Office of the County Performance Auditor

Snohomish County
Washington

Performance Audit of the County's Risk Management Activities

December 2017

SJOBERG EVASHENK
CONSULTING, INC

455 Capitol Mall • Suite 700 • Sacramento, California • 95814 • Tel 916.443.1300 • www.secteam.com

Table of Contents

REPORT HIGHLIGHTS

SJOBERG EVASHENK CONSULTING, INC

RESULTS

Snohomish County implemented many leading practices to identify and manage risks to the County; however, additional opportunities exist to enhance its risk management activities to more effectively manage risks, provide greater transparency, and improve the cash position of its Risk Insurance Fund. A more integrated approach to risk management would help the County to proactively identify emerging risks and take steps to mitigate and control identified risks.

AUDIT PURPOSE

To determine whether existing risk management protocols effectively identify and manage risks to the County.

BACKGROUND

With a budget of nearly $13 million in 2016, the Risk Management Division within the Finance Department is responsible for identifying and mitigating risks within the County. Risk Management has established four programs to mitigate risks faced by the County, including Self-Insurance, Worker's Compensation, Safety, and Claims.

Snohomish County insures the County against potential liabilities through a variety of vehicles, including self-insurance programs and fully-insured policies funded by County departments

The Snohomish County Insurance Fund cash balance significantly declined from $6.9 million in 2014 to projected $2.9 million in 2016, a decline of approximately $4 million.

KEY FINDINGS

- Risk Management implemented many sound practices. A key indicator of its success is the declining number of workers' compensation claims filed and time loss days over the past ten years.
- Risk Management can improve upon current programs in the following ways:
  - The County employs a traditional approach to managing risks and generally relies on reactive measures to insure risks and address causes. A growing trend is a more proactive approach to identify and manage risks throughout the County, known as Enterprise Risk Management.
  - Risk Management has not established formal procedure manuals for all key activities, and some existing procedures are outdated.
  - Safety Program staffing resources should be better targeted toward those areas within the County experiencing the greatest need for improvements.
  - Current practices do not ensure all contracts include approved terms and conditions or that they are monitored consistently to ensure insurance compliance.
- Several factors contribute to the County's declining Insurance Fund balance.
  - Risk Rate calculations, which determine funding for the Insurance Fund, does not include an emerging and persistent risk category: Public Records Act litigation settlements.
  - Higher than expected general liability settlement losses.
  - Risk Rate calculations do not sufficiently address the potential that catastrophic claims could deplete Insurance Fund balances, including stabilization reserves or aggregate stop loss policies.

KEY RECOMMENDATIONS

- Develop a comprehensive framework for Enterprise Risk Management that incorporates the guidelines and principles established in ISO 31000-2009, including conducting on-going countywide risk assessments and working with County departments and management to proactively identify, analyze, evaluate, and address risks.
- Include losses related to Public Records Act litigation settlements in the County's Risk Rate calculation.
- Consider establishing a catastrophic loss fund reserve and risk rate stabilization fund reserve, and a formal policy documenting the target reserve levels, conditions for use, authority, rational, and funding.
- Update Risk Management's current policies and procedures to reflect current practices and ensure established policies and procedures capture all risk management activities, such as processing property and casualty claims and conducting safety reviews and audits.

Glossary of Terms and Abbreviations

Catastrophic Loss Reserve - Reserves established to pay for losses that are neither known nor "incurred but not reported" (IBNR) losses.

County – Snohomish County

Departments – Collectively refers to all Snohomish County departments, offices, and courts.

Enterprise Risk Management (ERM) – The process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an its assets.

Full-time Equivalent (FTE) – Unit or equivalent of employees working full-time, or approximately 2,080 hours per year.

Incurred but Not Report (IBNR) Loss Reserves – Reserves that are established for claims and/or events that have transpired, but have not yet been reported to an insurance company.

International Guidance Standard: Risk management – Principles and guidelines (ISO 31000-2009) – The International Organization for Standardization is a worldwide federation of national standards bodies that develops standards that are internationally recognized as leading practices. ISO 31000-2009 is a compilation of leading risk management practices.

Occupational Safety and Health Administration (OSHA) – Federal legislation regulating workplace condition and promoting a safe and healthy work environment.

Premium – The amount charged by insurance companies for providing insurance coverage.

Risk Rate – The base dollar amount charged annually to County departments to fund the Snohomish County Insurance Fund.

Self-Insurance – Insurance in which the sponsor (e.g., Snohomish County) bears the financial risk to the extent that insurance policies do not cover all claims and administrative costs. A system where a sponsor sets aside an amount of its monies to provide for losses that occur.

Self-Insured Retention (SIR) – A dollar amount specified in a liability insurance policy that must be paid by the insured before the insurance policy will respond to a loss.

Service, Technology, Excellence Program (STEP) – A county-wide effort to incorporate Lean principles into county processes and improve the efficiency of operations.

Snohomish County Insurance Fund (Insurance Fund) – County internal service fund used to fund risk management activities.

Stabilization Reserve – As recommended in this report, a stabilization reserve is an amount of monies collected in excess of the funding anticipated to be needed to pay out all claims in a given year and set-aside to pay claims that exceed the total risk rate charges paid by County departments.

Stop Loss Insurance – An insurance policy purchased by a plan sponsor requiring an insurer to pay claim costs that exceed a specified "attachment point," or dollar threshold. *Occurrence* stop loss insurance requires the insurer to pay expenses for an individual claim covered by the policy, once the claim exceeds a specified dollar threshold in one year. *Aggregate* stop loss insurance requires insurers to pay all claims once the total claims covered by the policy exceed a specified dollar threshold in one year.

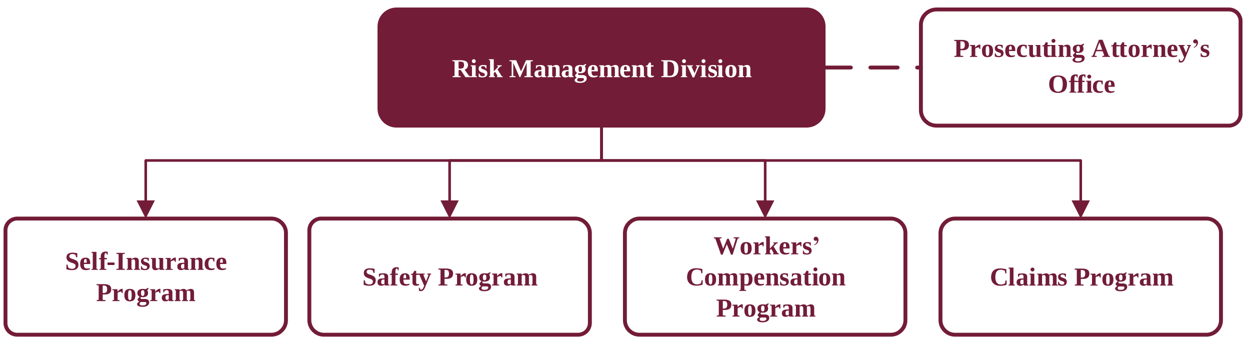
Third-Party Administrator – A private company that administers the Worker's Compensation program and processes related claims on behalf of the plan sponsor. Eberle Vivian is the third-party administrator for the County's Worker's Compensation program.

Washington Industrial Safety and Health Act of 1973 (WISHA) –State legislation regulating workplace condition and promoting a safe and healthy work environment.

A. Introduction and Background

Snohomish County (County) is exposed to variety of risks, such as injuries to employees and the general public, natural disasters, and theft of or damage to County assets, each of which have resulted in losses and pose future liabilities. The County's Risk Management Division (Risk Management), housed within the Finance Department, is responsible for identifying and mitigating these risks, and for administering the County's Self-Insurance, Safety, Workers' Compensation, and Claims programs, as shown in Exhibit 1. In doing so, Risk Management works with the Civil Division of the Prosecuting Attorney's Office (Tort, Labor, and Public Disclosure), which provides legal and defense counsel to Risk Management. The Prosecuting Attorney's Office also provides counsel to Risk Management and other County departments, offices, and courts (herein collectively referred to as "departments") regarding matters related to risk management.

EXHIBIT 1. RISK MANAGEMENT ORGANIZATION CHART (DURING AUDIT PERIOD)



Source: Organizational information provided by Risk Management

Risk Management's **Self-Insurance Program** insures the County against potential liabilities through a variety of vehicles. To insure against General Liability and Workers' Compensation claims, the County has established a self-insurance fund, funded through the annual budget process where all departments pay a base rate plus an experience rate, to pay claimants for liabilities incurred. In this manner, the County has retained much of the risk associated with such claims, but also creates the potential for cost savings by eliminating premium costs that ultimately fund insurance companies' overhead expenses and profits. To mitigate the risk of significant losses, Risk Management purchases "excess of loss" insurance policies for both General Liability and Workers' Compensation liabilities, which are designed to cover claims that exceed defined self-insured retention (SIR) thresholds. To insure against potential losses associated with specific types of risk (such as Aircraft and Airport, Marine, Medical Malpractice, and Cyber liability), the County purchases insurance policies and pays associated premiums. The Risk Management Program includes procuring and managing additional insurance coverage; establishing SIR amounts; conducting liability assessments; and developing and implementing loss control and prevention activities.

Risk Management is charged with helping to ensure the County provides a safe environment for its employees and the members of the public visiting County facilities, including ensuring compliance with safety and health requirements established by the Occupational Safety and Health Act (OSHA) and the Washington Industrial Safety and Health Act (WISHA). The **Safety Program** is responsible for monitoring County employee work activities and tasks for safety and health; assisting Snohomish County departments in developing and implementing safety controls and best practices to minimize on the job accidents and injuries and occupational disease; and helping departments maintain safe premises for the public.

The County is responsible for providing all workers' compensation benefits required by law. To administer the **Worker's Compensation Program**, Risk Management contracts with a third-party administrator (TPA), to provide claims management services for annual fixed fees—in 2016 the fixed fee was $177,000. Within Risk Management, a full-time Risk Specialist is responsible for coordinating the Workers' Compensation Program, which includes overseeing the TPA, routing workers' compensation claims, working with user departments to identify light and modified duty opportunities for eligible injured County employees, and working with user departments and contracted service providers to develop and conduct job analyses and physical ability tests and perform drug and alcohol testing.

Pursuant to the Revised Code of Washington and Snohomish County Code, Risk Management is responsible for managing the **Claims Program**, which includes monitoring, analyzing, and adjusting property and casualty claims, conducting liability assessments, and developing and implementing loss control and prevention activities.

In addition, Risk Management is also responsible for coordinating Public Records responses for the Finance Department (not including Purchasing), establishing and reviewing contract insurance requirements, negotiating indemnification provisions, and funding the County's unemployment benefits.

The Snohomish County Insurance Fund, a County internal service fund, must maintain a sufficient balance to pay premiums associated with its fully-insured and excess loss policies, to fund its self-insurance liability program, and to fund risk management administrative activities. Risk Management funds 18 Prosecuting Attorney's Office full-time equivalent positions (FTEs), 7.85 Finance Department FTEs (Risk Management), and external consultants and actuaries. In 2016, the County Council allocated nearly $13 million to the Snohomish County Insurance Fund.

B. Scope and Methodology

On February 22, 2017, the Snohomish County Council passed Motion No. 17-053 directing Council staff to issue a notice to proceed to the Office of the County Performance Auditor to complete a performance audit of the County's Risk Management activities (Audit Topic A.9 in the *2017 Audit Plan*, Motion No. 17-033). The scope of this audit included an evaluation of existing practices, including a review of activities during the three calendar years 2014 through 2016, with an objective to determine whether existing risk management protocols effectively identify and manage risks to the County. To meet this objective, the Sjoberg Evashenk Consulting audit team performed the following procedures:

- B.1 Interviewed County employees involved in risk management activities, including the County Risk Manager and Risk Management staff, the Finance Director, and Prosecuting Attorney's Office personnel to determine the approach used to identify, manage, and mitigate risks to the County.
- B.2 Reviewed pertinent laws, regulations, ordinances, and policies and procedures related to risk management to identify core responsibilities and functions of the Risk Management Division.
- B.3 Assessed practices in place to identify and mitigate litigation risks, risks related to third-party contractors, loss or misuse of County funds or assets, workers' compensation, and/or the potential for fraud, waste and/or abuse.
- B.4 Analyzed trends in claims filed and related losses to the County for fiscal years 2014 through 2016.
- B.5 Conducted benchmarking of peer risk management agencies to identify leading risk management practices. This included the following local governments: King County, Pierce County, Spokane County, City of Seattle, and City of Tacoma.
- B.6 Examined the County's risk management activities to determine if the County had established an Enterprise Risk Management system and whether the principles, framework, and processes identified in the International Guidance Standard: Risk management – Principles and guidelines (ISO 31000-2009) were employed by the County.

Audit fieldwork was performed between April 5, 2017 and August 31, 2017. On November 6, 2017 the Office of the County Performance Auditor provided Risk Management with a draft of this report and, on November 13, 2017, discussed the report findings and recommendations in an exit conference with representatives of Risk Management and the Finance Department. Responses and input provided by Risk Management were considered and incorporated where applicable in the final report. Risk Management was in agreement with the conclusions and recommendations of this report. Risk Management's formal response to the recommendations contained in this report is included in Appendix B.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

C. Risk Management Programs

The County implemented many sound practices to identify and manage known risks and mitigate potential or actual liabilities. This includes procuring a variety of insurance policies in-line with peers, monitoring and controlling health and safety risks, and proactively monitoring workers' compensation claims to identify opportunities for employees to return to work, areas where practices can be improved to reduce the number of injury and illness claims, and gaps in safety training. In this section, we describe each, in the context of Risk Management's four programs, in greater detail.

C.1. Self-Insurance Program

Risk Management's Self-Insurance Program is responsible for securing and administering a variety of insurance policies, establishing self-insured retention amounts and maintaining sufficient self-insurance fund balances, the audit found that the types of insurance policies and amounts of excess general liability coverage acquired by the County are generally in-line with peers, as shown in Exhibit 2.

EXHIBIT 2. PEER[6] COMPARISON OF TYPES OF INSURANCE COVERAGE

Types of Coverage	Snohomish County	King County	City of Seattle	Spokane County	City of Tacoma
Population	**787,620**	**2,149,970**	**704,352**	**449,072**	**211,277**
General Liability					
Self-Insured Retention (2015-2016)	$2 million	$6.5 million	$6.5 million	n/a[2]	$3 million
Excess of Loss Coverage (max)	$50 million	$92.5 million	$85 million	n/a[2]	$20 million
Occurrence Stop Loss	✓	✓	✓	n/a[2]	✓
Aggregate Stop Loss		✓	✓	n/a[2]	✓
Workers' Compensation					
Self-Funded	✓	✓	✓	✓	
Excess of Loss	✓	✓	✓	✓	
Specific, Fully-Insured Policies					
Airport/Aviation	✓	✓	✓	✓	
Auto[3]	✓				
Crime	✓	✓	✓	✓	✓
Cyber	✓[1]	✓			✓
Flood		✓			✓
Marine	✓	✓	✓		✓
Medical Malpractice[4]	✓				

Types of Coverage	Snohomish County	King County	City of Seattle	Spokane County	City of Tacoma
Pollution	✓	✓	✓	✓	✓
Property	✓	✓	✓		✓
Transit			✓		
Other[5]	✓	✓	✓	✓	✓

Source: Auditor generated from benchmarking outreach and the United States Census Population estimates as of July 1, 2016.

Note: [1]Snohomish County is purchasing a cyber policy in 2017.

[2]Spokane County is part of the Washington Counties Risk Pool.

[3]Snohomish County Auto insurance is for specific vehicles including the Homeland Security vehicle(s) and Chemical, Biological, Radiological, Nuclear, and Explosive vehicle(s).

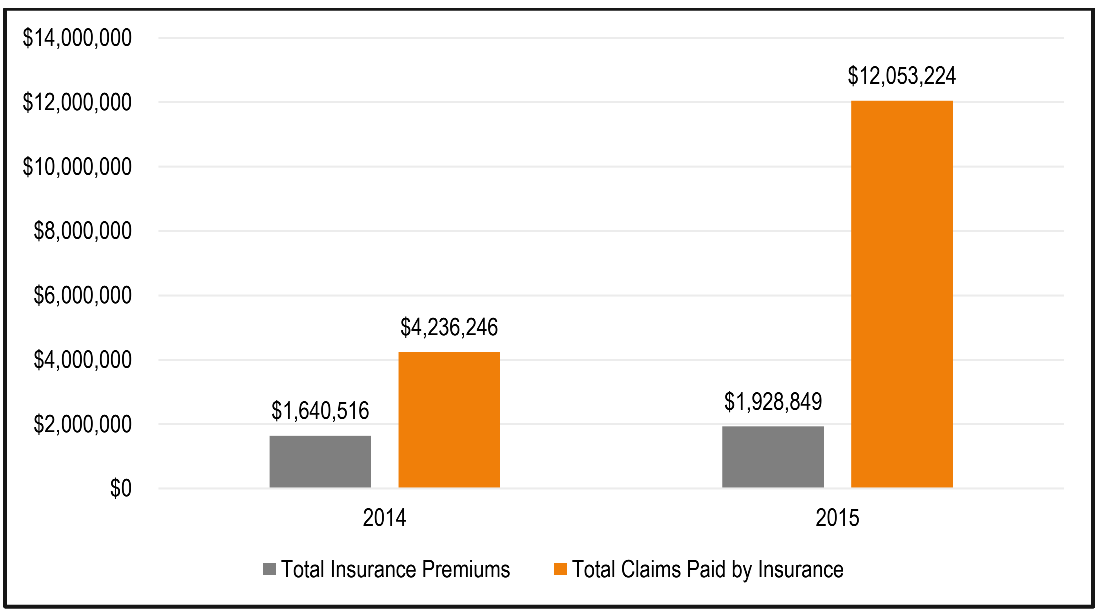
[4]Snohomish County Medical Malpractice Coverage is specific to the County Jail attending physician and the County's designated health professionals in Human Services.

[5]Other insurance includes a variety of types of insurance, such as special events and tenant user liability insurance program.

[6]Pierce County did not provide insurance policy information.

As illustrated in Exhibit 3, Risk Management's approach to insuring risk has been cost-effective over the scope of this audit. For two of the three years reviewed, 2014 and 2015, the amount paid by the County's insurance policies for claims significantly exceeded the amount paid by the County in insurance premiums. In 2015, the County spent approximately $1.9 million on insurance premiums; whereas, total claims paid by insurers was nearly $12.1 million. At the time of the audit there had not been any settlements related to claims filed for losses that occurred in 2016. According to Risk Management, claims generally take two to three years to be settled and amounts reflected for claims paid are subject change.

EXHIBIT 3. COMPARISON OF INSURANCE POLICY PREMIUMS TO CLAIMS PAID BY INSURANCE[1]



Source: Auditor Generated from Risk Management Policy report and claim costs provided by Risk Management.

Note: [1]According to the Prosecuting Attorney's Office and Risk Management, it typically takes two to three years for a claim to be settled. As a result, amounts shown in the amount paid column are subject to change.

Further, the County's Insurance Fund has funds designated to help County departments address known risks. These funds can be used to purchase goods or services, such as equipment or special training, to mitigate risk, some of which have already been used to address known risks where a large loss has been incurred. For instance, the County experienced several large losses due to deaths in the County jail; after these losses occurred, Risk Management worked with the Sheriff's Office to identify the problem and implemented actions to help reduce the risk of similar instances occurring in the future, by contributing funds to purchase and install metal screening devices at the County jail entrance and full body scanners in the booking area. Risk Management also conducts trend analyses to identify known risk areas with high dollar value or frequent losses and works with County departments to implement corrective actions, such as training or process improvements, to mitigate the risk of future occurrences.

C.2. Safety Program

Risk Management implemented many effective practices designed to reduce the risk and impact of on-the-job injury and disease, including hosting safety training and new hire training sessions, working with departments, offices, and courts to develop or revise safety plans and procedures, and conducting safety inspections and audits. In addition, Risk Management established a robust outreach program designed to promote health and safety in the workplace. This includes creating an intranet site with numerous safety resources, including County-wide safety and emergency policies and procedures, safety directives and bulletins, safety forms, safety training materials, and other safety tools, as well as issuing quarterly newsletters and bulletins detailing safety issues and methods of reducing or mitigating workplace hazards. On an annual basis, Risk Management issues a Safety Program Report detailing the activities conducted, such as the number of safety training sessions conducted, and performance indicators, such as the number of Workers' Compensation safety and illness claims filed over the past ten years.

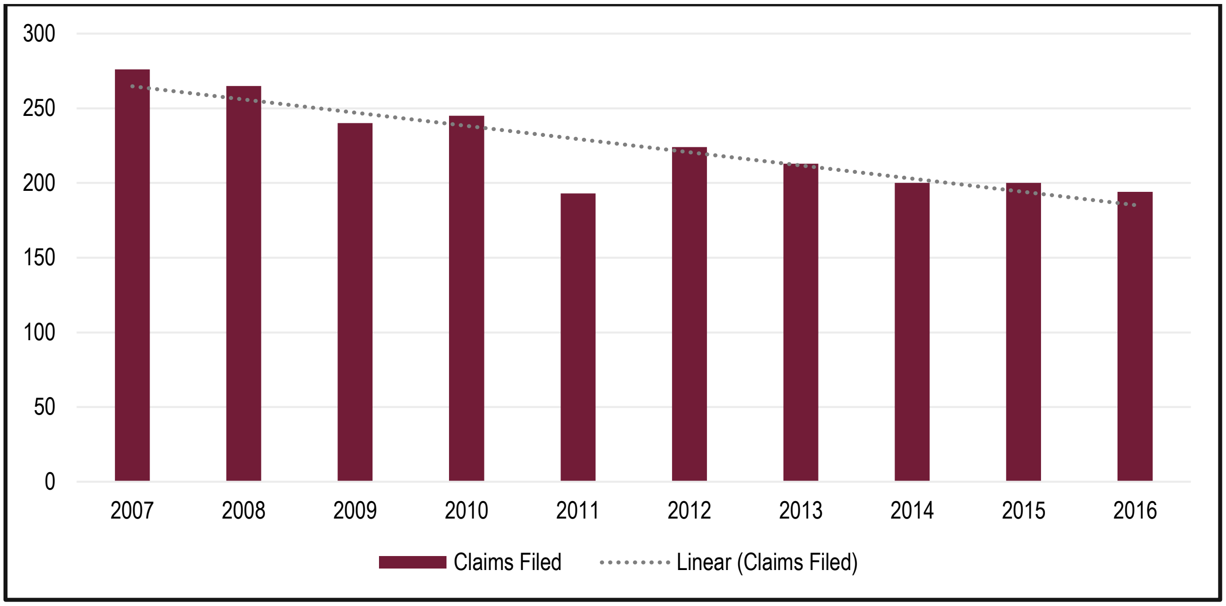
2016 ACTIVITY HIGHLIGHTS

- 194 Safety Training Sessions
- 24 New Hire Safety Orientations
- 80 Work Station Ergonomic Reviews
- Numerous Safety Inspections and Audits
- 3 Safety Directives
- Multiple Safety Plan Reviews

Over the past ten years, from 2007 to 2016, there has been a downward trend in the number of Workers' Compensation injury and illness claims, as shown in

Exhibit 4. The Safety Program's efforts to improve safety awareness, monitor compliance with WISHA and OSHA requirements, and on-going assessments of trends in claims filed have likely had a positive impact on the number of Workers' Compensation injury and illness claims filed.

EXHIBIT 4: WORKERS' COMPENSATION INJURY/ILLNESS CLAIMS



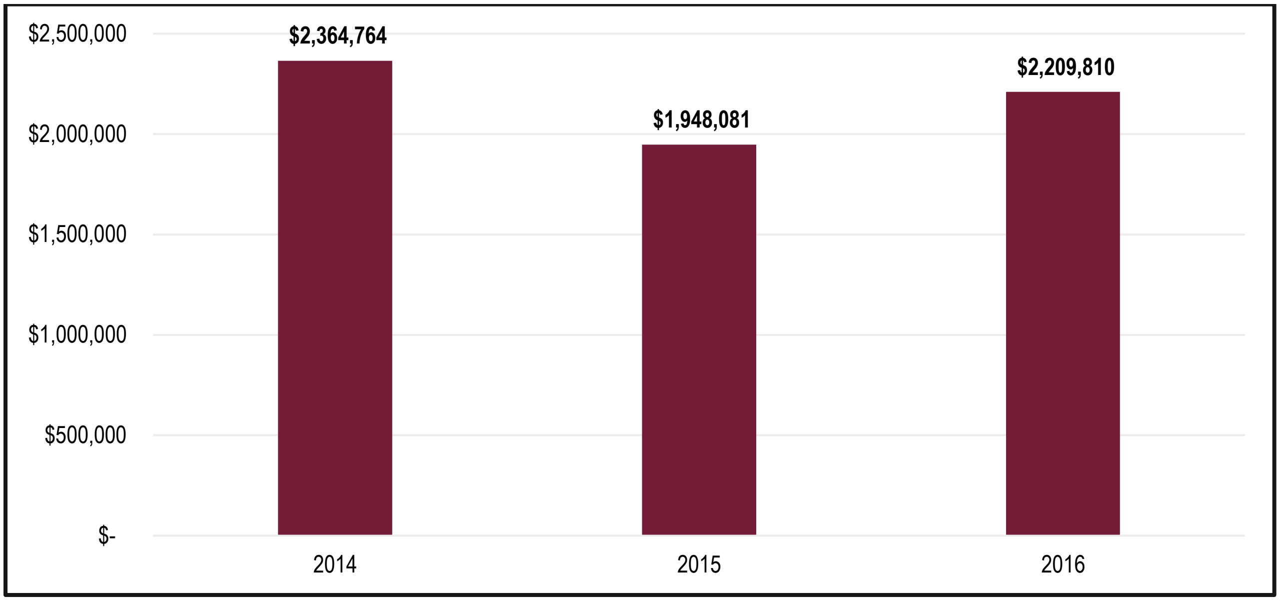
Source: Risk Management Safety Program Review 2016 Report

C.3. Workers' Compensation Program

When workplace injuries or illnesses do occur, Risk Management has established sound business practices to minimize claim losses and time loss. While the County contracts with a third-party administrator to provide Workers' Compensation claims management services, Risk Management's Workers' Compensation Program proactively monitors the status of open claims and has implemented many commonly-employed practices to reduce the County's exposure to workers' compensation losses. The program includes identifying temporary light to modified duty work opportunities for injured employees and working with departments to identify positions where job analyses should be conducted and physical ability tests should be developed, and works closely with the Safety Program to identify trends in claims filed to identify gaps in safety training and safety controls. As shown earlier in

Exhibit 4, the number of Workers' Compensation injury and illness claims filed has declined over the past ten years. In more recent years, from 2014 to 2016, total Workers' Compensation claim costs and the total number of claims filed have remained relatively steady. Specifically, over the three-year audit period, annual claim costs slightly declined from $2.36 million in 2014 to roughly $2.21 million in 2016, as reflected in Exhibit 5. Similarly, the number of claims filed remained relatively constant increasing slightly from 206 claims in 2014 to 208 claims filed in 2016.

EXHIBIT 5. WORKERS' COMPENSATION CLAIMS COSTS BY YEAR



Source: Snohomish County Financial System Fund 506 General Ledger Reports for 2014, 2015, and 2016

To help reduce the cost of claims, number of claims filed, and impact on County employees, Risk Management implemented several proactive programs and practices. Below is an overview of the programs and practices in place at the time of the audit.

Return to Work Program

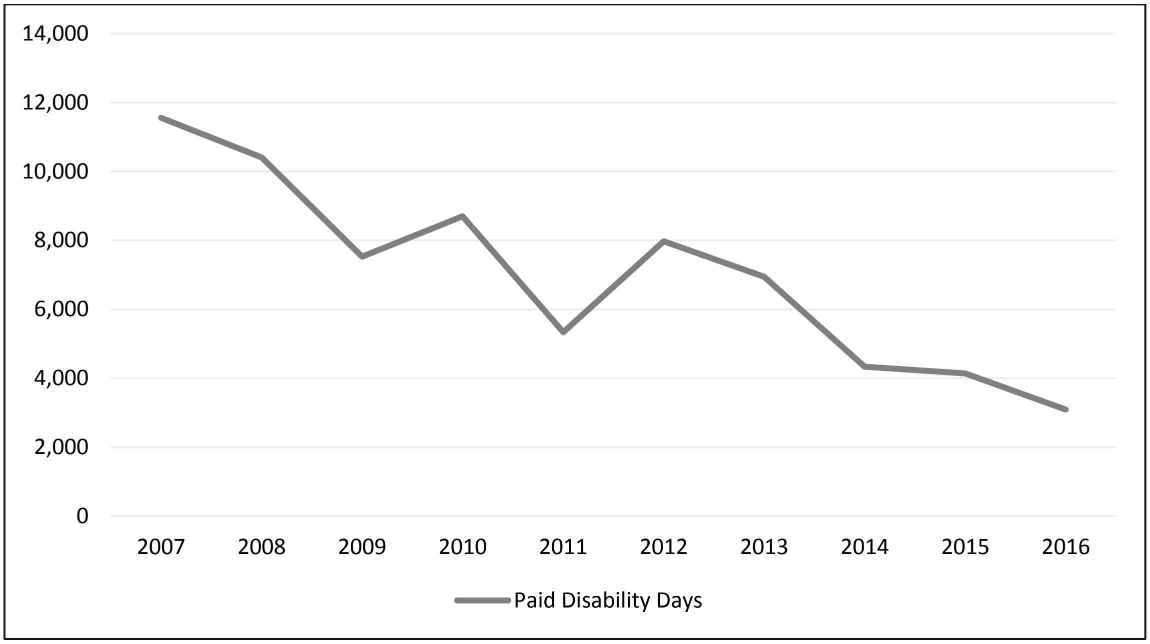
Since before 2005, Risk Management implemented a return to work program to identify temporary light to moderate duty work assignments for County employees recovering from a workplace injury that prevents them from returning to their regular position or performing their prior assignments. As part of the program, Risk Management works with the attending physician to identify physical and mental work restrictions and capabilities. While employees are not required to accept a light duty offer, declining the offer may render the employee ineligible for time-loss benefits.[1] Return to work programs provide many benefits, both for employees and the employer. Light duty assignments help employees retain full earning capacity, provide a sense of security and stability, and can help the employee stay on a regular work schedule. From the employer's perspective, return to work programs help reduce the financial impact of workplace injuries, increases the likelihood of retaining employees after treatment and recovery, and provide a proactive approach to managing claims.

As a result, the average time loss amount paid for closed claims substantially decreased from 2014 to 2016, declining from $16,486 to $9,906, a decrease of $6,580 or 40 percent. Further, over the past ten years the number of Workers' Compensation paid disability days has significantly declined from 11,557 days in 2007 to 3,092 days in 2016, a decrease of 8,465 days or 73 percent, as shown in Exhibit 6.

---

[1] RCW 51.32.096(2)(c)

EXHIBIT 6: WORKERS' COMPENSATION PAID DISABILITY DAYS



Source: Risk Management Safety Program Review 2016 Report

Job Analysis and Physical Ability Tests

Risk Management works with departments and a consultant to conduct job analyses for County positions identified as high-risk for work-related injuries. These job analyses identify the physical requirements for a position and are used to develop physical ability tests. Most of the job analyses were for positions within the Sheriff's Office, both Law Enforcement and Corrections, and the Department of Public Works, mainly Solid Waste and Road Maintenance—the two departments with the highest amount paid for workers' compensation claims filed each year, as shown in Exhibit 7.

EXHIBIT 7. WORKERS' COMPENSATION CLAIMS, TOTAL AMOUNTS PAID BY YEAR FILED[1]

Department	2014	2015	2016	% Change 2014 to 2016
Department of Public Works - Solid Waste	$313,077.32	$226,166.93	$131,935.43	-58%
Department of Public Works - Roads	$240,595.77	$117,608.45	$193,881.00	-19%
Department of Public Works – All Other	$ 67,212.69	$ 8,193.30	$ 34,924.40	-48%
Sheriff's Office – Law Enforcement	$507,883.08	$129,271.68	$178,001.14	-65%
Sheriff's Office – Corrections	$149,234.32	$380,592.82	$129,175.99	-13%
All Other County Departments	$235,597.31	$309,643.12	$260,972.50	11%
Total	**$1,513,600.49**	**$1,171,476.30**	**$928,890.46**	**-39%**

Source: Eberle Vivian System-Generated Report of Workers' Compensation Claims Filed

[1]Amounts shown reflect total amount paid as of April 6, 2017. Amounts are subject to change.

C.4. Claims Program

Per RCW 4.96.020, all claims against the County must be filed with a claim for damages form and delivered to the designated County representative. All tort claims filed against the County are filed with Risk Management and are handled in accordance with RCW 4.96.020 and Snohomish County Code 2.90.050. According to Risk Management, it handles approximately 240 claims per year and the Prosecuting attorney defends approximately 50 lawsuits per year. Specifically, per County Code, the Risk Manager has settlement authority up to $35,000[2]. Lawsuits are defended by the Prosecuting Attorney's Office – Civil Division. Claims and lawsuits above $35,000 to $100,000, must be authorized by the County Executive, and settlements above $100,000 require Council authorization. In 2016, Risk Management implemented a risk management information system software program, Origami, to track, monitor, and measure claims filed against the County and regularly meets with the Prosecuting Attorney's Office to discuss current and potential lawsuits against the County. This has allowed the County to better track claims and will provide necessary information to conduct analysis, identify trends, and better project future losses. The implementation of Origami will allow for centralized claims management and improve the reliability of claim information used for actuarial estimates, as discuss is Section E of this report.

Based on our review of these practices, we find that Risk Management has implemented many effective practices to oversee and manage its responsibilities, and to mitigate potential losses to the County. At the same time, the audit also identified several opportunities to further enhance and build upon Risk Management's existing efforts to better identify and manage future risks. These opportunities are discussed in detail in Sections D and E of this report.

[2] Prior to 2017, the Risk Manager had settlement authority up to $15,000.

D. Best Practices and Opportunities for Improvement

While the effect of Risk Management's activities has been the measurable decline in amounts paid in workers' compensation claims, time lost to workplace injury and illness, and the number of claims filed, opportunities for improvement remain. This audit identified several areas where Risk Management can improve upon or expand its efforts to better position the County to proactively identify risks and mitigate known risks. This includes establishing an enterprise risk management framework, establishing and documenting the County's risk appetite and risk tolerance, and documenting the rationale behind insurance purchases and self-insured retention rates. The audit also identified several opportunities to further enhance practices and more proactively manage County-wide risk, including better aligning Safety Program resources with areas of risk; ensuring key practices and functions are documented in formal, written policies and procedures; and enhancing procurement and contract management practices to ensure practices and tools are consistently applied across the County.

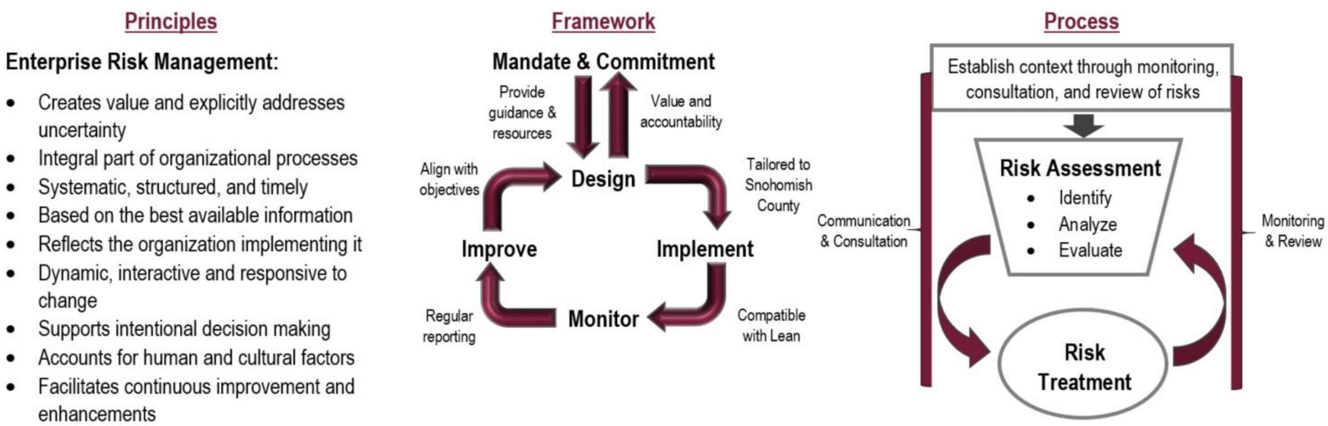
D.1. Enterprise Risk Management

Approaches to reduce the occurrence or impact of incidents that pose the risk for loss can generally be categorized as reactive or proactive. A reactive approach entails using historical losses and experiences to identify known risks and develop corrective action plans to mitigate or prevent similar future losses, and/or transferring the risk to an insurer, which assumes some or all of the associated risk. As described in Section C of this report, Risk Management's traditional approach has been primarily reactive, both with respect to managing claims and insurance programs and to mitigating or preventing future claims. However, a growing trend in Risk Management is to emphasize proactive approaches (Enterprise Risk Management), including identifying the universe of potential risks and strategically assessing risk to identify the cause, impact, and best approach to manage and control the risk.

While Risk Management's current approach has been successful at addressing known risks after a loss has occurred, the County's current approach to managing risks can be improved by expanding the identification of unknown risks or known risks where losses have not yet occurred, at all levels of County government. Unidentified risks may have a significant negative impact on the County. To illustrate, as described in Section C, Risk Management is authorized to use available funding to address known risks by purchasing goods or services, such as equipment or special training, to mitigate known risks where significant losses have been incurred to help reduce the risk of similar instances occurring in the future. Current practices generally rely on departments to reach out to Risk Management to address risks, but the County has not established an integrated approach to proactively manage and control risks throughout the County. A leading practice is to establish an integrated systematic approach to managing risk is known as Enterprise Risk Management (ERM).

Enterprise Risk Management provides a framework focused on identifying, analyzing, evaluating, and addressing risks in a deliberative manner consistent with the County's risk appetite or tolerance. More specifically, an ERM approach requires the County to establish a formal process to identify potential risks—in every office, department, or court, and in every programs or function of local government—to assess the potential impact of those risks, and to determine specific courses of action to manage and control identified risks or to acknowledge the level of risk as tolerable for the time being. The ERM framework would include training, at all operational levels, on the elements of the risk management process. According to the International Organization for Standards (ISO) 31000 Risk Management – Principles and Guidelines, the success of risk management depends upon the effectiveness of the management framework and how well the risk management foundations and principles are embedded throughout an entire organization. This requires strong and sustained commitment from the County's management as well as ensuring there is accountability and authority to manage risks. The three core components of an ERM system and their relationship are illustrated Exhibit 8.

EXHIBIT 8. CORE COMPONENTS OF ERM



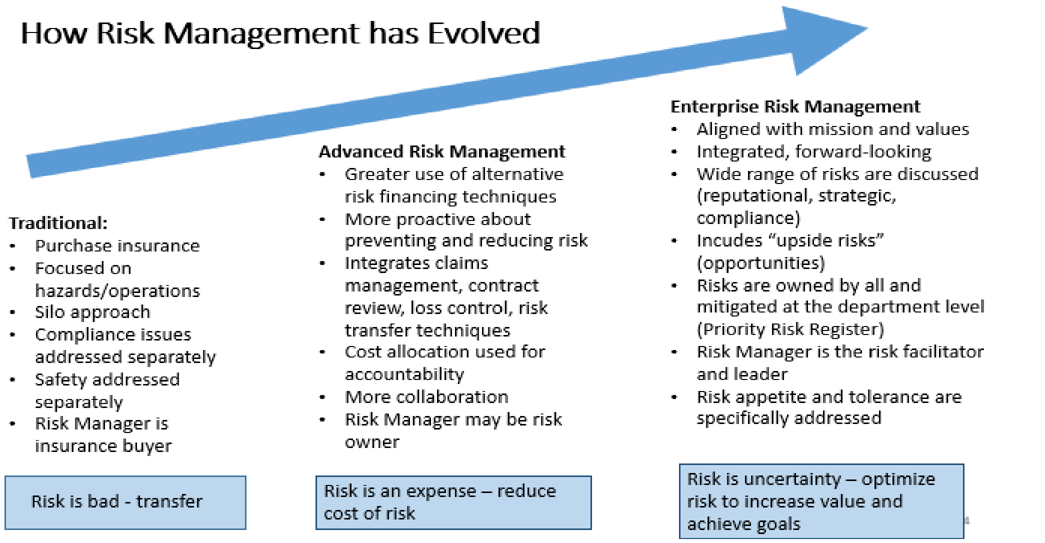
Source: ISO 31000 Risk management – Principles and guidelines

While the County has implemented some components of an effective ERM framework, including establishing a Risk Management Policy, the County has not established or implemented many of the key elements identified by ISO 31000, such as:

- Implementing an enterprise-wide strategic effort to manage risk that includes identifying risk;
- Assessing the impact(s) of identified risks, and how those impacts affect the County's overall goals and strategic plans;
- How the County is going to treat or manage identified risk; and
- How the County is going to formally define its risk appetite, or the degree of uncertainty it is willing to take in anticipation of reward (such as meeting County goals and objectives), or risk tolerance, meaning the volume of risk the County can withstand.

Our benchmarking research of other jurisdictions, such as King County, revealed that local governments are indeed shifting to a more holistic ERM approach to managing risk. King County, for instance, has begun a formal process of proactively identifying risks, using an Enterprise Risk Register. The Risk Register documents known risks from both internal and external sources, determines the likelihood of the risk occurring, assesses the overall impact of the risk, and next steps for addressing identified risks. With limited resources, the County uses this information to identify risks with the highest priority, or impact, to the County and develops a strategic approach to manage and control the risks, helping to reduce the County's risk exposure and mitigating the potential negative impact on the County. In Exhibit 9 we provide King County's illustration depicting the evolution of Risk Management from a traditional model to an ERM model.

EXHIBIT 9. EVOLUTION OF RISK MANAGEMENT



Source: King County ERM documentation.

Other local government agencies, such as the City of Seattle, Spokane County, and City of Tacoma reported that while they have not implemented city or county-wide ERM models, they have either implemented elements of an ERM system or certain departments use ERM.

Further, implementing an ERM framework would complement the County's Service, Technology, Excellence Program (STEP).[3] The STEP initiative was launched in January 2016 with the intent of improving processes to enhance both the customer experience and employee morale. As part of the process, County employees work together to identify problems (or risks) and potential solutions, including opportunities to streamline processes, such as the permitting process. Similar to STEM, ERM needs to be initiated and advanced at the executive level. ERM will help the County to determine the appropriate level of risk and help the County avoid negative operational or financial surprises, allowing management to better manage operations and address cross-departmental risks. In fact, the use of ERM could help the County address several of the risks identified during this audit, such as on-going monitoring of compliance with contract insurance requirements and risks associated with Public Records Act requests.

D.2. Rationale for Insurance Policy Purchases and Risk Appetite

The County has not formally established its risk tolerance levels or guidance for determining the necessary level of insurance and self-insurance retention. There is a financial benefit to retaining risk (self-insurance); that is, by insuring one's own risk rather than paying an insurer to assume the risk, the County can save on insurance premium costs. However, in doing so, there needs to be a deliberative approach involving Risk

[3] STEP is a county-wide effort to incorporate Lean principles into county processes.

Management professionals and County leadership to determine how much risk is appropriate and not too much risk to retain.

As part of the process to determine the amounts and types of insurance to purchase, Risk Management meets with the Risk Management Committee, its insurance broker, and its contracted actuary. Two of the core responsibilities of the Risk Management Committee is to recommend changes or modifications to coverage limits and approve recommendations for loss reduction strategies. Although Risk Management indicated that it met with the Risk Management Committee to determine the types and level of coverage needed, the rationale for the level and types of coverage needed by the County and the self-insured retention amount was not documented.

While the level and types of insurance coverage maintained by the County were generally in-line with peers and approved by the Risk Management Committee, without documentation of the rationale and deliberations that led to risk management decisions, the audit cannot to determine whether the current insurance levels are in-line with the County's risk appetite. The County currently relies on the expertise and institutional knowledge of the Risk Manager. In the event that there was an unexpected turnover or loss of staff, this institutional knowledge would be lost. More importantly, responsible officials may not have sufficient information necessary to assess recommendations and determine if purchases are in-line with the County's risk threshold. Risk Management should work with the Executive Office and Risk Management Committee to determine and document the County's risk tolerance and on a go-forward basis document the deliberations and rationale behind insurance purchases.

D.3. Policies and Procedures

In some cases, according to Risk Management, the division has not established formal, written procedural manuals for many key activities—such as those related to the Claims Handling Program and Workers' Compensation Program—and in other cases existing procedural manuals had not been updated to reflect current practices. While Risk Management employed many leading practices, it often relies on institutional knowledge of experience staff. Formal procedural manuals reduce the risk of discontinuity of operations in the event of staff turnover and are one mechanism that can be used to help ensure consistent practices and controls are employed. While many of Risk Management's activities are guided by County Code and the Revised Code of Washington, Risk Management should document the procedures it has developed to implement statutory requirements. Risk Management should update existing procedural manuals to reflect current operations and develop procedures for activities not currently documented.

D.4. Safety Program Resources

Risk Management should consider realigning Safety Program resources to better reflect safety risks throughout the County. There are currently three Safety Program staff—the County Safety Officer and two Senior Safety Specialist—in Risk Management. One Safety Specialist is solely dedicated to overseeing the Solid Waste division within the Department of Public Works and the other is responsible for all other County departments, offices, and courts. From 2014 to 2016, two departments, the Sheriff's Office and Department of Public Works, consistently accounted for two-thirds or more of the claims filed as shown in Exhibit 10. According to Risk Management, the County had historically incurred large losses related to the Solid Waste division and assigned one dedicated Safety Specialist to improve safety within the division and reduces losses. In 2016, only 25 of the 208 total Workers' Compensation claims, or 12 percent, were for Solid Waste; yet, one of the Safety Specialist positions was solely dedicated to this division. Given Solid Waste currently only represents a small portion of the total claims filed and other Department of Public Works divisions also have a high number of claims filed each year, such as the Roads Division, Risk Management should re-allocate workload between the two Safety Specialist positions to more effectively utilize resources. In addition, based on historical trends, the Sheriff's Office has worked closely with Risk Management in implementing internal safety processes and several national safety programs.

EXHIBIT 10. WORKERS' COMPENSATION CLAIMS FILED EACH YEAR

Department	2014	2015	2016	% Change 2014 to 2016
Sheriff's Office	86	85	76	-12%
Law Enforcement	53	48	50	-6%
Corrections	33	37	26	-21%
Department of Public Works	65	70	68	5%
Roads	24	33	28	17%
Solid Waste	21	24	25	19%
All Other Public Works	20	13	15	-25%
All Other County Departments	55	47	64	16%
Total	**206**	**202**	**208**	**1%**

Source: Eberle Vivian System-Generated Report of Workers' Compensation Claims Filed

D.5. On-going Monitoring of Contractor Compliance with Insurance Requirements

The County does not have a consistent process or system in place to monitor or track contractors' continued compliance with insurance requirements. While Risk Management is responsible for verifying that contractors have required insurance prior to the issuance of a contract, the contract manager at the user department is responsible for ensuring the contractor maintains the required insurance throughout the contract term. There is no dedicated individual or group providing assurance that contractors continue to comply with insurance requirements. According to Risk Management, if a contractor's insurance expires before the contract end date, the contract manager at the user department is responsible for monitoring the insurance requirement and following up with the contractor to verify the insurance was renewed and included required insurance provisions.

Further, Risk Management has not established formal, written policies for contract managers. According to Risk Management it works with departments on an ad hoc basis to ensure contract managers have established processes to actively monitor compliance with insurance requirements. Establishing a standard process or system to track contractor compliance with insurance requirements, would reduce the of a contractor's insurance lapsing or expiring before the end of the contract term—potentially leaving the

County liable for any losses incurred. Risk Management should work with County departments to ensure contract managers have a process in place to actively monitor and track contractor compliance with insurance requirements over the contract term.

D.6. Standard Contract Language

According to Risk Management, although the Division has developed boilerplate contract terms and conditions—e.g., insurance and indemnification language—for a variety on contract types, such as professional service, technical, agency, and miscellaneous services, this information is not easily accessible to County departments. The primary source to obtain this boilerplate language is the County's Purchasing intranet site; yet, the site currently only provides contract boiler plates for professional services contracts. As a result, departments currently either contact Risk Management to obtain the boilerplate language for non-professional service contracts or use other similar contract to develop new language. According to Risk Management, even though County departments may have access to the boilerplate terms and conditions, some department use non-standardized language used in prior contracts, resulting in inconsistencies throughout contracts developed by different departments.

This also results in inefficiencies in the contract review process. The County's current process includes Risk Management review of all contracts, when a contract does not utilize established standard language additional Risk Management resources must be used to ensure language included is adequate and sufficiently protects the County's interest. Further, according to Risk Management, there have been instances in the past where contracts were executed or amended without following the County's established process and, as a result, Risk Management did not review the contract language prior to the contract being executed. This increases the risk of contracts not including required language or the most recent version of standard language.

The County's current practices increases the risk of inconsistent contract language being used across County departments and could result in contract language that does not sufficiently protect the County. A leading practice is to establish a single location for standard boilerplate language to be maintained and to implement version control to help ensure the most recent standard language is used in contracts. Typically, the division responsible for purchasing or contracting activities, or the organization's legal counsel, is designated as the owner of all standard contract language. The County should designate a single division responsible for maintaining all boilerplate language. Further, on an on-going basis, Risk Management should work with the Prosecuting Attorney's Office and Purchasing to establish a process to periodically review established standard contract language to ensure it is still relevant, adequately protects the County's interest, and adheres to any changes in County policy and code as well as governing laws, rules, and regulations.

D.7. Recommendations

To enhance its risk management activities, Risk Management and the County should:

- Consider establishing an integrated systematic approach to managing risk, known as enterprise risk management.

- Work with the Executive Office and Risk Management Committee to determine and document the County's risk tolerance and on a go-forward basis document the deliberations and rationale behind insurance purchases.
- Update its current policies and procedures to reflect current practices and ensure established policies and procedures capture all risk management activities, such as processing property and casualty claims and conducting safety reviews and audits.
- Re-allocate workload between the two Senior Safety Specialists to more evenly distribute Safety Program resources.
- Work with County departments to ensure consistent practices are in place to monitor compliance with insurance requirements throughout the contract term.
- Designate a single division responsible for maintaining all boiler plate language.
- Coordinate efforts between Risk Management, the Prosecuting Attorney's Office, and Purchasing to establish a process to periodically review established standard contract language to ensure it is still relevant, adequately protects the County's interest, and adheres to any changes in County policy and code as well as governing laws, rules, and regulations.

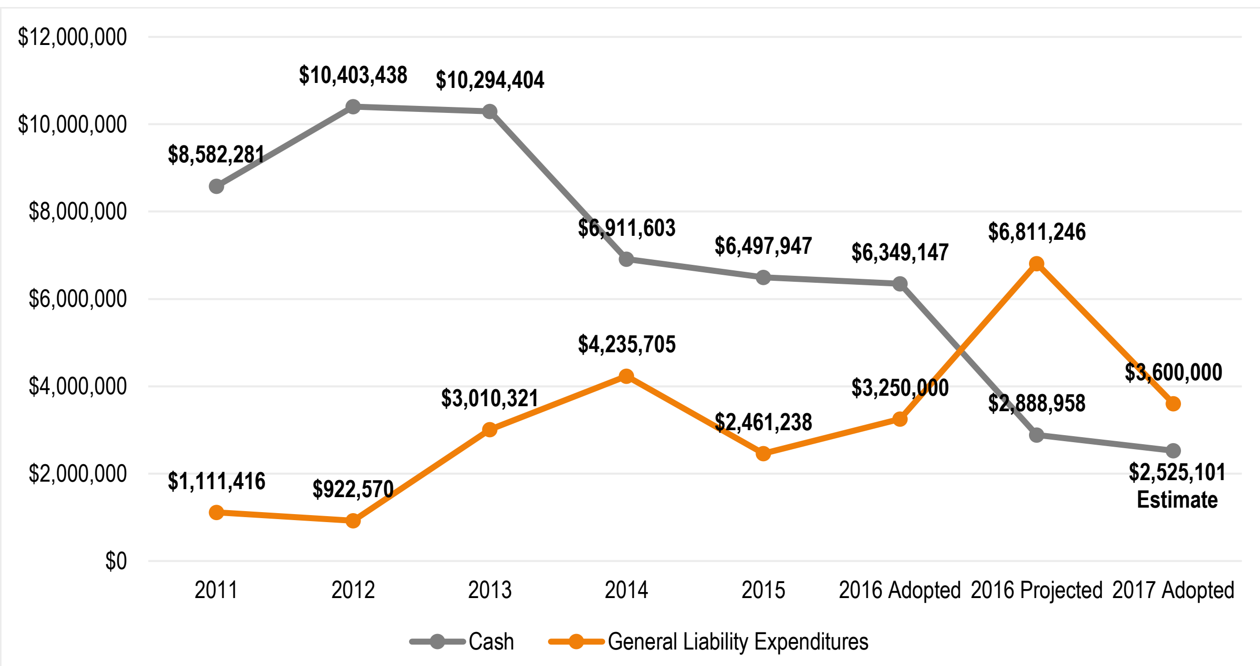
E. Risk Management Fund

As described in the Introduction to this report, Risk Management activities are funded through the Snohomish County Insurance Fund (Insurance Fund), an internal service fund. County departments are charged an annual base risk rate established in part on Risk Management historical costs including an insurance component for non-specific insurance coverages. An "experience rate" charge is added to the risk rate based on the historical liabilities incurred by each respective department and on the equitable distribution of risk throughout County departments.

In 2016, approximately 27 FTE positions in the Prosecuting Attorney's Office, Finance, Human Resource, and Legislative were funded through the Insurance Fund, as were all related risk management activities, such as insurance premiums, worker's compensation claims, property and casualty claims, general liability losses, and losses related to Public Records Act litigation.

Since 2013, the Insurance Fund cash balance has been in steady decline, from nearly $10.3 million in 2013 to an estimated $2.5 million in 2017, a decline of $7.8 million or -76 percent, as shown in Exhibit 11. According to the Department of Finance's internal analyses, a significant contributing factor for the declining cash balance is higher than expected general liability loss settlements. In 2016, approximately $3.3 million was budgeted for general liability payouts; however, actual general liability expenditures are estimated to be closer to $6.8 million, exceeding budgeted resources by more than 200 percent. During the audit period, Risk Management requested emergency spending authority increases to cover higher than expected general liability losses in all three years.

EXHIBIT 11. INSURANCE FUND CASH BALANCES AND GENERAL LIABILITY EXPENDITURES



Source: Risk Management Fund Presentation

While the County's current risk rate model is generally in-line with peers, this audit identified four areas where the County could improve its management of the Insurance Fund. First, the County currently estimates losses at a 75th percentile confidence level, providing a relatively significant level of uncertainty and higher risk that actual losses may be greater than estimated. Second, the County's actuarial analysis of estimated or projected losses, upon which the budget for the Insurance Fund is based, does not include one of the fastest growing risks of exposure faced by the County in recent years, losses related to Public Records Act litigation. These losses have significantly impacted and contribute to the declining Insurance Fund balances in recent years, and Risk Management reports no immediate reason to believe such exposures will be reduced in the immediate future. Third, Risk Management's funding model does not include reserves designed to account for the potential for catastrophic losses in any given year, for multiple serious occurrences falling within the County's SIR, or for the potential impact of annual fluctuations in fund revenues and losses, each of which creates instability in risk rate-setting calculations and charges required of the County's departments. Without adequate fund reserves, the Insurance Fund will remain at risk of being depleted, a risk that will be passed on to County departments that will incur unpredictable shifts in risk rates from year to year. With adequate fund reserves, the County can better mitigate issues related to low cash balances and also helps to stabilize rates charged to user departments. Finally, although the County purchases specific or "occurrence" stop loss insurance, which mitigates significant losses associated with specific claims, the County has not purchased aggregate stop loss insurance, which is intended to mitigate significant losses resulting from numerous larger-than-expected claims. This increases the County's exposure to risk and potential for large losses in the event that multiple general liability claims have large payouts in a given year.

E.1. Estimating Losses

The County currently contracts with a reputable actuarial firm to provide an annual estimate of the County's outstanding self-insured workers' compensation, auto, and general liability losses, which cites generally accepted actuarial principles and relevant Actuarial Standards and Practices. However, in recent years actual losses have been greater then estimates. In part, this is because estimates are based on historical losses and loss reserves for outstanding claims. Actuarial calculations provide estimates of inherently uncertain future contingent events. The estimated outstanding loss calculation includes retained case reserves, incurred but not reported (IBNR) reserves, and estimated outstanding losses at the time of the estimate for Workers' Compensation, General Liability, and Auto Liability. In determining the annual loss amount, the County relies on the present value of estimated outstanding losses at the 75th percentile confidence level discounted by three and one-half percent. In other words, there is a 25 percent chance that actual losses may be greater than the amount estimated. Other counties, such as Spokane County, use a higher confidence level (85th percentile) to reduce the level of uncertainty and improve the likelihood that actual losses will align with estimates.

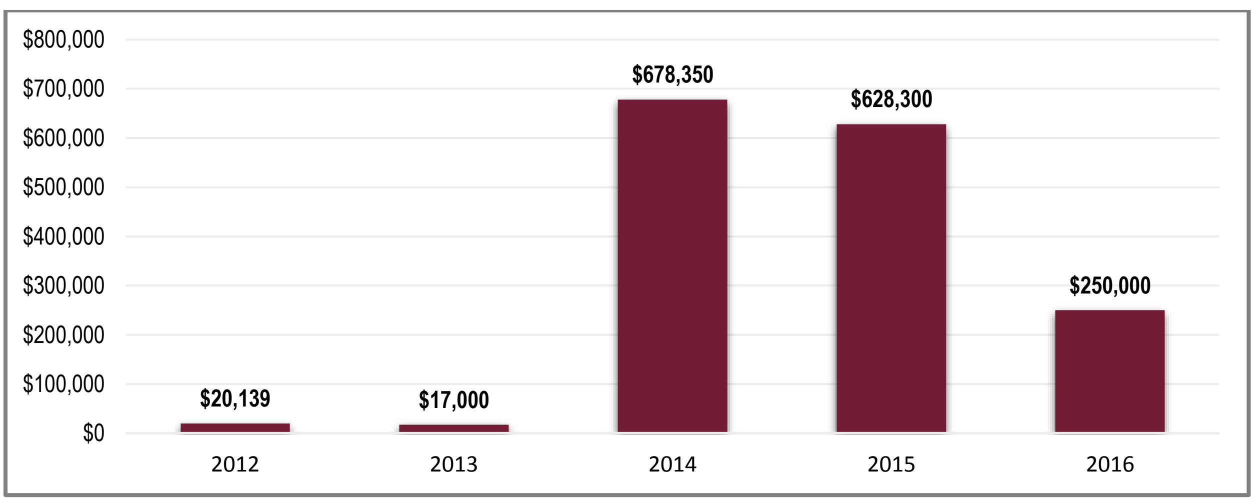
According to the County's actuary, several factors, such as reliability of data provided by the County to determine estimates, inherent uncertainty, extraordinary future emergence of losses or types of losses not represented in historical data or not yet quantifiable, and recoverability of losses from third parties or insurers. According to Risk Management, Snohomish County uses a 75th percentile confidence level because historical data used to estimate losses is not as reliable as peers. Specifically, prior to 2016, when the Origami Risk Management system was implemented, loss data was manually tracked, multiple systems and spreadsheets were used by Risk Management and the Prosecuting Attorney's Office, and information was not consistently maintained in databases. Since the implementation of Origami, information has been more consistently tracked; however, it will take several years of consistently tracking data to establish a baseline and more accurately project losses. As data becomes more reliable, the County should consider increasing the confidence level used to estimate losses.

E.2. Public Records Act Losses

The County's current risk rate model does not include costs related to Public Records Act litigation settlements; yet, these losses are paid out of the Insurance Fund. The County's current risk rate model includes a charge for the combination of insurance premiums, overhead and administrative costs (including salaries and benefits of positions charged to the Insurance Fund), and the estimates provided by the actuarial consultant to calculate the total risk rates that need to be collected from County Courts, Offices, and Departments. Premiums charged to users are impacted by past losses experienced by the user department and leveling efforts to reduce large changes in risk rates charged from one year to the next.

Public records requests have been a challenge throughout the State of Washington. In 2016, the Washington State Auditor's Office issued a report on the effect of public records requests on State and Local governments. The report found that on average, counties throughout the state receive roughly 7,600 requests each year. According to the report, 17 percent of the governments responding to their survey – large and small – reported that they were involved in public records litigation in the past five years, and spent more than $10 million in the most recent year alone.

EXHIBIT 12. LOSSES RELATED TO PUBLIC RECORDS ACT LITIGATION



Source: Unaudited loss amounts reported by the Snohomish County Prosecuting Attorney's Office.

Similar to state-wide trends, as shown in Exhibit 12, from 2014 to 2016 the County experienced several large losses related to Public Records Act litigation. Over the three-year period, losses totaled nearly $1.6 million. The County's litigation losses were significantly higher than those reported by peers. For instance, although King County reported sixteen Public Records Act settlements between 2013 and 2016, the total cost of those settlements was only approximately $635,000; whereas, Snohomish County reported nine settlements totaling nearly $1.6 million over the same period. While these losses were charged to the

Insurance Fund, they were not recovered through the County risk rate model or department risk rates. Conversely, all five peers included these losses when calculating their risk rate. To fully capture all activity in the Insurance Fund, the County should include losses related to Public Records Act litigation in its risk rate model.

Further, to reduce the risk of future losses Risk Management should continue to work with County departments to identify opportunities to improve Public Records Act processes. According to Risk Management, each County department has been historically responsible for independently fulfilling record requests. The County recognized this as an area requiring attention and in 2016 implemented a working group to identify opportunities for improvement. Risk Management participated in the working group. Based on the working groups recommendations, the County created a position to oversee and coordinate County public records requests.

Finally, to further reduce the risk of potential losses related to Public Records Act litigation, the County should review current practices to determine if they are in-line with the best practices identified by the Washington State Auditor's Office. Specifically, the State Auditor's Office identified the following eight practices state and local government agencies can implement to efficiently manage requests and provide requested information:

- Communicate with requesters thoughtfully and as needed.
- Manage request fulfillment to maximize benefits to requesters and minimize disruptions to critical services.
- Disclose information before it is asked for.
- Develop a coordinated, agency-wide strategy and institutional culture around records management.
- Collect and retain only necessary records.
- Organize records for easy search and retrieval.
- Adopt strategies and organization-wide policies to accommodate the complexity of public records laws.
- Reduce the potential for litigation and mitigate its impact.

E.3. Insurance Fund Reserves

The Snohomish County Insurance Fund accumulates cash balances when actual losses experienced are less than expected. Over time, large cash balances can accrue. While the Snohomish County Insurance fund had accumulated cash balances in the past, as shown earlier in Exhibit 10, the Fund's cash balance has significantly declined since 2013, as actual losses have been greater than projected. Although the County was able to sustain such losses by using the accumulated cash reserves, if the County continues to experience higher than estimated losses, the current cash balance may not be sufficient to cover the County's liabilities. While the estimated outstanding losses calculation includes some fund reserve restoration, the County currently does not have a policy establishing required fund reserves for the Snohomish County Insurance Fund.

A common practice in the insurance industry is to establish several types of reserves, such as General Liability/Worker's Compensation catastrophic reserves and premium/claim stabilization reserves. Funds are set aside to provide funding for potential worker's compensation and general liability claims that exceed budgeted amounts. Because the County is self-insured, these fund reserves would be used to cover the County's liability when actual losses are higher than projected. Given that the risk rate charged is based on a 75 percent confidence level and that actual losses incurred related to general liability have been higher than budgeted for the past three years, the County should consider establishing a fund reserve policy for the Snohomish County Insurance Fund. This policy should include the following key elements:

1. **Fund Reserve Target Levels:** The portion or amount of the fund balance set aside for reserves.
2. **Conditions for Use:** Requirements for using funds dedicated as reserves.
3. **Authority:** Who has the authority to use the fund reserve.
4. **Rational:** Reason for the fund reserves, rational for the amount set aside, and how the fund reserves should be maintained.
5. **Funding:** How fund reserves will be funded if the reserve falls below targeted amounts and guidance for replenishing fund reserves when they are spent.

Further, establishing sufficient fund reserves would help to accommodate catastrophic losses and stabilize risk rates from year to year. In years when losses are less than expected and minimum stabilization fund reserve requirements are met, risk rates refunds can be issued to user departments or risk rates charged for the next year reduced. The establishment of catastrophic and risk rate stabilization reserves would help the County mitigate future challenges with cash balances, provide greater fund stability, and risk rate stability.

E.4. Aggregate Stop Loss Insurance

Another option available to the County to address the volatility and inherent uncertainty experienced related to general liability claims, is to purchase aggregate stop loss insurance. There are two types of stop loss insurance that can be purchased on an occurrence basis and in aggregate. Occurrence (or specific) stop loss insurance means that the insurance company pays claims covered by the policy in excess of a certain dollar amount in one year. This is referred to as the attachment point. Aggregate stop loss insurance means that the insurance company pays all claims after the County's total claims covered by the policy exceed a certain dollar amount in one year, or the attachment point. The County currently only procures occurrence stop loss insurance. Other local governments, including King County, City of Seattle, and City of Tacoma, purchase aggregate stop loss insurance in addition to occurrence stop loss insurance, which allows them to reduce the amount needed in reserves and transfer some of the risk. For instance, in 2016 based on actuarial loss estimates the County budgeted approximately $3.3 million for general liability payouts; however, actual general liability expenditures were estimated to be closer to $6.8 million at the time of audit fieldwork. If the County had procured aggregate stop loss insurance with an attachment point of $5 million similar to its peers, the County would have paid the first $5 million in claims and the insurer would have covered the remaining $1.8 million, reducing the financial impact on the County's Insurance Fund. The County would still need to retain adequate reserves to cover the additional $1.7 million in losses that exceeded the $3.3 million estimate.

It is important to note that when purchasing aggregate stop loss insurance, the agency must have sufficient reserves to cover all claims up to the attachment point. As with other types of insurance, the lower the attachment point for stop loss insurance, the higher the premium because more risk has been shifted from the County to the stop loss insurance carrier. Because of this, when using this risk transfer vehicle, the County must periodically weigh the costs and benefits of purchasing stop loss insurance and determine what type and level of coverage best meet the County's risk strategies. Decisions should be based on utilization trends, available fund reserves, and the overall level of risk the County is willing to accept.

E.5. Recommendations

To improve the management of the Snohomish County Insurance Fund, Risk Management should:

- Ensure claim and loss data is consistently tracked in Origami. As data becomes more reliable the County should work with the actuarial to assess the confidence level used to estimate losses and ensure the level applied is in-line with the overall level of risk the County is willing to accept.
- Include losses related to Public Records Act litigation settlements in its Risk Rate calculation.
- The County should review current practices to determine if they are in-line with the best practices identified by the Washington State Auditor's Office.
- Consider establishing a catastrophic loss fund reserve and risk rate stabilization fund reserve. Risk Management should establish a formal policy documenting the target reserve levels, conditions for use, authority, rational, and funding.
- Evaluate whether the County should procure aggregate stop loss insurance coverage. If the County decides to purchase coverage, this decision should be made in conjunction with determining thresholds for catastrophic loss and premium reserves by: (a) evaluating annually whether to continue to purchase aggregate stop loss coverage, whether the attachment point should increase, and whether to seek competitive proposals for stop loss insurance and (b) continuing to fund established reserves until a sufficient balance is maintained for several years.

Appendix A – Summary of Recommendations and Corrective Action Plan

	Recommendation	Page	Responsible Entity	Priority	Entity's Response
D.7.a	Consider establishing an integrated systematic approach to managing risk, known as enterprise risk management.	19	Risk Management	Medium	Risk Management in conjunction with the Finance Department will research, develop and present to the Executive Office a proposed framework establishing a county-wide Enterprise Risk Management program in conformance with Organization for Standards (ISO 31000), and COSO II: 2004. This will be done concurrent with the next budget cycle.
D.7.b	Work with the Executive Office and Risk Management Committee to determine and document the County's risk tolerance and on a go-forward basis document the deliberations and rationale behind insurance purchases.	19	Risk Management and County Executive Office	High	Risk Management will develop documentation discussing the County's risk tolerance and rational behind insurance purchases. This will be completed by 3-31-18.
D.7.c	Update its current policies and procedures to reflect current practices and ensure established policies and procedures capture all risk management activities, such as processing property and casualty claims and conducting safety reviews and audits.	20	Risk Management	High	Risk Management will document, with written procedures, its practices and policies within the 4 identified risk programs, plus the same for the Public Disclosure program within 6 months.
D.7.d	Re-allocate workload between the two Senior Safety Specialists to more evenly distribute Safety Program resources.	20	Risk Management	Medium	The re-allocation of workload in Safety will be accomplished concurrent with the retirement of one of the Sr. Safety Specialists. This will be done within 9 months.

	Recommendation	Page	Responsible Entity	Priority	Entity's Response
D.7.e	Work with County departments to ensure consistent practices are in place to monitor compliance with insurance requirements throughout the contract term.	20	Risk Management	Medium	Risk Management will develop a training and records management program for project managers to keep current with Certificates of Insurance. This will be implemented within 9 months.
D.7.f	Designate a single division responsible for maintaining all boiler plate language.	20	Finance Department	Medium	Risk Management will work with Purchasing to become the single source of approved County boilerplates. This will be done within 9-12 months.
D.7.g	Coordinate efforts between Risk Management, the Prosecuting Attorney's Office, and Purchasing to establish a process to periodically review established standard contract language to ensure it is still relevant, adequately protects the County's interest, and adheres to any changes in County policy and code as well as governing laws, rules, and regulations.	20	Finance Department	Medium	Risk Management will work with Purchasing and the Prosecuting Attorney's Office to annually review and establish county boilerplate contracts. This will be done within 9-12 months.
E.5.a	Ensure claim and loss data is consistently tracked in Origami. As data becomes more reliable the County should work with the actuarial to assess the confidence level used to estimate losses and ensure the level applied is in-line with the overall level of risk the County is willing to accept.	26	Risk Management	Medium	This is currently in progress as all claims data is now being entered into Origami. Our Actuary currently reviews and develops loss expectations annually.
E.5.b	Include losses related to Public Records Act litigation settlements in its Risk Rate calculation.	26	Risk Management	High	Public Records risk rates will be included in the risk rates for inclusion in the next budget cycle. The next budget cycle will start in 6 months.
E.5.c	The County should review current practices to determine if they are in-line with the best practices identified by the Washington State Auditor's Office.	26	County-wide	High	Risk Management will review with the County's Public Records Officer, the State Auditor's eight "Best Practices", for efficiently managing Public Records requests. This will be done within 9 months.

	Recommendation	Page	Responsible Entity	Priority	Entity's Response
E.5.d	Consider establishing a catastrophic loss fund reserve and risk rate stabilization fund reserve. Risk Management should establish a formal policy documenting the target reserve levels, conditions for use, authority, rational, and funding.	26	Risk Management and County Executive Office	High	As funding becomes available, Risk Management will develop and present as part of the next annual budget process, a "Priority Package" establishing and funding a "catastrophic loss fund" and "rate stabilization fund reserve. This will be presented at the next budget cycle within 6 months.
E.5.e	Evaluate whether the County should procure aggregate stop loss insurance coverage. If the County decides to purchase coverage, this decision should be made in conjunction with determining thresholds for catastrophic loss and premium reserves by: (a) evaluating annually whether to continue to purchase aggregate stop loss coverage, whether the attachment point should increase, and whether to seek competitive proposals for stop loss insurance and (b) continuing to fund established reserves until a sufficient balance is maintained for several years.	26	Risk Management and County Executive Office	High	Risk Management will inquire with the County's insurance broker about the availability and costs associated with an aggregate stop loss program. This will be done by 3-31-18.

A – High Priority*: The recommendation pertains to a high priority conclusion or observation. Due to the seriousness or significance of the matter, <u>immediate</u> management attention and appropriate corrective action is warranted.*

B – Medium Priority*: The recommendation pertains to a moderately significant conclusion or observation. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than <u>six months</u>.*

C – Low Priority*: The recommendation pertains to a conclusion or observation of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.*

N/A*: Not Applicable*

Appendix B – Risk Management's Response

Snohomish County Risk Management would like to thank the team at Sjoberg Evashenk for their efforts in this Performance Audit. The recommendations noted follow in line with Risk Management's short and long term goals. We have responded individually to each specific recommendation on the preceding pages.

Some of the recommendations are housekeeping in nature and will be completed as quickly as possible. Some are currently in the works. Recommendations involving other departments and divisions will take some time in coordination with policy and procedure changes.

Other long range recommendations will involve funding and culture change directed from the top of our organization.

We see all of these recommendations as having Risk Management's best interests in mind and highlighting the pathway for the County's transformation into an Enterprise Risk Management organization.

Thank You,

Keith T. Mitchell, CPCU | *County Risk Manager*
Snohomish County Finance | Risk Management
3000 Rockefeller Ave., M/S 610 | Everett, WA. 98201
O: 425-388-3726 | C: 425-508-9502 | F: 425-388-3499 | keith.mitchell@snoco.org