



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

RISK MANAGEMENT DIVISION

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September 1, 2010

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Office of Financial Management
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To Board of Directors of Southwest Washington Risk Management Insurance Cooperative:

Please find attached the State Risk Manager's Report of the Review of Southwest Washington Risk Management Insurance Cooperative, otherwise referred to as the "Pool" or "SWRMIC". The purpose of this review is to determine compliance with standards adopted in rule by the Risk Manager in the Office of Financial Management (OFM), Risk Management Division included in Washington Administrative Code (WAC) 82-60, in addition to compliance with other requirements for joint self-insurance risk pools found in chapter 48.62 RCW. The period covered in this review is from September 1, 2007 to August 31, 2009.

Our review of regulatory compliance included tests of the records and other procedures as we considered necessary in the circumstances. The accuracy of the information provided by SWRMIC is the responsibility of the Pool's management. Our responsibility is to determine compliance based on the information provided.

The Pool operates within ESD 112, which is audited annually by the Washington State Auditor's Office. The Auditor expressed an unqualified opinion on the ESD's financial statements for the years ended August 31, 2008 and 2009. We placed substantial reliance on the audited financial statements. We also placed high reliance on the work of the Pool's actuary and therefore did not conduct an independent review of the actuary's findings as part of our own review.

We believe that our review provides a reasonable basis for our opinion. In our opinion, SWRMIC has complied, in all material respects, with statutory requirements and other regulations adopted by the State Risk Manager as set forth above.

Sincerely,

Shannon Stuber
Program Administrator

STATE RISK MANAGER'S REPORT
REVIEW OF REGULATORY COMPLIANCE
OF
SOUTHWEST WASHINGTON RISK MANAGEMENT
INSURANCE COOPERATIVE

ISSUED SEPTEMBER 1, 2010

Background:

The State Risk Manager in the Risk Management Division of the Office of Financial Management, State of Washington, is responsible for ensuring that joint risk pools formed under the authority of chapter 48.62 RCW operate in a financially safe condition. To do so, Chapter 48.62 RCW requires that the State Risk Manager, in consultation with the property and liability advisory board, adopt 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.

Pools are required to comply with those standards, adopted as Washington Administrative Code (WAC) 82-60. Pools that operate in an unsafe financial condition or in violation of RCW 48.62 may cause the State Risk Manager to take administrative action. This review covered the period from September 1, 2007 through August 31, 2009.

Areas Covered:

We examined the Pool's compliance with state laws and regulations, in addition to standards adopted in rule by the Risk Manager in the following areas:

1. Requirement for Annual Actuarial Study to Determine Unpaid Claims Liability
2. Financial Solvency/Required Assets
3. Presentation of Liabilities
4. Claims Administration Standards
5. Communication with Members
6. Rate Setting/Member Assessments
7. Notification and Approval of Program Changes
8. Compliance with Reporting Requirements
9. Compliance with Membership Requirements
10. 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 82-60-03001 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 82-60-020 (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 of Kevin Wick, FCAS, MAAA, of Price Waterhouse Coopers, indicates that an actuary meeting the qualifications set forth above estimated the Pool's liability for both property and liability at both the expected and the 70% confidence level. SWRMIC has met 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 82-60-03001 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 82-60-020 (20) "Primary assets" means cash and investments (less any nonclaims liabilities).

Results: SWRMIC met this requirement by maintaining sufficient primary assets to fund claims liabilities at the expected levels as determined by the Pool's actuary (see Attachment A). At fiscal yearend 2009, the pool was funded at the 95% confidence level. Cash was independently verified through records and investment statements from the Clark County Treasurer.

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 82-60-03001 states, in part, “. . . (3) The governing body 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 82-60-020 (23) 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: SWRMIC met this requirement by funding claims liabilities in excess of the 70% confidence level required as determined by the Pool's actuary (see Attachment A). The secondary assets consist of additional cash reserves, investments and other assets (property and equipment are excluded from this calculation). Also excluded were nonclaims liabilities, including prepaid contributions.

3. Presentation of Liabilities

Requirement: The estimated liability for unpaid claims as presented in the Pool's financial statements is supported by the actuarial report.

RCW 43.09.200 Local government accounting — Uniform system of accounting.

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Result: SWRMIC meets this requirement by reporting the amount of the total liability for unpaid claims in its 2009 financial reports as \$1,289,160 which is supported by the report of the independent actuary.

4. Claims Administration Standards

Requirement: The Pool must obtain an independent claims audit at least every three years which meets the following requirements:

WAC 82-60-050 “. . . (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. . .”

Result: SWRMIC obtains a claims audit at least every three years from an independent, qualified claims auditor meeting the above requirements. A claims audit was completed in June of 2007 and in June of 2010. The Pool retains the report and also provides the report to the Board of Directors.

5. Communication with Members

Requirement 5.a: The pool must provide financial information to members annually.

WAC 82-60-02009 states, in part “. . . The joint self-insurance program shall make available to each member a copy of the program's annual membership report. The annual membership report shall include, at a minimum, financial information which includes the comparative balance sheet and statement of revenues, expenses and net assets. . .”

Result: SWRMIC's annual membership report is sent to members in January of each year. The report includes information on the Pool's financial condition, including the comparative balance sheet and the statement of revenues, expenses and net assets.

Requirement 5.b: The risk pool must notify the Risk Manager and its members at least 10 days prior to regular meetings of the board of directors.

WAC 82-60-02013 requires that “Every joint self-insurance program shall provide every member with a notice of the time and place of each regular meeting of the governing body at least ten days prior to the meeting. The notice shall be delivered in electronic or paper form, and the time and location of each meeting shall be included in such notice. The state risk manager shall be provided a copy of all meeting notifications to members in the same form, manner and time

as provided to members. In addition to electronic or regular mail, programs shall publish notification of regular meetings on the electronic web site of the program accessible to the public. Notice of regular meetings shall comply with the meeting notification requirements of chapter 42.30 RCW or be published at least ten days in advance of regular meetings, whichever notification time is greater”.

Result: SWRMIC meets this requirement by sending notification of meetings electronically to the State Risk Manager and each Pool member, and by posting the meeting notice on its public website.

Requirement 5.c: The pool must provide a meeting agenda to members prior to each meeting. The pool must post approved meeting minutes on its public website.

WAC 82-60-02017 requires that “Every joint self-insurance program will provide the state risk manager and every member with a preliminary agenda in advance of each meeting of the governing body. The agenda shall be delivered by electronic mail and shall be posted on the web site of the program accessible to the public. Meeting minutes, after approval, shall be provided to the state risk manager and every member of the program by electronic mail and shall be posted on the web site of the program accessible to the public”.

Results: SWRMIC meets this requirement by providing a meeting agenda electronically to the Risk Manager and to members, and also posts the agenda and approved meeting minutes on the Pool’s public website.

6. Rate Setting/Member Assessments

Requirement: The pool must establish rates based on a rating formula which is consistently applied to all members to ensure rates are nondiscriminatory. The formula must be available for review by the Risk Manager.

WAC 82-60-033 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.”

Result: SWRMIC obtains a rate setting study annually from a qualified actuary (per WAC 82-60-20(1)). The actuary provides the rate modification factors based on risk. Our review indicates that these risk factors are applied consistently and the rating formulae were available for review. The Pool is in compliance with this requirement.

7. Notification and Approval of Program Changes

Requirement: Risk pools are required to obtain prior approval before making program changes.

RCW 48.62.091 states in part “. . . (5) No self-insurance program requiring the state risk manager's approval may engage in an act or practice that in any respect significantly differs from the management and operation plan that formed the basis for the state risk manager's approval of the program unless the program first notifies the state risk manager in writing and obtains the state risk manager's approval. The state risk manager shall approve or disapprove the proposed change within sixty days of receipt of the notice. If the state risk manager denies a requested change, the risk manager shall specify in detail the reasons for denial and the manner in which the program would fail to meet the requirements of this chapter or any rules adopted in accordance with this chapter. . .”

Results: Our review indicated that no program changes were made which would require prior approval by the Risk Manager during the period reviewed. The Pool is in compliance with the requirement.

8. Compliance With Reporting Requirements

Requirement: The pool is required by WAC 82-60-60 to provide unaudited annual financial statements to the Risk Manager within 150 days of fiscal year end, and audited financial statements are to be provided to the Risk Manager within one year of the fiscal yearend date. If required by the Risk Manager, a pool must provide quarterly reports based on its financial condition.

WAC 82-60-60 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. SWRMIC is audited as part of ESD 112, which received an unqualified opinion on its audited financial statements from the State Auditor. The Pool should, in the next fiscal period, obtain a separate financial statement opinion on the Pool’s financial statements.

9. Compliance With Membership Requirements

Requirement: Participants in the pool’s insurance program must sign the interlocal agreement and must also be responsible for the contingent liabilities of the program if assets are insufficient.

WAC 82 -60-02005 provides that “Membership in a joint self-insurance program requires the execution of a foundation agreement. Only members may participate in risk-sharing. Only members may participate in the self-insured retention layer, and only members may participate in the joint purchase of insurance or reinsurance”.

RCW 48.62.141 requires that “Every joint self-insurance program covering liability or property risks, excluding multistate programs governed by RCW 48.62.081, shall provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities”.

Results: The Pool is in compliance with this requirement. Our review of the membership list and interlocal agreement indicates that participation in the Pool’s excess and self-insured retention layer is limited only to those members signing the Pool’s interlocal agreement which provides for shared risk and joint responsibility for liabilities. The agreement also provides for the contingent liabilities of the program if assets are insufficient.

10. Financial Trends

Requirement: Risk pools are required to notify the Risk Manager if solvency requirements are not met (WAC 82-60-03001(2)) and the Risk Manager is required to monitor trends over time and take action when programs experience adverse trends which may require the Risk Manager to take additional actions.

WAC 82-60-03001 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 audited as part of ESD 112’s financial statements. No separate opinion was issued on the enterprise fund which includes the financial activity of the Pool. Upon review, no adverse financial trends were noted.

Trends in Assets, Liabilities and Membership

	2009	2008	2007	2006	2005
Cash/Cash Equiv	5,443,270	4,507,896	3,905,991	3,392,317	2,550,993
Accounts Rec	423,240	6,639		42,302	52,100
Total Assets	5,866,510	4,514,535	3,905,991	3,434,619	2,603,093
Accts Payable		28,691	76,170	88,216	54,163
Benefits Payable					
Unearned Contribution	448,490				
IBNR	437,717	401,469	418,417	490,551	391,240
Open Claims	776,443	348,088	660,184	599,988	386,728
ULAE	75,000	45,000	60,000	57,000	39,500
Total Liabilities	1,737,650	823,248	1,214,771	1,235,755	871,631
Total Net Assets	4,128,860	3,691,287	2,691,220	2,198,864	1,731,462
Members	33	33	33	33	33

Trends in Revenues and Expenses

	2009	2008	2007	2006	2005
Member Cont	3,067,806	2,975,805	2,840,901	2,631,514	2,342,104
Interest Income	116,544	199,570	197,807	137,753	69,085
Other	2,073		4,607	3,005	884
Loss on equip disposal					
Total Revenues	3,186,423	3,175,375	3,043,315	2,772,272	2,412,073
Clms Pd,net of recov	481,731	667,682	534,412	99,634	630,586
chg in unpd claims liability	494,603	(344,044)	(8,938)	330,071	54,290
ULAE					
Excess Ins Premiums	1,358,576	1,489,622	1,555,211	1,426,694	1,384,513
Brokerage Fee			76,000	85,000	114,839
Gen/Admin Svc	396,339	353,785	390,200	355,321	322,796
Other		113			
Risk Mgr Fees	17,602	8,150	4,075	8,150	7,265
Total Expenses	2,748,851	2,175,308	2,550,960	2,304,870	2,514,289
Income/Net Assets	437,572	1,000,067	492,355	467,402	(102,216)

Conclusion:

We appreciate the cooperation and assistance of the management of SWRMIC during the review process. The Pool is in compliance with laws and standards adopted by the Risk Manager in the areas tested. No recommendations were made as a result of this review.

About Southwest Washington Risk Management Insurance Cooperative:

The Southwest Washington Risk Management Insurance Cooperative (Risk Cooperative) provides property and casualty insurance coverages for its membership. The Risk Cooperative was formed September 1986 when school districts in southwest Washington State joined together through an Interlocal Governmental Agreement to self insure, self administer and group purchase excess insurance to cover their losses. Thirty school districts, the Educational Service District 112, the KWRL Transportation Cooperative and the Washington Schools Information Processing Cooperative belong to the Risk Cooperative.

The Risk Cooperative is an Enterprise Fund established for the purpose of providing claims handling and risk management for property and casualty liabilities to its membership through group funding. The risk Cooperative provides the following forms of group purchased insurance coverage for its members: property, vehicle and mobile equipment physical damage, equipment breakdown, crime, electronic data processing equipment, and general liability, automobile liability, employment practices liability, errors and omissions liability and statutorily required bonds.

The Risk Cooperative is fully funded by its member participants. Claims are filed by members with the Educational Service District 112, which is contracted to perform claims adjustment services for the Cooperative.

The Risk Cooperative is governed by a Board of Directors, which is comprised of one designated representative from each participating member, with delegated authority to a five member Executive Committee. The Executive Committee is responsible for conducting the business affairs of the Cooperative.

About 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 Risk Manager in the Office of Financial Management, Risk Management Division, is authorized by RCW 48.62 to adopt standards for self-insurance programs formed under this chapter 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) 82-60, the Local Government Self-Insurance Program, under the direction of the 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. Certain administrative actions, including the issuance of a cease and desist order, are available to the Risk Manager when a program operates in violation of chapter 48.62 RCW or does not operate in a financially safe manner.

The Local Government Self-Insurance program takes proactive measures to monitor the financial health of joint self-insurance programs, to communicate with the pool concerning the results of monitoring and periodic compliance reviews before adverse trends result in financial concerns for the pool and its local government members. Because every member has financial responsibility for the liabilities of the pool if assets are insufficient, frequent reviews of compliance with the Risk Manager's rules are undertaken and the results are reported, in writing, to the board of directors and management of each risk pool.