

STATE RISK MANAGER'S REPORT
REVIEW OF REGULATORY COMPLIANCE
OF
ASSOCIATION OF WASHINGTON CITIES RISK MANAGEMENT
SERVICE AGENCY

As of November 7, 2016

Results:

Based on audited financial information as of fiscal year ending 2015, and documents provided by the pool, Association of Washington Cities Risk Management Service Agency meets standards adopted by the State Risk Manager in the areas reviewed.

Background:

The State Risk Manager in the Office of Risk Management, a division of the Department of Enterprise Services, State of Washington, is responsible for regulatory oversight of local government joint self-insured risk pools formed under the authority of chapter 48.62 RCW. The law requires the State Risk Manager to adopt rules for risk pools to follow, adopted as Washington Administrative Code (WAC) 200-100. Those rules include standards for solvency, operations and management and require that risk pools maintain certain financial reserves in order to ensure that claims are funded.

The State Risk Manager determines whether risk pools are operating in a safe financial condition, according to the solvency regulations. The pool's compliance with those regulatory requirements is based on audited financial information provided by the Washington State Auditor's office. Pools that operate in an unsafe financial condition or in violation of statutory or regulatory requirements may cause the State Risk Manager to take administrative action.

Areas Covered:

We examined the Pool's compliance with regulatory standards adopted in rule by the State Risk Manager in the following areas:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability
2. Financial Solvency/Required Assets
3. Compliance with Reporting Requirements
4. Compliance with Requirement to Obtain an Independent Claims Audit
5. Compliance with Nondiscriminatory Rate Requirements
6. Financial Trends

Results of Review of Regulatory Compliance:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability

Requirement: Risk pools must obtain an annual actuarial review which meets the following criteria:

WAC 200-100-03001 requires that “(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end which provides written estimates of the liability for unpaid claims measured at the expected level and the seventy, eighty, and ninety percent confidence level. . .”

WAC 200-100-020 (1) "Actuary" means any person who is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Result: A review of the actuarial report indicates that an actuary meeting the qualifications set forth above estimated the Pool’s liability for both property and liability claims at the required confidence levels. Association of Washington Cities Risk Management Service Agency is in compliance with this requirement.

2. Financial Solvency/Required Assets

Requirement 2.a: Risk pools must ensure claims liabilities are funded at the expected level by meeting certain standards for solvency and liquidity as follows:

WAC 200-100-03001 states, in part “ . . .(2) The governing body of the joint self-insurance program shall establish and maintain primary assets in an amount at least equal to the unpaid claims estimate at the expected level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (20) "Primary assets" means cash and investments (less any nonclaims liabilities).

Results: Association of Washington Cities Risk Management Service Agency met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected levels as determined by the Pool’s actuary (see Page 4).

Requirement 2.b: Risk pools must meet the above requirement to maintain primary assets and must also maintain other assets to fund claims liabilities at the 80% confidence level as follows:

WAC 200-100-03001 states, in part, “ . . . (3) The governing body of every joint self-insurance program operating under this chapter shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the eighty percent confidence level as determined by the program's actuary as of fiscal year end. . .”

WAC 200-100-020 (21) states that "Secondary assets" means insurance receivables, real estate or other assets (less any nonclaims liabilities) the value of which can be independently verified by the state risk manager.

Results: Association of Washington Cities Risk Management Service Agency met this requirement by maintaining reserves in excess of the 80% confidence level to fund the Pool’s liability for unpaid claims. The secondary assets consist of additional cash reserves, investments and other assets (property and equipment are excluded from assets used in this calculation).

	Test 1 - Primary Asset Test		Test 2 - Secondary Asset Test
	(WAC 200-100-03001(2))		(WAC 200-100-03001(3))
\$9,871,968	Primary Assets	\$15,862,480	Secondary Assets
\$6,019,495	Estimated Claim Liabilities at the expected level per actuarial estimate	\$6,883,000	Estimated Claim Liabilities at the 80% confidence level per actuarial estimate
RESULT:	PASS	RESULT:	PASS
	<i>Estimated outstanding liabilities at the expected level must be less than primary assets (cash and investments less nonclaims liabilities)</i>		<i>Estimated outstanding liabilities at the seventy percent confidence level must be less than combined primary assets and secondary assets (receivables, recoverables, real estate and other assets that can be independently verified by the State Risk Manager)</i>

(Note 1) The outstanding liabilities are estimated by an independent actuary meeting the requirements of WAC 200-100-020(1). Actuarial reports submitted as part of the annual report to the State Risk Manager are available by contacting the Association of Washington Cities Risk Management Service Agency at 360-753-4137. Contact information is also available by visiting the Pool's website at <https://www.awcnet.org/AboutUs/ContactUs.aspx>

(Note 2) The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The audit reports are available on the State Auditor's Office website at <http://www.sao.wa.gov/EN/Pages/default.aspx>, or by telephone at (360) 902-0370.

3. Compliance with Reporting Requirements

Requirement: The pool is required by WAC 200-100-60 to provide unaudited annual financial statements to the State Risk Manager within 150 days of fiscal year end, and audited financial statements are to be provided to the State Risk Manager within one year of the fiscal yearend date. If required by the State Risk Manager, pools must provide quarterly reports based on its financial condition.

WAC 200-100-60 requires that “. . . (1) Every joint property and liability self-insurance program authorized to transact business in the state of Washington shall submit the annual report to the state risk manager.

(2) The annual report to the state risk manager shall require the following information to be submitted in electronic form:

- (a) Unaudited annual financial statements, including attestation, as provided to the state auditor’s office;
- (b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the unaudited financial statements are based;
- (c) Copies of all insurance coverage documents;
- (d) List of contracted consultants;
- (e) Details of changes in articles of incorporation, bylaws or foundation agreement;
- (f) Details of services provided by contract to nonmembers;
- (g) List of members added or terminated.

Such reports shall be submitted to the state risk manager no later than one hundred fifty days following the completion of the joint program’s fiscal year.

(3) Audited financial statements shall be provided to the state risk manager within one year of the program’s fiscal year end and comply with requirements for submission of audited financial statements established by the state risk manager.

(4) All joint self-insurance programs shall submit quarterly financial reports if, in the estimation of the state risk manager, the financial condition of a program warrants additional quarterly reporting requirements. . .”

Results: The Pool met this requirement by providing both audited and unaudited financial statements within the time required. The Pool is not required to report quarterly. Association of Washington Cities Risk Management Service Agency received an unmodified opinion on its audited financial statements from the State Auditor for FY 2015.

4. Compliance with Requirement to Obtain an Independent Claims Audit

Requirement: The pool is required by WAC 200-100-050 to obtain an audit of claims administration conducted by an independent, qualified auditor every three years at a minimum.

WAC 200-100-050 requires that “. . . (7) All joint self-insurance programs shall obtain an independent review of claim reserving, adjusting and payment procedures every three years at a minimum. Said audit shall be conducted by an independent qualified claims auditor not affiliated with the program, its insurers, its broker of record, or its third-party administrator. Such review shall be in writing and identify strengths, areas of improvement, findings, conclusions and recommendations. Such review shall be provided to the governing body and retained for a period not less than six years. The scope of the claims audit shall include claims administration procedures listed in subsection (1) of this section(1) All joint self-insurance programs shall adopt a written claims administration program which includes, as a minimum, the following procedures:

- (a) Claims filing procedures and forms.
- (b) Standards requiring case reserves for each claim be established in the amount of the jury verdict value.
- (c) Standards requiring case reserves be reviewed every ninety days or when reasonably practicable and such review is documented in the claims diary.
- (d) Standards requiring appropriate adjuster work loads.
- (e) Standards requiring claims payment procedures include sufficient internal controls to ensure adequate review and approval by claims management staff.
- (f) Standards requiring file documentation be complete and up-to-date.
- (g) Standards requiring timely and appropriate claim resolution practices.
- (h) Standards requiring opportunities for recoveries be reviewed and documented for each claim.
- (i) Standards requiring compliance with Internal Revenue Service (IRS) rules for 1099MISC regulations.
- (j) Standards requiring claims files be audited on the following categories: Staffing, caseloads, supervision, diary, coverage, reserves, promptness of contacts, field investigations, file documentation, settlements, litigation management and subrogation.

WAC 200-100-020 (7) defines "Claims auditor" as a person who has the following qualifications:

- (a) A minimum of five years in claims management and investigative experience;
- (b) A minimum of three years of experience in auditing the same manner of claims filed against the program being audited;
- (c) Proof of professional liability insurance; and
- (d) Provides a statement that the auditor is independent from the program being audited, its vendors, insurers, brokers, and third-party administrators.

Results: The Pool met this requirement by obtaining an independent claims audit within the last three years. A claims audit was conducted in 2012 and again in 2015 by a claims auditor meeting the required qualifications. The report is provided to the Board of Directors for review.

5. Compliance with Nondiscriminatory Rate Requirements

Requirement: The pool must charge rates that are consistently applied and do not discriminate among the members.

WAC 200-100-033 requires that “(1) Joint self-insurance program assessment formulas shall include all costs including rating for insured and self-insured layers of coverage. Assessment formulas shall be consistent and nondiscriminatory among all members.

(2) This provision shall not be construed to prohibit individual choice of coverage by members from several offered by the joint self-insurance program. The assessment formula, including the insured and self-insured components, shall be consistently applied to reflect the selection from among these choices.

(3) The assessment formula shall be available for review by the state risk manager.

(4) Joint self-insurance programs shall not sell equity, security, or shares in the joint self-insurance program.”

Results: The Pool met this requirement by obtaining a rating study done by an independent actuary and charging rates to members supported by the study. The assessment formula and actuarial rating report were available for review. The rating formula is approved by the Board of Directors.

6. Financial Trends

Requirement: Risk pools are required to notify the State Risk Manager if solvency requirements are not met (WAC 200-100-03001(2)) and the State Risk Manager is required to monitor trends over time and take action when programs experience adverse trends which may require the State Risk Manager to take additional actions.

WAC 200-100-03001 states, in part “. . . (4) The state risk manager shall evaluate the operational safety and soundness of the program by monitoring changes in liquidity, claims reserves and liabilities, member equity, self-insured retention, and other financial trends over time. Programs experiencing adverse trends may cause the state risk manager to increase frequency of on-site program review and monitoring, including increased communication with the governing body and requirements for corrective plans. . .”

Results: Financial trends show the increases and decreases in assets, liabilities, revenues and expenses. The information below was taken directly from the audited financial statements of FY 2015. Upon review, no recent adverse financial trends were noted (See Attachment A on Page 9 and Attachment B on Page 10).

Attachment A - Trends in Assets and Liabilities

Fiscal Year End	2015	2014	2013	2012	2011
Assets:					
Cash/Cash Equivalents	\$10,146,976	\$11,750,473	\$12,103,503	\$12,034,367	\$10,164,338
Receivable from Reinsurer	\$2,097,392	\$1,304,373	\$992,280		\$16,312
Member Receivables	\$22,571	\$7,620	\$33,228	\$26,516	\$40,550
Prepaid Expense	\$1,060,169		\$1,173,970	\$500,985	\$501,222
Equipment, Net of Acc Depreciation					
Contract Receivable	\$35,000	\$37,500	\$40,000	\$42,500	\$45,000
Dividends Receivable from Reinsurer					
Reinsurance Deposit	\$239,149	\$239,149	\$239,149	\$239,149	\$239,149
Equity in NLC MIC	\$2,536,231	\$2,448,870	\$2,319,651	\$2,190,860	\$2,094,930
TOTAL ASSETS:	\$16,137,488	\$15,787,985	\$16,901,781	\$15,034,377	\$13,101,501
Liabilities:					
IBNR	\$3,939,864	\$3,951,062	\$4,055,224	\$4,476,940	\$5,158,830
Unpaid Claims	\$1,859,631	\$3,295,711	\$2,040,049	\$2,346,379	\$1,723,524
Reserve for ULAE	\$220,000	\$260,000	\$235,000	\$285,000	\$290,000
Accts Payable	\$275,008	\$257,534	\$211,637	\$125,943	\$125,022
Unearned Member Assessments				\$58,144	\$62,657
Payable-Forks Claim			\$1,210,060		
TOTAL LIABILITIES:	\$6,294,503	\$7,764,307	\$7,751,970	\$7,292,406	\$7,360,033
TOTAL NET POSITION	\$9,842,985	\$8,023,678	\$9,149,811	\$7,741,971	\$5,741,468

Attachment B - Trends in Revenues and Expenses

Fiscal Year End	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Revenues					
Member Assessments	\$6,457,518	\$6,186,014	\$6,632,447	\$7,200,477	\$7,239,580
Other Income	\$78,762	\$83,641	\$63,712	\$44,914	\$61,297
Interest Income	\$18,564	\$13,487	\$21,738	\$23,915	\$19,292
Increase/<Decrease> in Equity in NLC MIC	\$87,361	\$129,219	\$128,791	\$95,930	\$100,511
Total Revenues	\$6,642,205	\$6,412,361	\$6,846,688	\$7,365,236	\$7,420,680
Expenses					
Claims Loss Expense -- Current Year	\$2,495,000	\$3,225,000	\$2,425,000	\$2,640,000	\$2,685,000
Change in Claims Loss Expense -- Prior Years	(\$1,673,291)	\$630,540	(\$640,165)	(\$1,127,595)	(\$1,062,140)
Change in Unallocated Loss Adjustment Expenses	(\$40,000)	\$25,000	(\$50,000)	(\$5,000)	(\$10,000)
Insurance Premiums	\$2,101,290	\$1,843,792	\$1,971,829	\$2,249,899	\$2,369,407
Claims Administration and Loss Control Services	\$564,201	\$516,226	\$599,939	\$354,311	\$323,226
General and Administrative Expenses	\$1,375,698	\$1,297,936	\$1,132,245	\$1,253,118	\$1,246,962
Total Expenses	\$4,822,898	\$7,538,494	\$5,438,848	\$5,364,733	\$5,552,455
Change in Net Position	\$1,819,307	(\$1,126,133)	\$1,407,840	\$2,000,503	\$1,868,225

Conclusion: We appreciate the cooperation and assistance of the staff and management of Association of Washington Cities Risk Management Service Agency during this process. No exceptions were noted and no recommendations were made as a result of this review.

About Association of Washington Cities Risk Management Service Agency:

The Association of Washington Cities Risk Management Service Agency (AWCRMSA) is a municipal self-insurance pool that was formed on January 1, 1989. Located in Thurston County, the Agency provides property and casualty insurance coverage to 92 participating member cities of the Association of Washington Cities (AWC). The Agency does not have employees; rather, the Agency contracts with the Association of Washington Cities, a non-profit entity, for administrative services.

An elected, seven-member Board of Directors governs the Agency. The Board is comprised of elected city officials within the state. The primary source of revenue for the Agency comes from member assessment fees.

Public entity self-insurance pools, such as AWCRMSA, are authorized by [RCW 48.62](#) and utilize an Interlocal Agreement and Bylaws to link members together. The Pool is regulated by the Washington State Risk Manager's Office (part of the Department of Enterprise Services) and is audited annually by the Washington State Auditor's Office.

About State Risk Manager Regulatory Compliance Reviews:

RCW 48.62 provides authority for local governments to join or form a self-insurance program together with other entities, to jointly purchase insurance or reinsurance with other entities, and to contract for or hire personnel to provide risk management, claims and other administrative services. The State Risk Manager in the Office of Risk Management, Department of Enterprise Services, is authorized by RCW 48.62 to adopt rules for self-insurance programs formed under this chapter to follow. The rules contain standards for operations and management, claims administration, solvency, including frequency of actuarial studies and claims audits, and standards for contracts between self-insurance programs and private businesses.

In order to ensure compliance with these standards, which are adopted as Washington Administrative Code (WAC) 200-100, the Local Government Self-Insurance Program, under the direction of the State Risk Manager, conducts periodic reviews of joint self-insurance programs and, when necessary, provides for further investigation of those programs that are not operating in a safe and sound financial manner as required. The State Risk Manager may take certain administrative actions, including the issuance of a cease and desist order, when a program operates in violation of chapter 48.62 RCW or does not operate in a financially safe manner.

Each local government member of a joint self-insurance program is responsible for providing monies to the pool to pay claims for the years in which they were a member of the pool. Even if a member leaves a pool, a reassessment, or “cash call”, can occur in later years, requiring local government members to provide additional monies for past funding deficiencies for years in which they were a member. For this reason, the Local Government Self-Insurance program takes proactive measures to monitor the financial health of local government risk pools and to communicate the results of monitoring and periodic compliance reviews before adverse financial trends affect the pool and its local government members. Frequent reviews of compliance with the State Risk Manager’s rules are undertaken and the results are reported, in writing, to the board of directors and management of the pool.

Questions about this report should be addressed to the Local Government Self Insurance Program or the State Risk Manager, located at the Department of Enterprise Services, by telephone at 360-407-8153, or at shannon.stuber@des.wa.gov . The Department of Enterprise Services is located at 1500 Jefferson Street, PO Box 41466, Olympia, WA 98504-1466.