Local Government Investment Pool, which is an authorized depository for the Pool. The program is in compliance with laws and regulations concerning investments.
- **Member Agreements & Bylaws**
WAC 82.60.30(2) requires the interlocal agreement of a joint self-insurance program be adopted by resolution or ordinance of each participating member's governing body. The program must have available the signed interlocal agreements, which are filed with the county auditor or available on a public web site. Changes in by-laws and interlocal agreements must be approved by a

majority of the Board of Directors at annual meetings. The program amended bylaws, which were adopted by the Board of Directors in the June annual meeting. Interlocal agreements were selected for testing and were found to be signed and adopted by resolution of the governing body of the member entity. The program is in compliance with applicable laws and regulations regarding member agreements and by-laws.

- **Compliance with Financial Guidelines**
A review of the program's adherence to financial guidelines adopted by the state risk manager indicates the pool operates within the recommended ratios deemed appropriate for operational and financial soundness.
- **Evaluation of Financial Trends**
No adverse financial trends were noted during our review. While an adverse claim trend is always possible, the program has reserves in excess of those required. In 2007, the program adopted a financial benchmark policy to ensure it monitors its financial trends internally and manages its position in the competitive market while remaining fiscally sound. The positive financial trends noted during our review are indicative of the Pool's commitment to financial soundness.

We reviewed, on a test basis, evidence of compliance with requirements set forth above, and we performed such other procedures as we considered necessary under the circumstances. Our review does not provide a legal determination on the Pool's compliance with specified requirements.

About the Local Government Self-Insurance Program

The Local Government Self Insurance Program provides initial approval and continuing oversight of joint property and liability self-insurance pools established by local governments per Chapter 48.62 RCW. The State Risk Manager, with assistance from the Property and Liability Advisory Board, adopts guidelines and establishes annual assessment fees to cover administrative costs. Board members are appointed by the governor. The Property and Liability Advisory Board meets quarterly.

Field examiners conduct reviews, which are scheduled based on risk assessments, to determine whether self-insurance programs comply with state laws and regulations. In addition, adherence to guidelines designed to foster financially sound management practices is also evaluated. Finally, reviewers also communicate with local government owner/members to ensure they are informed about the program's financial condition and participate in decisions which affect insurance services provided by their programs. Costs of these reviews are included in assessment fees. If an extensive examination is required due to adverse financial conditions noted during the review process, the cost of outside experts, such as forensic accountants, actuaries or financial auditors are based on the actual time and expense required as provided in RCW 48.62.161.

About Association of Washington Cities Risk Management Service Agency

The Association of Washington Cities Risk Management Service Agency (the Agency) is a municipal self-insurance pool formed January 1, 1989, to provide property and casualty insurance coverage to participating member cities of the Association of Washington Cities (AWC).

The Agency's general objectives are to provide its members with a comprehensive risk management program, stabilize insurance costs, and minimize the loss exposure of its member cities through a program of risk-sharing, joint indemnification of losses, and proactive management intervention. A member is entitled to withdraw from the Agency at the end of any fiscal year by providing 12 months written notice of its intent to withdraw. Members are subject to supplemental premium assessments in the event of deficiencies. As of December 31, 2007 and 2006, 84 and 82 members participated in the Agency respectively.

In lieu of having employees, AWC employees perform the administrative functions of the Agency through a contract. The Agency's primary source of revenues is assessments to members and its major expenses include payments on claims and payments for insurance coverage. The Agency is governed by a 24-member Board of Directors comprised of elected city officials within the Agency's district. During 2007, the Agency had an operating budget of \$5,181,441.