

## **RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)**

Meeting Minutes

January 12, 2016

A meeting of the Idaho Risk Management Advisory Committee was held on this date in the LBJ Building, Conference Room 155, 650 W. State Street, Boise, Idaho. Chairman Geddes called the meeting to order at 3:30 p.m.

### **Members Present:**

Robert L. Geddes, Director, Department of Administration and Committee Chair  
Senator Dean Mortimer  
Representative John Gannon  
Jim Carpenter, Idaho Transportation Department  
Theresa Chrisman, Lewis-Clark State College (via telephone)

### **Others Present:**

Keith Reynolds, Deputy Director and CFO, Department of Administration  
Faith Cox, Statewide Risk Manager, Office of Risk Management  
Kay Christensen, Chief, Contracts and Administrative Law, Office of the Attorney General  
Gideon Tolman, Analyst, Division of Financial Management  
Kris Coffman, Lead Claims Adjudicator, Office of Risk Management  
Joan Compton, Analyst, Office of Risk Management  
Glen Goff, Claims Adjudicator, Office of Risk Management  
Kathy Adams, Claims Technician, Office of Risk Management  
Kristie Fields, Technical Records Specialist, Office of Risk Management  
Tanya Hellewell, Senior Financial Specialist, Idaho Transportation Department

### **NEW STATEWIDE RISK MANAGER**

Chairman Geddes introduced Faith Cox to the Committee—she is the State's first Statewide Risk Manager. Ms. Cox explained that for over the past 25 years she has worked for several large insurance companies including Prudential Property and Casualty Company running its western division and overseeing about 240 employees. She also headed-up its external brokerage. She has experience overseeing both claims and underwriting staff. Chairman Geddes noted she has been doing an amazing job over the couple of months she has been with the Department.

Chairman Geddes also introduced Gideon Tolman, Division of Financial Management Analyst assigned to the Department. Gideon comes with high qualifications and has been very helpful, he said.

### **APPROVAL OF MINUTES**

**MOTION:** Senator Mortimer moved and Mr. Carpenter seconded that the minutes of the February 13, 2015 Risk Management Advisory Committee meeting be adopted as written. The motion passed unanimously.

### **FINANCIAL REVIEW**

#### **Risk Management Financial Analysis**

Mr. Reynolds provided a copy of the financial analysis and explained that it serves as a roadmap for future agency billings and as a means for reconciling cash balance to the projected loss balance. Added onto the beginning cash balance is interest, transfers, and miscellaneous and agency receipts. That amount is then reduced by the actuary's estimate of losses, our premiums, and other budgeted items. The ending cash balance is rolled over to the next fiscal year and used to calculate billing amounts. These amounts are adjusted through the budgeting process so that the risk insurance billing amount is built-in to agency budgets.

He said most dollars illustrated in the analysis are represented by liability and property coverage. Fortunately, there is a tort cap in Idaho of \$500,000 or the liability expense would be much higher, he said.

He indicated over time he has been attempting to bring the cash balance down keeping the billing cycle consistent. In FY15 the fund ended up about \$4 million over that projected, and that amount rolled over to FY16. As part of this effort, less was billed agencies and by the end of the year the fund is estimated to be over-estimated by only about \$700,000.

Senator Mortimer asked how the Master Policy coverage comes into play in this process. Mr. Reynolds responded that he receives an estimate of the premium to be charged the state. This becomes the state's expense and liability for the reinsurance or stop loss, and this number is included in the projections.

The target number the state uses for calculating an end balance for the fund is the "Estimated Unpaid Losses". This is the actuary's estimate, provided in July of each year, of liability for all claims that have taken place previously. Senator Mortimer asked whether we should be projecting a bit higher than the actuary's number. Ms. Cox responded that there is an industry standard which is much higher, and it depends on the state's regulatory requirement which is set by the Department of Insurance. Ms. Compton explained that there are also federal regulations that come into play if the state is over-funded. Mr. Reynolds agreed and said if the state is over-reserved, as audited by the Department of Health and Human Services, it must return to the federal government a proportion of the overage that are federal funds.

Mr. Reynolds clarified that because our liability claims are limited by statute, our property is fully insured, and because we carry a stop loss or reinsurance, he believes the state is well covered.

### **Expense Detail**

In reviewing the expense data spreadsheet, Representative Gannon inquired to whom legal fees were paid. Mr. Reynolds explained they were predominately paid to outside legal counsel. Attorney General's costs are minimal.

As a result of a report by the Office of Performance Evaluation last year, Ms. Cox said, she conducted an analysis of litigated claims completed by the Attorney General in relationship to the private sector attorneys. Of the 48 claims that went into litigation last year, 17 were assigned to the Attorney General's Office and the remaining 31 went to outside counsel. Of those 31, 15 went to the outside Correction's panel which consists of attorneys that understand the complexities that surround IDOC claims and because of the very specific way those types of claims must be handled. In the past we had an internal Corrections panel with the AG's office as well as the outside panel. Due to staff turnover we no longer have an internal panel. Another 8 occurred in northern Idaho where it would not have been practical to assign to the Attorney General staff, and 5 were assigned to outside counsels who were addressing a related case. Many of these cases are high profile and ongoing for many years. As a result, they generate a significant amount of outside legal fees. Chairman Geddes explained that when choosing counsel it is typically a negotiated process between the Risk Management staff and the Attorney General's Office. Negotiations are conducted in order to identify the best resource that can be provided to adequately represent that case.

Chairman Geddes asked for an explanation how outside counsel fees are administered. Ms. Christensen responded all attorneys receive \$150 per hour. A Request for Quote was issued to all licensed lawyers soliciting those interested in doing risk work for the state. Resumes were reviewed and a list was created and sent to the Board of Examiners for preapproval. There have been a few special circumstances that have generated the need to pay more, however. Attorney billings are scrutinized by both Risk Management personnel and the Attorney General's Office.

## **APPRAISAL PROCESS**

Ms. Cox introduced the Risk Management staff to the Committee and expressed just how much work the small group accomplishes.

In statute it states the department will make periodic property inspections or appraisals, and the last time it was done was in 2006. Industry standards are that this should occur every 5 to 7 years. She recommended the process start right away by looking at buildings currently assessed over \$500,000. She said she has been working with the state's broker and together have identified an appraisal company that is able to appraise some of the more complex buildings such as the Statehouse. Beginning in FY17 she recommends an ongoing process of appraising 20% each year so that all property is regularly appraised within the 5 to 7 year timeframe. A surcharge in the property premiums can be assessed to fund the project. In the past, Ms. Compton explained, the state's broker arranged for the appraisals. Funding was accomplished by the adjustment of statewide premiums in the amount the appraisals would have cost. Senator Mortimer expressed it would be better that an independent valuation be done to keep the transaction at an arms-length.

**MOTION: Senator Mortimer moved and seconded by Representative Gannon that staff investigate options for entering into a phased approach for regularly appraising state buildings so the state is within industry standards and come back to the Committee with a recommendation for funding. The motion passed unanimously.**

Ms. Cox agreed that engaging the services of a company not controlled by the broker would be advantageous. Not only will we end up with an independent, true assessment of value, but the process will be in the best interest of state agencies because some property may be over or under-valued.

## **WEBSITE / AGENCY HANDBOOK**

Risk Management currently has an external website that is very sterile and contains minimal information, Ms. Cox continued. A new test website is now up and running and software has been ordered to develop the platform. In addition, the last time an agency handbook was published was in 1999. Creating a new one will be a huge undertaking because all materials will have to be updated and rewritten.

Since most agencies do not have a risk manager, the website and handbook will be written in understandable terms. The site will be comprehensive and user-friendly with concisely written documents. It will educate agencies on the purpose of the risk management billings and it will help them realize what liability coverage is, and how staff can help when they receive a claim. Other parts will include Frequently Asked Questions, a guidance section, claim protocol, all Risk Management forms, a link to the current system where agencies input insurance data, and training and loss control information. The goal is to have the website up and running in 90 days, although it may not have all the pieces included at first.

## **CYBER INSURANCE**

Ms. Cox reported she presented information to the Information Technology Authority regarding cyber liability. Her presentation included ways the state can transfer risk through insurance, and the available insurance options for agencies to purchase. The Authority asked her to research the cost of cyber insurance.

## **CLAIMS HANDLING PROCESS**

In the past when an incident was reported to Risk Management, it would be filed away until the state received a tort claim or law suit. This has been problematic to staff, Ms. Cox said, because it may be months later before we receive a law suit or claim and by then the agency has been trying to address it, and information and evidence have been lost. Staff will now become involved up front and reach out to the agency with guidance. This effort could eliminate the need for an attorney to get involved in some instances.

## **AGENCY VISITS**

Ms. Cox said over the course of the next year she plans to reach out to every agency, and the process has already begun. In addition, staff plans to publish a regular newsletter and update the website to keep customers informed about what is happening in the Office of Risk Management.

## **HIGHER EDUCATION OUTREACH**

This is a unique group, she said, because they have exposures so different from other state entities. Again, she is planning to meet with all four of the institutions the state insures to get a good understanding of their exposures and concerns. She said she is proposing an annual roundtable where experts can be brought in to address those specific concerns.

## **PREVENTION**

Chairman Geddes remarked in the last meeting minutes he read that the group discussed finding ways to prevent such things as car accidents as a proactive way to reduce risk. Ms. Cox indicated that she will be analyzing loss results and identifying areas where staff can make recommendations for loss control.

## **NEXT MEETING**

The Committee agreed to meet three times annually beginning with the next meeting scheduled on May 25<sup>th</sup>.

## **ADJOURNMENT**

Mr. Carpenter moved and Senator Mortimer seconded that the January 12, 2016 meeting of the Risk Management Advisory Committee be adjourned at 4:50 p.m. The motion passed unanimously.



Diane K. Blume, Program Specialist  
Department of Administration