



**Local Government Self-Insurance Program
Review
for
Waster and Sewer Risk Management Pool**

September 15, 2008

Independent Reviewer's Report

Mr. Pat Cabulagan, Executive Director
Water and Sewer Risk Management Pool
1750 112th Avenue
Suite B-215
Bellevue WA 98004

Dear Mr. Cabulagan:

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 October 31, 2004, 2004, 2005, and 2006 and 2007. The accuracy of information provided by the Water and Sewer Risk Management Pool 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 Water and Sewer Risk Management Pool has complied with laws, regulations and guidelines established by the State Risk Manager as set forth above.

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

Summary of Review

**Water and Sewer Risk Management Pool
1750 112th Avenue
Suite B-215
Bellevue WA 98004**

Our Review

This report contains the results of our independent compliance review of the Water and Sewer Risk Management Pool (WSRMP).

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 November 1, 2003 through October 31, 2007.

Review Results

The Pool complied with state laws and regulations and guidelines adopted by the State Risk Manager. No recommendations were made as a result of our review.

Reviewer's Remarks

We appreciate the cooperation and assistance of the staff and management of Water and Sewer Risk Management Pool during our review.

Areas Reviewed

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 October 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 pool obtained the required actuarial study, fully funding and disclosing the actuarially determined liability in the program's annual financial statements as of year end October 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 with the county and state investment programs, both authorized depositories for local government self-insurance pools. 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. 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 currently has reserves in excess of those required. The governing body receives interim financial reports and monitors the financial trends of the program.

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 Water & Sewer Risk Management Pool

The Water & Sewer Risk Management Pool (WSRMP) was created in November 1987 by water and sewer districts in response to the hard commercial insurance market of the early 1980's. The Pool provides insurance programs geared to manage the risks of water and sewer districts, in addition to a variety of services including training, seminars, risk management and safety programs. The program seeks to prevent or reduce property and casualty losses and to reduce injuries to people and employees, which could result in claims against the members of the Pool. Approximately 65 members participate in the Pool.

A Board of Directors, composed of one designated representative from each participating member, governs the Pool. At the March semi-annual meeting, the Board elects a seven-member Executive Committee responsible for conducting the business affairs of the Pool. The Pool has four employees and annual operating expenses of approximately \$1.8 million.