

**STATE RISK MANAGER'S REPORT**  
**REVIEW OF REGULATORY COMPLIANCE**  
**OF**  
**HOUSING AUTHORITIES RISK RETENTION POOL**

*As of September 15, 2015*

**Results:**

Based on the documents provided by the Pool and the audited consolidated financial statements as of fiscal year ending 2014, Housing Authorities Risk Retention Pool (HARRP) 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 48.64 RCW. The law requires the State Risk Manager to adopt rules for affordable housing risk pools to follow, adopted as Washington Administrative Code (WAC) 200-120. 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. 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 200-120-140** requires that “(1) All joint self-insurance programs shall obtain an annual actuarial review as of fiscal year end which provides estimates of the unpaid claims measured at the expected and the seventy percent confidence level. . .”

**WAC 200-120-020** "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 as of fiscal year ending December 31, 2014 indicates that an actuary meeting the qualifications set forth above estimated the Pool’s liability for both property and liability claims at both the expected and the 70% confidence level. Housing Authorities Risk Retention Pool 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 200-120-140(2)** states, in part “. . . (2) The board of directors 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 200-120-020** "Primary assets" means cash and investments (less any nonclaims liabilities).

**Results: Housing Authorities Risk Retention Pool 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 70% confidence level as follows:**

**WAC 200-120-140(3)** states, in part, “. . . (3) The board of directors of the joint self-insurance program shall establish and maintain total primary and secondary assets in an amount equal to or greater than the unpaid claim estimate at the seventy percent confidence level as determined by the program's actuary as of fiscal year end. . .”

**WAC 200-120-020** 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: Housing Authorities Risk Retention Pool met this requirement by maintaining reserves in excess of the 70% 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).**

	<b>Test 1 - Primary Asset Test</b>		<b>Test 2 - Secondary Asset Test</b>
	(WAC 200-120-140(2))		(WAC 200-200-140(3))
\$21,372,811	Primary Assets	\$24,111,359	Secondary Assets
\$3,700,000	Estimated Claim Liabilities at the expected level per actuarial estimate	\$4,310,000	Estimated Claim Liabilities at the 70% confidence level per actuarial estimate
<b>RESULT:</b>	<b>PASS</b>	<b>RESULT:</b>	<b>PASS</b>
	<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 200-120-020. Actuarial reports submitted as part of the annual report to the State Risk Manager are available by contacting Bill Gregory, Executive Director of Housing Authorities Risk Retention Pool, at (360) 574-9035. Contact information is also available by visiting the Pool's website at [www.harrp.com](http://www.harrp.com).

(Note 2) The information used to calculate assets used in the Primary and Secondary Asset Tests were obtained from the audited financial statements. The pool contracts for a financial audit with a certified public accounting firm, Perkins and Company, annually. Those reports are available by contacting Bill Gregory, Executive Director of Housing Authorities Risk Retention Pool at (360) 574-9035.

### 3. Compliance with Reporting Requirements

**Requirement:** The pool is required by WAC 200-120-230(2) to provide audited annual financial statements to the State Risk Manager within 120 days of fiscal year end. If required by the State Risk Manager, risk pools must provide quarterly reports based on its financial condition.

WAC 200-120-230 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 within one hundred twenty days of fiscal year end:

(a) Audited annual financial statements, including signed, as provided to the financial auditors;

(b) Actuarial reserve review report on which the net claims liabilities at fiscal yearend reported in the audited financial statements are based;

(c) Copies of all insurance coverage documents;

(d) List of contracted consultants;

(e) Details of changes in the ownership agreement; and

(f) Details of services provided by contract to nonmember participants.

(3) 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.

(4) Failure to provide required financial reports may result in corrective action by the state risk manager. Such actions may include:

(a) Increase in frequency of examinations, the cost of which shall be the responsibility of the program;

(b) On-site monitoring by the state risk manager;

(c) Service of a cease and desist order upon the program..”

**Results:** The Pool met this requirement by providing audited financial statements of December 31, 2014 and other required documents within 120 days of fiscal year end. The Pool is not required to report quarterly.

#### 4. Compliance with Requirement to Obtain an Independent Claims Audit

**Requirement: The pool is required by WAC 200-120-220 to obtain an audit of claims administration conducted by an independent, qualified auditor every three years at a minimum.**

**WAC 200-120-220** 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 board of directors 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.

**WAC 200-120-220** requires that “. . . (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 200-120-020** defines "Claims auditor" as a person who has the following qualifications:

- (a) A minimum of three years of experience in auditing the same manner of claims filed against the program being audited;
- (b) Proof of professional liability insurance; and
- (c) 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 conducted by a claims auditor meeting the required qualifications.**

## 5. Compliance with Nondiscriminatory Rate Requirements

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

**WAC 200-120-150** requires that “(1) Joint self-insurance program contribution formulas shall include all costs including rating for insured and self-insured layers of coverage. Contribution formulas shall be consistent and shall not unfairly discriminate among the participants relative to the risks covered and the coverage benefits provided under the joint self-insurance program. Contribution formulas shall prohibit public entity participants from subsidizing rates for nonprofit and or privately owned affordable housing entities.

(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 contribution formula, including the insured and self-insured components, shall be consistently applied to reflect the selection from among these choices.

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

**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 formulae and actuarial rating report were available for review.

## 6. Financial Trends

**Requirement:** Risk pools are required to notify the State Risk Manager if solvency requirements are not met (WAC 200-120-140(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 200-120-140 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, owner 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 board of directors 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 2014. Upon review, no adverse financial trends were noted (See Attachment A on Page 9 and Attachment B on Page 10).



### Attachment A - Trends in Assets & Liabilities

<b>Fiscal Year End</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets:</b>						
Cash/Cash Equiv	2,975,500	3,520,498	2,485,891	2,153,409	1,170,190	1,158,420
Investments	23,476,103	23,637,068	27,940,440	27,824,900	28,840,129	28,618,065
Interest Receivable	124,069	153,361	229,746	235,593	192,291	241,578
Accounts Receivable	218,991	166,755	195,965	462,188	86,297	30,531
Prepaid Expenses	367,554	247,056	203,603	228,170	26,611	32,200
Rcvbl from tax authorities	29,483	233,638	4,857			
Deferred Income Tax asset	625,437	596,613	143,482	80,625		
Capital Assets, Net	1,553,014	1,585,695	1,671,400	1,783,356	1,866,229	1,974,687
<b>Total Assets</b>	<b>29,370,151</b>	<b>30,140,684</b>	<b>32,875,384</b>	<b>32,768,241</b>	<b>32,181,747</b>	<b>32,055,481</b>
<b>Liabilities:</b>						
Accts Payable	159,805	93,394	93,043	141,206	211,864	99,445
Taxes Payable				95,696		
Deferred Tax Liability			4,527	7,549		
Unearned Mbr Cont	4,918,987	4,465,802	3,703,712	3,277,300	2,427,735	2,327,500
Outstanding Claims	3,764,659	5,648,096	5,506,045	3,183,856	2,692,103	3,727,633
Minority Interest			10,380	15,133	10,017	8,774
<b>Total Liabilities</b>	<b>8,843,451</b>	<b>10,207,292</b>	<b>9,317,707</b>	<b>6,720,740</b>	<b>5,341,719</b>	<b>6,163,352</b>
<b>Total Net Position</b>	<b>20,526,700</b>	<b>19,933,392</b>	<b>23,557,677</b>	<b>26,047,501</b>	<b>26,840,028</b>	<b>25,892,129</b>

### Attachment B - Trends in Revenues and Expenses

Fiscal Year End	2014	2013	2012	2011	2010	2009
<b>Revenues:</b>						
Member Contributions	9,175,653	7,945,642	6,932,404	5,783,587	5,210,571	5,245,215
Interest Income	283,866	(147,307)	302,713	543,272	598,844	623,597
Commissions Earned	130,982	115,567	86,592	154,176	187,810	145,239
Income frm Minority Interest			4,566			4,899
<b>Total Revenues</b>	<b>9,590,501</b>	<b>7,913,902</b>	<b>7,326,275</b>	<b>6,481,035</b>	<b>5,997,225</b>	<b>6,018,950</b>
<b>Expenses:</b>						
Claims Pd, net of recoveries	5,044,258	8,135,752	6,193,319	4,290,924	2,998,689	3,510,578
Excess Ins Premiums	2,280,949	2,372,410	2,032,219	1,532,238	514,563	416,289
Professional Fees	171,049	170,896	129,589	159,054	216,542	200,736
Salaries & Benefits	1,082,830	1,028,695	921,289	803,770	765,084	750,636
General & Admin Exp	395,932	396,473	377,743	351,967	444,748	348,628
Depreciation	50,207	85,706	111,956	107,873	108,457	114,764
Loss frm Minority Interest		(1,235)		5,116	1,243	
Income Tax Expense	(28,032)	(650,510)	49,984	22,620		
<b>Total Expenses</b>	<b>8,997,193</b>	<b>11,538,187</b>	<b>9,816,099</b>	<b>7,273,562</b>	<b>5,049,326</b>	<b>5,341,631</b>
<b>Change in Net Position</b>	<b>593,308</b>	<b>(3,624,285)</b>	<b>(2,489,824)</b>	<b>(792,527)</b>	<b>947,899</b>	<b>677,319</b>
<b>Beginning Net Assets</b>	<b>19,933,392</b>	<b>23,557,677</b>	<b>26,047,501</b>	<b>26,840,028</b>	<b>25,892,129</b>	<b>25,214,810</b>
<b>Net Assets at Year End</b>	<b>20,526,700</b>	<b>19,933,392</b>	<b>23,557,677</b>	<b>26,047,501</b>	<b>26,840,028</b>	<b>25,892,129</b>

**Conclusion:** We appreciate the cooperation and assistance of the staff and management of Housing Authorities Risk Retention Pool during this process. No exceptions were noted and no recommendations were made as a result of this review.

**About Housing Authorities Risk Retention Pool (HARRP):**

The Housing Authorities Risk Retention Pool, doing business as HARRP, is a multistate property and liability risk pool which provides coverage to housing authorities located in California, Nevada, Oregon, and Washington. HARRP also provides coverage to other affordable housing entities through a subsidiary venture, Affordable Housing Risk Retention Pool. Members participate in self-insured coverage for property, general liability, automobile liability, errors and omissions (including employment practices liability) and fidelity. HARRP also provides risk management services to the membership.

The HARRP Board of Directors is composed of nine members, three representing the members of the Association of Washington Housing Authorities, three representing the members of the Association of Oregon Housing Authorities, and three representing the members of the Northern California/Nevada Executive Directors' Association.

The Directors are divided into three classes with staggered terms, resulting in the election of one-third of the Directors at each annual meeting of the members. Each class consists of three directors, with one Director from each of the three state organizations. Each Director is elected for a three-year term. The Board of Directors is responsible for establishing HARRP policy and overseeing the activities of the administrative staff.

### **About State Risk Manager Regulatory Compliance Reviews:**

RCW 48.64 provides authority for two or more affordable housing entities to participate in a joint self-insurance program covering property or liability risks. This chapter provides affordable housing entities with the exclusive source of authority to jointly self-insure property and liability risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services with other affordable housing 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 48.64 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) 200-120, the Local Government & Non Profit 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 48.64 RCW or does not operate in a financially safe manner.

The Local Government & Non Profit 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 Office of Risk Management, located at the Department of Enterprise Services, by telephone at 360-407-8153, or at [shannon.stuber@des.wa.gov](mailto:shannon.stuber@des.wa.gov) . The Department of Enterprise Services is located at 1500 Jefferson Street, PO Box 41466, Olympia, WA 98504-1466.