



AUDITOR'S OFFICE



PERFORMANCE AUDIT OF THE RISK MANAGEMENT FUNCTION

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Cover photos: Clark County WA Public Works & Sheriff's Office social media pages

Executive Summary

The Risk Management function is designed to address the risks associated with Clark County operations. This entails the purchasing of insurance coverages, managing of claims against the county, and implementing efforts to reduce the risk of loss. Clark County's principal guide to its risk management approach is Clark County Code 2.95 (CCC 2.95) which is coordinated by the risk manager. This audit reviewed the function's effectiveness and efficiency at reducing loss.

Our review compared the county's risk management approach to that of best practices as described in the International Organization for Standardization (ISO) 31000 Risk Management Guidelines and adopted department procedures. Our review found:

- 1. Approach used for key activities limits effectiveness of Risk Management function**
- 2. Risk Management function is moderately efficient at reducing the risk of loss**

The overall design of the county's approach is in keeping with best practices but implementation of them by management limited its effectiveness. Implementation of the function is primarily tasked to the Risk Management office (Risk office) and their collaborative work with departments. In 2013, the Risk office discontinued their reporting efforts, as prescribed by CCC 2.95, to the county council. Without proper program data provided to the council, their effectiveness in establishing and evaluating risk appetite is diminished.

We found that the Risk office has been unable to match the data capture capability of the Washington Counties Risk Pool since exiting the pool in 2014. This change created the need for new or the expansion of existing internal controls. The Risk office reestablished general liability claims handling procedures, implemented new tracking software in 2017 and began a digital file conversion initiative. Its inconsistent use of claims handling procedures, tracking software limitations, and incomplete digital file conversions efforts reduced the reliability of claims histories.

Our review also found that the Risk office's application of the risk process varied between workers' compensation and general liability claims. The department's workers' compensation response was aligned with best practices whereas the general liability response was primarily limited to claims adjusting.

The Risk Management function has recently been assigned to the Human Resources department. It has also entered into an expanded contract with the same third-party administrator that manages workers' compensation to now include general liability claims management. Management's controls over contracted function and future data integration will need to be assessed to ensure third-party administrators are meeting program goals. Our

review also found that CCC 2.95 does not reflect management's current practices. Updating the CCC 2.95 would align it to management's current funding and claims processing practices. Management should retain CCC 2.95's elements in keeping with best practices.

Expense analysis was performed at the fund level through the application of two industry measures; Cost of Risk Index and Total Cost of Risk Index. Both show upward trends in expenses, with the Total Cost of Risk Index showing retained losses and legal expenses categories trending up.

Claims analysis was conducted based on Washington Counties Risk Pool and workers' compensation third-party administrator data sets. Due to reliability weaknesses in Risk office managed data we were unable to provide analysis on the periods after the county's 2014 exit of the risk pool. Efficiencies were mostly realized within the workers' compensation fund with downward trends in frequency of claims, average cost per Full-time Equivalent (FTE), average claim durations, and costs as a percentage of payroll. General liability also experienced downward trends in frequency of claims but average cost per claim trend rose. Both experienced an upward trend in litigated claims.

Clark County experienced less claims overall but costs associated with litigated claims are trending higher. This cost trend may persist due to escalating costs in civil litigation in the state. The Risk office can aid in affecting trends through the consistent use of the risk process in keeping with adopted CCC 2.95 and best practices. A more detailed analysis by the Risk office at the individual claim level can target their collaborative work with the most affected stakeholders.

Our recommendations to management include: retain and implement CCC 2.95 elements aligned with best practices, design and implement controls activities to improve claim histories, review controls to expanded third-party administrator contract, and consistent application of the risk process to the general liability program. A complete list can be found in section [IV](#). These recommendations will improve claims histories which are the basis of program analysis. Better analysis can improve reporting that will aid decision makers in the administration of an effective and efficient Risk Management function.

The County Manager's office concurs with the recommendations and their written response is found in [Appendix A](#). We thank them and their staff for their cooperation on this audit.

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I. Introduction

The origin of this audit was based on Audit Services' annual risk assessment. During the assessment we speak to members of the county executive management team and learn about emerging issues or notable changes. The purpose of this audit was to determine if the Risk Management function was effectively and efficiently reducing the risk of loss in the county.

Clark County Code 2.95 Risk Management ([Appendix B](#)) was established in 1987. It provides for the administration of the function and dedicates funds for general liability and workers' compensation program expenses. Implementation of the CCC 2.95 was primarily tasked to the Risk office and their collaborative work with departments.

The Risk Management function has undergone notable changes since the county's 2014 departure from the Washington Counties Risk Pool. This change created the need for the reestablishment of internal controls over the general liability claims process. The county entered the risk pool in 2002.

Our review of management practices was primarily focused on the span of time since the county left the risk pool. We sampled a selection of expenses and claims from the same time period. We conducted a limited review of the workers' compensation claims component since it is regulated by state/ federal agencies and claims are managed through a third-party administrator. For a full description of this audit's objectives scope and methodology, see [Appendix C](#).

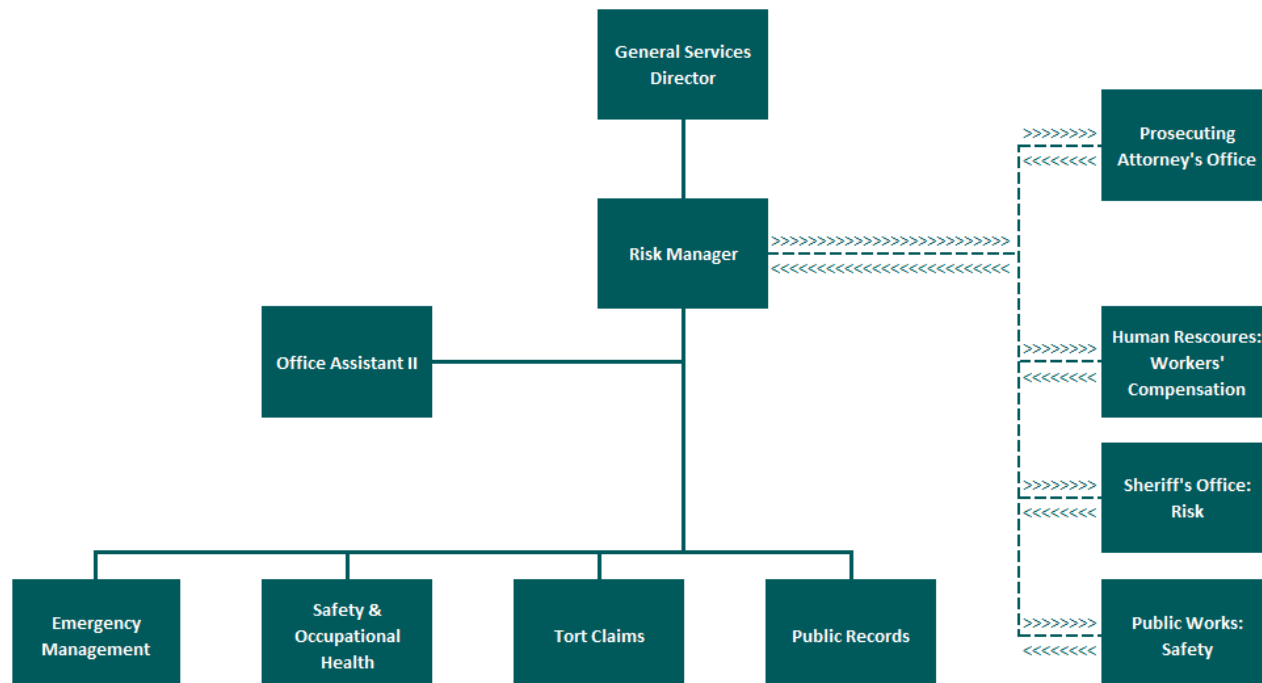
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.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

Background

In the latter part of 2014, Clark County left the Washington Counties Risk Pool and brought the general liability processes in-house. The Risk office needed to develop internal claims adjusting processes for large claims, legal coordination with in-house counsel, and additional recordkeeping requirements for self-funded programs.

The Risk office, in collaboration with the Prosecuting Attorney's Office (PA), purchased new litigation software that allowed both departments to track general liability claims. This enabled the departments to create electronic files that included intake information from the Risk office and provided internally assigned attorneys with direct file access. In January of 2017, they switched to the new system as the principle method of claims tracking.

Chart 1: Risk Management office 2017



Dedicated funding provided for five employees to administer Risk Management function activities. In the fall of 2017 the workers' compensation component of the Risk office was transferred to the Human Resources department. The central hub for leave and employee information resides in Human Resources. Management believed that by pairing these two functions, better communication and efficiencies would improve processes.

Most recently, management decided that in 2019 the entire Risk office would reside within the Human Resources department. Also included in the changes, the county expanded an existing third-party administrator contract for workers' compensation claims handling to now include general liability claims. The Risk office continues to work closely with the Prosecuting Attorney's Office civil division for the review and litigation action of claims.

What is Risk?

Risk, as defined by the Government Accountability Office's Risk Management Framework¹ (GAO, 2005) is:

"An event that has a potentially negative impact and the possibility that such an event will occur and adversely affect an entity's assets, activities and operations"

The uniqueness of government is the level of risk that cannot be successfully avoided due to the nature of the services provided. As it pertains to the local governments, just because an activity

¹ GAO Risk Management December 2005

has higher risk of loss does not mean that they are able to refrain from performing the activity (example, law enforcement).

Managing Risk

Management's response to risk may vary but the goal of the response is to assess the risk around a particular activity and then develop actions to address that risk. The Government Accountability Office's Standards for Internal Control in the Federal Government ² (2014) provides possible responses to risk by management:

1. Acceptance- No action is taken to respond to the risk based on the insignificance of the risk.
2. Avoidance- Action is taken to stop the operational process or the part of the operational process causing the risk.
3. Reduction- Action is taken to reduce the likelihood or magnitude of the risk.
4. Sharing- Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses.

Management applies the above responses to inherent risks of its operations. Managing risk within an organization involves focusing resources to address the Acceptance, Avoidance, Reduction, and/or Sharing of risk. For example, an organization could create a dedicated fund to address accepted risk, cease an activity like cash handling to avoid risk, implement work safety training to reduce risks, and/or purchase insurance to share the risk.

These activities could be managed in a decentralized capacity or with a centralized function with a full-time risk manager and staff. The quantity of staff depends on the size of the organization and the services it administers. The number and types of programs managed vary but they principally focus on the management of general liability, workers' compensation, unemployment, claims management and/or insurance coverages.

Risk Management as a Process

An organization's process for managing risk is primarily shaped by its structure, type of services delivered, and unique operating environment. Educational resources are available to aid organizations in their process development and implementation through professional risk associations and industry standards. Clark County is a member of the Public Risk Management Association (PRIMA) which provides its members with educational materials, training, and direct services.

² [GAO Risk Management Standards for Internal Control in the Federal Government 2014](#)

The International Organization for Standardization (ISO) provides standards in several fields, one of which includes risk management. Their ISO 31000 *Risk Management –Guidelines* provides information on designing a process that is efficient, effective and consistent. These guidelines provide a set of Principles, Framework, and Process that an organization may adopt all of or parts that best fit their organizational structure see [Appendix D](#).

Risk Manager's Role

The risk manager is responsible for ensuring the established risk process is working appropriately. The role engages all levels of employees, departments, the public, and outside entities. Through this interaction the risk manager gains an understanding of the processes that are conducted by the organization and aids them with assessing the risks assumed by the organization.

The risk manager traditionally is the designee that purchases insurance coverages. This typically involves the maintenance of detailed records of real property holdings; organization's staffing levels, description of operations, and claim histories which is then reported to insurance carriers. The risk manager also collaborates with departments to ensure compliance with daily performance of regulatory activities mandated by applicable state and federal laws. The risk manager assists in developing and initiating risk control activities that are most efficient and appropriate for the organization.

The risk manager also assists in forecasting risk financing needs and advises council on the establishment of the organization's risk appetite. Based on the established risk appetite certain risk levels will be retained or transferred through the purchase of insurance policies and bonds. The risk manager aids in the selection of insurers that best fit the county's financing needs. See [Appendix E](#) for the RIMS Risk Management Professional Core Competency Model.

"It is, in fact, the inability to avoid many key risks that most distinguished public sector risk management from its private sector counterpart." International City/County Management Association IQ Report V2#2

Audit Results

II. Approach Used for Key Activities Limits Effectiveness of Risk Management Function

Summary: Clark County's approach to managing risk is expressed through CCC 2.95 and the principal efforts performed by the Risk office. We compared the county's approach with best practices in ISO 31000 Risk Management and department adopted procedures. We found that the design of the county's approach is in keeping with best practices but elements were not implemented or outdated, diminishing its effectiveness at reducing risk. Reporting to council ended in 2013 and the risk process is not consistently applied. Claims histories have become less reliable since leaving the risk pool and recent outsourcing of general liability claims handling requires review to ensure future data integration. Operational changes are not reflected in current CCC 2.95 language.

Risk Management function is well designed

The main vehicle for the county's risk management approach is through the adopted CCC 2.95, see [Appendix B](#). We compared it to the ISO 31000 guidelines ([Appendix D](#)) which provide a set of principles, framework, and process in risk management.

ISO 31000 Principles

The principles are designed to provide guidance on elements of effective and efficient risk management. They communicate elements that are recommended to be reflected within an organization's risk management approach, how it is valued, its intent and purpose. CCC 2.95 is in keeping with the ISO 31000's principles of communicating values, explaining intentions, and purpose.

The values, though not expressly communicated as such, are those of safety, protection of assets, commitment to an open claims process, and managing risk in keeping good financial stewardship. The intent as communicated in CCC 2.95's definition of risk management is one of reducing the risk of loss and preserving county's assets. A purpose is well defined within CCC 2.95 purpose statement which provides for establishing procedures, purchase of insurances, improving conditions relating to employee and citizen safety, and procedures for dealing with claims and lawsuits.

ISO 31000 Framework

The framework provides assistance in methods of integrating risk management within important activities and functions throughout the organization. The CCC 2.95 is designed in keeping with the ISO 31000's framework of significant integration within the organization. The county legislators' commitment and leadership is illustrated within the design of the CCC 2.95 which provides for funding, roles and responsibilities, establishing claims process procedures and the expectation of a collaborative work process between departments and staff.

Another element of integration within the county's design includes a risk manager position, established by code. The risk manager position oversees the programs integration within the county and is accountable for the program. This position interacts throughout the levels of organization; from providing assistance to departments on treatment options to working with the county manager on determining appropriate funding levels and reporting to the Councilors on program activities. The county's design integrates the Risks manager into significant activities that range from operational procedures to guidance on risk policy development throughout the organization.

ISO 31000 Process

The process is an approach for an organization to create a mechanism that is systematic when responding to risk. It includes elements of assessing, treating risk, and those elements required for documenting and communicating the process. The CCC 2.95 provides a high level approach to designing a process that contains many of elements within ISO 31000 but leaves management flexibility in its design and implementation. The elements included are: monitoring/review through CCC 2.95's schedule of reporting requirements, recording/reporting through CCC 2.95's establishment of claims processes and maintenance of histories. Other elements are addressed through its defined roles and responsibilities of the risk manager, departments, and employees. The CCC 2.95 provides directional language on the remaining process element's implementation, specifically as expressed in its definition of "risk management" as,

"A coordinated and continuous management process to identify and analyze potential loss exposures; to apply where possible reasonable and effective processes to transfer and reduce the risk of loss so as to preserve the assets of Clark County"

Evolution of Risk Approaches

The overall design of the CCC 2.95, when comparing it to the Institute of Internal Auditors (IIA) in collaboration with the Risk Management Society (RIMS) Evolution of Risk Management 2012, appears to be at the integrated model, see [Appendix F](#). The county's design speaks of managing losses through analysis and applying reasonable measures to reduce them. The Traditional, Integrated and Enterprise Risk

Management approaches are all valid at managing risk. When selecting an approach, the organization would gauge its risk appetite and select one that best reflects its financial and administrative resources needed to implement it. A good example of an entity modifying its approach can be found in the City of Petaluma California's operational changes which addressed their risk funding challenges, see [Appendix G](#).

Required analysis and reporting not performed

The Risk office discontinued providing quarterly reports to the Councilors after the second quarter of 2013. The risk manager explained that at the time, the Councilors had differing communication preferences that did not include formal reports. Informal program communications continued between the risk manager and county manager.

The ISO 31000's framework provides that risk management's effectiveness is dependent on its integration into the governance of the organization, including decision-making. The absence of analysis and reporting prevents integration of risk management with the legislative and executive members of the county. CCC 2.95 contains reporting requirements to the Councilors on a quarterly and annual basis. It also states that the risk manager will provide the county manager monthly, quarterly and annual reports. The reports would include the design of the insurance program, the amount of services established, the appropriate retention levels, claims and loss histories.

Financial and policy decisions reside primarily within the legislative level of the organization. By reducing reporting, this limits the effectiveness and/or efficiency of the Councils' response to risk events.

Recommendation: (R1) Retain and implement CCC 2.95's elements aligned with best practices including:

- A risk manager responsible for the coordination of the county's risk management activities and other duties assigned within CCC 2.95;
- The Risk Management process described in CCC 2.95.020(F) which includes the continuous identification, analysis, and response to loss exposure;
- Resume reporting to Clark County Council and county manager on program activities
 - Reports should be structured to fulfill CCC 2.95 requirements and those needed for programmatic efficiency and effectiveness assessments. We would encourage the distribution of the reports with internal and external stakeholders.

- Consider providing an annual risk management report to the county and the public. Several local governments (Marion County OR, Los Angeles County CA, and City of Eugene OR) provide annual reports online. Also consider adopting the following elements shared within their reports:
 - Risk manager’s message/Executive Summary
 - Risk fund(s) performance
 - Program(s) claims analysis (Workers’ Compensation, General Liability, Auto, Property)
 - Performance measures
 - Loss prevention activities

Management of program data and operational changes must improve

Clark County Code 2.95 states:

“the risk manager shall maintain histories of all claims and lawsuits, whether insured or funded self-insurance, loss histories, and investigation of claims and incident reports”

No method is specified in the ordinance on how claims histories should be maintained. The risk manager is responsible for how claims histories are captured and managed. Traditional capture methods include: paper file, electronic, or both. Claims histories are the foundation of program analysis. The accuracy and timeliness of records will determine if reliable analysis can be produced.

Claims histories for workers’ compensation were managed through the use of third-party administrator software and locally stored paper files in the Human Resources department. General liability claims files were captured in three digital formats (Washington Counties Risk Pool, Risk office Excel workbook and new tracking software) and locally stored paper files within the Risk office.

Inconsistent General Liability Claim Count

Our analyses of the 2017 Excel worksheet and the new tracking software claim count found a difference of 73 claims. The Risk office Excel worksheet had a count of 125 claims; the tracking software had a total of 198 claims. Staff attributed these differences to mid-year file naming convention changes, software data architecture, and timing differences in the recognition of a claim if it originates as a litigated claim.

This delay in recognition by the Risk office creates inefficiencies when trying to account and report on active claims. We tested a selection of files that were listed in the tracking software but absent in the Risk office’s totals and were able to confirm their active status.

Inconsistent Management of Paper Files

The reliability of the Risk office's file management is diminished by the inconsistent use of adopted procedures by staff. These procedures were used to provide clarity to CCC 2.95 and augmented internal procedures. They were adopted in 2009, updated in 2012, which predates the exit of the risk pool and the use of new tracking software.

Table 1: General Liability Files

Sample of files with documented procedural attributes	
1. Date stamp	82%
2. Initial sheet	48%
3. Documented determined standing	58%
4. 60-day letter	24%
5. Investigation supporting documents	58%
6. Final determination paperwork	55%

Table 1 shows the attribute results for the entire sample tested. Table 2 is a subset of the files tested that indicated a payment was issued. Payment information was validated through county's financial management software and was found to be in keeping with account payable's controls. The files tested included paper and electronic records. Our review was limited to the determination of whether the attribute was documented.

Table 2: General Liability Files with Payments

Sample of files containing payments with documented procedural attributes	
1. Date stamp	93%
2. Initial sheet	47%
3. Documented determined standing	53%
4. 60-day letter	40%
5. Investigation supporting documents	47%
6. Final determination paperwork	80%
7. Authorization for payment document	73%

Staff informed us that some of the procedures were conducted but not consistently documented. In some instances steps were verbally communicated or placed on temporary notes within the file. We did encounter several instances of post-it notes with directions to staff.

A periodic monitoring and evaluation by management over its file controls would have revealed some of the weaknesses identified during our analysis, and efforts to correct deficiencies could have been applied. Staff training on the consistent use of adopted

procedures, modifying procedures to reflect exit of risk pool, and a reevaluation of procedures due to the use of new tracking software would have assisted management in correcting control weaknesses.

Due to inconsistencies in the Risk office's documentation practices there was an elevated risk of fraud. We conducted additional testing of associated expenses of the general liability and workers' compensation fund. We did not find indicators of fraud in the items tested.

Incomplete Digital File Conversion

The Risk office began an initiative to convert paper general liability files into the adopted tracking software. In 2017, there was a concerted effort to achieve this as new claims were entered into the software. Periodically, staff would input older opened or closed files as well. We tested a selection of files for attributes listed in the claims handling procedures. We found instances of items that were not scanned into the software. This included the initial intake form, 60-day letter, expense invoices, and file notes.

The reliability of the electronic files was diminished since it did not adequately reflect the contents of the paper files. Staff indicated that no written guidance or procedures had been developed to ensure that documents were consistently scanned into the software.

The Risk office's initiative to implement new tracking software was a good step to increase its internal tracking capabilities, but additional controls were needed to ensure that the software was producing its intended results.

More Reliable Data Required to Manage Performance






















Claims histories should facilitate the capture of metrics most useful to the organization for measuring success and in accordance with mandated reporting requirements. CCC 2.95 provides a direction on type of metrics such as counts in: claims, lawsuits, distinguish between insured/self-insured, historical loss, claims investigated, and incident reports.

Our review used industry metrics that included common measures for workers' compensation and general liability claims analysis, applying them to the available claim histories datasets to determine if they were computable.

We found the workers' compensation data sets reliable and were able to compute 10 out of the 10 performance measures. A table of the measure can be found in [Appendix H](#).

We also found that since leaving the Washington Counties Risk Pool, general liability data capture efforts are not reliable enough to compute many of the suggested measures, see Table 3 (next page).

Table 3: Performance Measures by datasets

General Liability Performance Measure	Washington Counties Risk Pool	RM Office Excel workbook	RM Office Tracking Software
1. Average cost per claim			
2. Percentage of open claims			
3. Average claim duration			
4. Frequency rate (per 10K citizens)			
5. Type of loss percentage			
6. Average reporting lag time			
7. Percentage of litigated claims			

 Computable and Reliable  Computable and Not Reliable  Not Computable

The risk pool data was computable for 6/7 measures; average reporting lag time was unavailable, see Table 3. The Washington Counties Risk Pool continues to maintain claims data for the period of time the county was a member and updates expense information on open claims. With minimal formatting modification, the datasets were adapted for analysis, see [Appendix H](#).

The Risk office’s Excel workbook was computable for 7/7 measures, see Table 3, but records reliability is not substantial enough to determine specific trends in the seven measures. The data set analysis excluded many records that had missing or incomplete fields. The Excel workbook did not have consistently completed fields: utilized variations of claim type, variants on department name, expense tracking only included settlement check amounts, included multiple variants of single claim number, and used improper field formatting.

The tracking of claims was done by creating an individual worksheet for each year within the Excel workbook. Throughout the years, new columns would be added to reflect an additional attribute; this practice diminished the ability to create a single dataset for analysis. Due to extensive formatting modification and exclusion of records, analysis is not reliable enough for reporting purposes.

The tracking software was computable for 5/7 measures, see Table 3, but reliability is not substantial enough to determine specific trends in the five measures. This is due to its use of the Excel workbook as the initial database and changes in claims naming convention. The software has better controls built in such as, individual logins, drop

down lists, capabilities for uploading paper documents, and report writing. Data reliability challenges were discovered when we conducted analysis of the exported data sets; claims totals differed from the Risk office's reported claims totals.

Staff explained that this was due to some files associated only with the Prosecuting Attorney's Office were being captured in the claims totals. Other challenges included the naming convention for claims was modified in 2017; claims type variants between the Risk office and PA, software data architecture and financial reporting limitations of the software.

Recommendation: (R2) Design controls to ensure Risk Management office's histories are current and complete.

The Risk office's approach to changing or updating its practices should set priorities in increasing data reliability of its claims' histories. Staff should ensure that whether paper or electronic based, a complete claims history should be available. This would include:

- Claim type naming convention should be updated and a crosswalk between prior versions created. This will allow for analysis among older, current, and future third-party administrator claim types.
- Capture costs at the individual claim level that includes all measurable associated costs. Detailed expense data is useful in gauging risk costs by claim type. This could inform mitigation response efforts.
- Develop communication controls among the claims handling partners to ensure timely recognition of new claims. The Risk office should maintain the most current records including pending or current litigated claims. Throughout the life of a claim, the Risk office should be able to determine its location and current status.

Future claim histories and monitoring challenges

During our review the county expanded an existing contract with a third-party administrator that manages the workers' compensation claims handling to also include general liability claims. This measure should greatly improve many of the documentation and data capture deficiencies found during our review.

This new management initiative will also expand the claims datasets to four. Data integration challenges may continue if new data elements are not consistent with prior data fields or file format. A review of data elements needed to fulfill reporting requirements and those available through the new contract should be conducted to determine suitability.

When outsourcing a service like claims handling activities, management must ensure that monitoring controls are put in place to administer the new contract. The International City/County Managers Association (ICMA) has provided some guidance on the outsourcing of high risk services. They stipulate that in assessing risk, an organization must view the outsource service through three perspectives: citizen sensitivity, supplier market, and switching costs.

Due to the third-party administrator providing direct services to citizens and maintaining the Risk office's principal data source, this service should be classified as a high risk service. The programmatic guidance provided by ICMA on high risk services states that,

“A city or county must focus on three distinct activities: performance measurement, ongoing communication and coordination, and links to the management control process”

The third element is crucial to ensure the process is aligned with the Risk office's monitoring and evaluation program controls. Adapting controls is an ongoing endeavor management must engage in. The Government Accountability Office's Green Book provides the following insight to federal managers:

“Since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives environment, laws, resources, and risks.”

The expanded third-party administration of general liability claims handling will require effective contract monitoring and evaluation controls. These controls would aid management in assessing the adequacy of program expense forecasting, annual budgeting needs, fund management, and direct customer service experiences.

Additionally, general management practices recommend that if expenditure authority is given to the third-party administrator, controls must be put in place to ensure fraudulent activity will be prevented or detected. This would involve proper segregation of duties among the third-party administrator's staff, periodic reviews by the Risk office for the appropriateness of the expenses approved by the third-party administrator.

Management should effectively communicate their expectation that if any fraud is detected by the third-party administrator, it is reported to the county in a timely basis to ensure compliance with the Washington State Auditor's Office reporting requirements.

The expansion of the third-party administrator claims handling contract to general liability will create further complexities in timeliness of recognizing and accounting for submitted claims.

Recommendation: (R3) Design, implement and monitor controls to ensure outsourced processes meet program goals.

Risk process not consistently applied to general liability

Our review found that the Risk office responded differently between the workers' compensation and general liability risk.

The worker's compensation process follows more of the elements in the ISO 31000 process ([Appendix D](#)) and in keeping with the IIA and RIMS integrated approach listed in [Appendix F](#). The county has implemented quarterly reporting to the state, has a standing safety committee with designated safety officers within departments, posts injury data in common work areas, and manages a contract with a third-party administrator for all workers' compensation claims handling.

The county has put in place procedures to comply with federal medical information privacy requirements. A possible reason for its closer adherence to the ISO 31000 is that workers' compensation is regulated by state and federal agencies; Washington State Labor and Industries governs it and medical information is protected under federal regulation Health Insurance Portability and Accountability.

During our discussion with staff from Risk Management and several larger departments, they provided examples of the coordinated efforts taken to reduce the risk of injury within the county. Examples included: ergonomic assessments, carbon dioxide detectors for fleet vehicles, silica awareness training, and the dissemination of injury information through standing safety committee meetings.

The Risk office response to general liability risks did not follow the ISO 31000 process and primarily focused on general liability claims handling. They managed a well-defined process on how citizens/employee could submit a claim and the Risk office staff adjusted the claims accordingly. The Risk office and several larger department staff reported that their interactions primarily focused on the submittal of the general liability claims.

We could not find evidence of metrics on the Risk office's process for general liability that addressed the following: Risk Assessment, Risk Treatment, Monitoring and Review, and Communication and Consultation elements.

The ISO 31000's process is effective if the risk of loss is assessed, treated, monitored, and communicated. The absence of this process for general liability limits the ability for the county to manage risk. Opportunities for formulating a risk treatment to a present or future risk cannot be determined if primary elements of the process are not followed. The Risk office's approach is more in keeping with the traditional approach as described in the IIA and RIMS maturity level ([Appendix F](#)) which treats risk as an expense item.

Recommendation: (R4) Apply risk processes consistently between workers' compensation and general liability risk to ensure program objectives.

Changes in operations not reflected in Clark County Code 2.95

Operational practices have changed within the Risk Management function that should be reflected in the adopted CCC 2.95 and policies. Currently CCC 2.95 includes language that the prescribed fund be maintained at actuarially sound level, this is no longer the practice. Management has determined that if the fund balance is not sufficient to cover unforeseen losses, then general fund or borrowing will be used. Without updating current language, the county is not in compliance with CCC 2.95's funding level requirements.

CCC 2.95 also states that the risk manager is the person designated by the board. With the county's adoption of the home rule charter form of government, this may no longer be accurate. A review with the county's legal counsel can provide further guidance.

Organizational changes within the Risk Management function have transitioned away from the General Services department to the Human Resources department. CCC 2.95 and public facing website still directs citizens and employees to the General Services department. This inaccuracy increases the potential for miscommunications during the general liability claims process.

Recommendation: (R5) Update Clark County Code 2.95 to reflect operational and procedural changes.

III Risk Management Function is Moderately Efficient at Reducing the Risk of Loss

Summary: To evaluate efficiency we utilized expense data, general budget figures, and fund expenditure histories to estimate two industry measures, the Cost of Risk Index and Total Cost of Risk Index. We found the Cost of Risk Index shows an upward trend in risk management costs as a percentage of the county's biennial budget. A categorized approach through the Total Cost of Risk Index shows legal expenses and retained losses have been trending higher while the county's insurance premiums costs have diminished. The majority of gains in cost savings and efficiency improvements appear to be within the workers' compensation program. We found that worker's compensation claims show an average of fewer than six claims per 100 employees and a downward trend in claims costs. The number of general liability claims per year has dropped by almost half in the ten year span reviewed, but average cost per claim shows an upward trend. Both claim types show an upward trend in litigated claims; further analysis is needed at the individual litigated claims level to determine risk identification and targeted risk treatment.

Indices show possible drivers of increasing cost trends

Cost of Risk Index

The Cost of Risk Index measures the function as a whole. It takes into account all expenses associated with risk management funds and compares them to the county's overall operating budget. We obtained expense information from the two primary funds associated with the Risk Management function; general liability (5040) and workers' compensation (5043). Not all risk management expenses may be included since the general fund has been used in the past to fund claims expenses and supplemental activities are provided by Public Works and Sheriff's Office (CCSO). Prior to 2019, the county operated within a biennial budget process, our analysis grouped expenses to the corresponding budget see Table 4.

Table 4: Risk Management Expenses

Risk Management Expenses					
	2009-2010	2011-2012	2013-2014	2015-2016	
5040 Expenses	\$ 5,003,574	\$ 4,155,666	\$ 7,128,285	\$ 6,131,625	
5043 Expenses	\$ 4,087,201	\$ 8,027,999	\$ 3,318,320	\$ 5,772,373	
RM Totals	\$ 9,090,775	\$ 12,183,665	\$ 10,446,605	\$ 11,903,998	
Clark County Biennial budget	\$994,447,004	\$886,219,368	\$848,284,522	\$896,209,980	

**Note: Analysis for directional use only due to limitations in expense categorization

We found Clark County's cost of risk index shows minimal increases of less than a one-half percentage increase when comparing the 2009/10 and 2015/16 biennial totals see Table 5 (next page).

Table 5: Cost of Risk Index Analysis

Cost of Risk Index				
	2009-2010	2011-2012	2013-2014	2015-2016
Cost of Risk Index	0.91%	1.37%	1.23%	1.33%

**Note: Analysis for directional use only due to limitations in expense categorization

Total Cost of Risk Index (TCOR)

For a more nuanced analysis, we utilized the Total Cost of Risk Index (TCOR). This index measures the percentage of the organization’s total budget as it pertains to the following expense categories:

- Retained losses for workers’ compensation, general liability, and auto liability
 - (Costs within deductibles, retention, and self-insured losses)
- Insurance premiums
- Unemployment, fraud, lost interest, and other expenses related to risk events
- Legal expenses
- Loss prevention and control
- Risk management system expenses
- Administrative cost for Risk Services Department
 - (Payroll, benefits, loss of productivity, risk control, brokers, third-party administrators and, consultants)

We used the expense records as categorized within the county’s financial management software. Expenses were grouped into four categories generally matching the TCOR concept: Administrative Costs, Insurance Premiums, Legal Expenses, and Retained Losses. The Accounting Adjustments included prior period adjustments (GASB 68, Incurred But Not Recognized) that do not reflect expenses incurred during the period the adjustment was applied. The largest in 2011 to 2012, see Tables 6 and 7 (next page), was recorded due to recognizing a continuing claims and judgement liability that is based on actuarial costs. It appears to be an expense anomaly that has not reoccurred.

Table 6: Total Cost of Risk Index by percentage

Total Cost of Risk Index (% of Biennial Budget)				
Risk Management Expenses	2009-2010	2011-2012	2013-2014	2015-2016
Administrative Costs	0.16%	0.18%	0.15%	0.09%
Insurance Premiums	0.51%	0.37%	0.32%	0.23%
Legal Expenses	0.04%	0.01%	0.26%	0.17%
Retained Losses	0.21%	0.41%	0.50%	0.60%
Accounting Adjustments	0.00%	0.41%	0.00%	0.23%
Total	0.91%	1.37%	1.23%	1.33%

**Note: Analysis for directional use only due to limitations in expense categorization

We found that Administrative Costs and Insurance Premiums are at a downward trend, see Tables 6 and 7. Factors that may be affecting the insurance premiums costs could be associated with the county's exit of the Washington Counties Risk Pool and changes in coverage. The county purchased insurance coverage with a \$1,000,000 deductible; the prior deductible was \$500,000. Insurers' rates would reflect the county's acceptance of greater risk of loss.

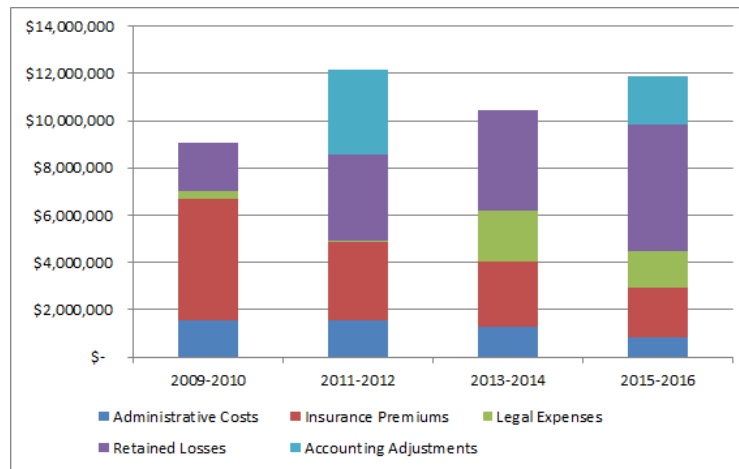
Table 7: Total Cost of Risk Index (Dollars)

Total Cost of Risk Index (Dollars)					
Risk Management Expenses	2009-2010	2011-2012	2013-2014	2015-2016	
Administrative Costs	\$ 1,549,963	\$ 1,558,532	\$ 1,295,227	\$ 840,405	
Insurance Premiums	\$ 5,117,799	\$ 3,306,515	\$ 2,719,494	\$ 2,090,287	
Legal Expenses	\$ 363,413	\$ 70,495	\$ 2,163,598	\$ 1,541,630	
Retained Losses	\$ 2,059,600	\$ 3,613,123	\$ 4,268,286	\$ 5,385,870	
Subtotal:	\$ 9,090,775	\$ 8,548,665	\$ 10,446,605	\$ 9,858,192	
Accounting Adjustments	\$ -	\$ 3,635,000	\$ -	\$ 2,045,806	
Total	\$ 9,090,775	\$ 12,183,665	\$ 10,446,605	\$ 11,903,998	
Clark County Biennial budget	\$ 994,447,004	\$ 886,219,368	\$ 848,284,522	\$ 896,209,980	

**Note: Analysis for directional use only due to limitations in expense categorization

We also found that Legal Expenses and Retained Losses are in an upward trend. Possible factors affecting these two categories could again be attributed to exiting the risk pool. Legal Expenses above the deductible were covered by the risk pool until the county left during 2014; since that time those costs have been absorbed by the risk funds. Any other claims' costs that fell below the new deductible threshold would also be absorbed by the risk funds. Table 7 included the costs in dollars and Chart 2 is visual representation of the trends.

Chart 2: Total Cost of Risk Index- bar











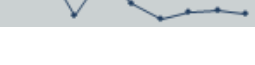
**Note: Analysis for directional use only due to limitations in expense categorization

Industry best practices recommend trending the organizations metrics to itself due to limitations in data availability from similar organizations. Going forward, if the Risk office adopts these indices, greater emphasis must be made to ensure categorization of expenses are in alignment with indices parameters.

Workers' compensation trends generally improving

When comparing between the years of 2009 and 2017, workers' compensation saw efficiencies in several measures with sharp declines in annual average costs per FTE employee with a drop of \$495, costs as a percentage of payroll showed a reduction of .92%, and a 214 day reduction in the average claim duration see Table 8 ([Appendix H](#)).

Table 8: Performance Measures Results-workers' compensation

Workers' Compensation	2009	2010	2011	2012	2013	2014	2015	2016	2017	Graph
Avg. Cost of Claim	\$15,492	\$10,809	\$7,113	\$5,337	\$4,821	\$6,513	\$7,444	\$10,874	\$5,606	
Frequency Rate Per 100 Employees	5.0	5.4	5.5	5.5	5.6	5.4	5.3	5.3	5.3	
% of Annual Indemnity Claims	46%	54%	40%	39%	38%	48%	53%	52%	47%	
% of Litigated Claims	2%	1%	1%	0%	1%	0%	1%	6%	2%	
Annual Cost Per FTE	\$778	\$614	\$389	\$327	\$331	\$321	\$446	\$577	\$283	
% of Open Claims	2%	0%	1%	1%	1%	0%	5%	10%	23%	
Avg. Claim Duration (Days)	400	458	324	332	291	236	302	254	186	
Costs as % of Payroll	1.30%	1.17%	0.46%	0.51%	0.50%	0.52%	0.74%	0.77%	0.38%	
Avg. Reporting Lag Time (Days)	68	78	31	67	42	27	34	36	33	

Source: Based on data from Third-party administrator 2009-2017

Several measures provide positive indications that the workers' compensation program was effectively and efficiently reducing the risk of loss to the county. We see a \$9,886 reduction in the average cost of claims. The frequency of claims per 100 employees shows a little fluctuation with a rate of 5.6 or lower. Less than half of the workers' compensation claims have associated indemnity payments. Litigated claims are not a common occurrence; in several years there were none, but when comparing the last two years an upward trend is beginning. It is expected to see an upward trend in the percentage of open claims closer to the most recent year.

One indicator in the effectiveness of management's reporting policies is the average lag time between when the injury occurred and when it was reported. This measure shows a

35 day reduction when comparing 2009 to 2017. Timely reporting by employees provides management greater opportunity to mitigate risk to employees and/or public.

Table 9: Performance Measures Results-workers' compensation-percentage of claims, top 5 by body part

Workers' Compensation (2009-2017)	1	2	3	4	5					
% by Part of Body	Back, lower	20%	Knee, right	19%	Shoulder, right	7%	Multiple Body Parts	6%	Shoulder, left	6%

Source: Based on data from Third-party administrator 2009-2017

Above, in Table 9 ([Appendix H](#)) are the top five parts of the body with the greatest number of claims between the years of 2009 to 2017. Lower back and right knee injury were the most prevalent. Further analysis by individual year could be helpful to management in the development of mitigating efforts.

Due to limited metrics captured on the mitigation efforts conducted, we were unable to determine if improvements were due to management initiatives or greater market trends.

General liability trends show fewer claims and increasing costs

Analysis should be considered for directional purposes only; trend analysis is limited by the claim data ending in 2013. When comparing between 2003 and 2013, general liability experienced some improvements in efficiencies relating to the average claim duration with a 54 day reduction, see Table 10 ([Appendix H](#)). The frequency of claims also showed a reduction of 1.7% when comparing 2003 (3.9%) and ending in 2013 (2.2%). The percentage of open claims is in keeping with expected increases closer the most recent year.

The general liability fund experienced challenges with upward trends in costs and litigated claims. The average cost per claim increased beginning in 2008 and has not returned to the previous lows. In 2003; the average cost per claim was \$2,608 and ending with \$33,279 in 2013 with an overall average of \$16,120. Totals are affected by projected expenses in open claims and may not adequately reflect the final claim costs. The percentage of litigated claims also contains an upward trend.

Table 10: Performance Measures Results-general liability

General Liability	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Graph
Avg. Cost per Claim	\$2,608	\$5,003	\$2,740	\$4,048	\$4,102	\$44,812	\$32,683	\$19,395	\$19,540	\$9,115	\$33,279	
Frequency Rate (per 10K citizens)	3.9	3.5	3.0	2.5	2.5	2.8	2.7	2.6	2.0	2.6	2.2	
% of Litigated Claims	5%	7%	5%	6%	6%	8%	6%	8%	13%	7%	13%	
% of Open Claims	0%	0%	0%	1%	0%	1%	0%	1%	0%	1%	2%	
Avg. Claim Duration (Days)	349	268	365	327	250	254	293	253	330	253	295	
Avg. Reporting Lag Time	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**Not Available n/a

**Note: Unable to trend beyond 2013

Source: Based on data from Washington Counties Risk Pool 2003 -2013

Our analysis included a review of claims by department. The department names were based on the risk pool's naming convention and may not adequately reflect the County's current department listings. The analysis of claim cost both in litigated and non-litigated shows the same top two departments, CCSO and Roads see Table 11. The departments with the greatest costs associated with claims are those with inherent higher risks due to the nature of the services they provide. Risk identification and treatment efforts should be explored with these departments.

Table 11: Performance Measures Results-general liability- Percentage of claim costs, top 5 departments

General Liability (2003-2013)	1		2		3		4		5	
Loss % by Dept (Non-Litigated)	CCSO - Deputies	50%	Roads	16%	Criminal	7%	Environmental Services	6%	Jail	4%
Loss % by Dept (Litigated)	CCSO - Admin	30%	Roads	25%	Jail	10%	Criminal	7%	SWAT	7%

**Note: Unable to trend beyond 2013

Source: Based on data from Washington Counties Risk Pool 2003 -2013

The Cost of Risk Index and Total Cost of Risk Index show increasing trends in the associated costs to the dedicated funds. Analysis at the claim level shows that though the frequency of the claims in both workers' compensation and general liability are decreasing, litigated claims costs are increasing. The percentage of litigated claims falls below single digit, but average costs are tens of times greater than non-litigated claims. A 2015 Washington State Bar Association report to the Board of Governors details challenges within the state in controlling the escalating costs of civil litigation. The county's policy decision to increase its deductible to one million dollars increases the potential claims costs it must absorb. Efforts to aid in controlling litigated claims costs will require targeted claims analysis and a coordinated response.

Recommendation: (R6) Risk Management office should work with its stakeholders to identify the drivers of litigated claims and their associated costs.

Further analysis is needed at the individual litigated claim level to determine risk identification and targeted risk treatment. The Risk office should utilize the risk process in keeping with adopted CCC 2.95 and best practices.

Summary of Recommendations

Our recommendations to management include: retain and implement CCC 2.95 elements aligned with best practices, design and implement controls activities to improve claim histories, review controls to expanded third-party administrator contract, and consistent application of the risk process to the general liability program. A complete list can be found in section [IV](#). These recommendations will improve claims histories which are the basis of program analysis. Better analysis can improve reporting that will aid decision makers in the administration of an effective and efficient Risk Management function.

IV. Recommendations

1. Retain and implement CCC 2.95 elements aligned with best practice
2. Design controls to ensure Risk Management office's histories are current and complete
3. Design, implement, and monitor controls to ensure outsourced processes meet program goals
4. Apply risk processes consistently between workers' compensation and general liability risk to ensure program objectives
5. Update Clark County Code 2.95 to reflect operational and procedural changes
6. The Risk Management office should work with its stakeholders to identify the drivers of litigated claims and their associated costs

Appendix A: Management's Response



CLARK COUNTY WASHINGTON
INTERNAL SERVICES

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Auditor's Office			
Date:	May 22, 2019		
To:	Clark County Auditor's Office	From:	Kathleen Otto Deputy County Manager Director, Internal Services
RE:	Risk Management Audit Response	CC:	

The Clark County Auditor's Office conducted an audit of Risk Management during the past couple of years. During the time this audit was being conducted, the Risk Manager resigned from Clark County (County) and the Risk Management function moved from General Services to Human Resources.

The Audit outlined the following recommendations:

1. *Retain and implement Clark County Code (CCC) 2.95 elements aligned with best practice.*
2. *Design controls to ensure Risk Management offices' histories are current and complete.*
3. *Design, implement and monitor controls to ensure outsourced processes meet program goals.*
4. *Apply risk processes consistently between workers' compensation and general liability risk to ensure program objectives.*
5. *Update CCC 2.95 to reflect operational and procedural changes.*
6. *The Risk Management office should work with its stakeholders to identify the drivers of litigated claims and their associated costs.*

Overall, Risk Management has already identified areas of improvement prior to the audit being complete. Risk Management has taken steps to implement process improvements as well as develop a course of action for future business process enhancements and implementation. The County appreciates the information outlined in the Audit and provides the following responses to the recommendations:

1. *Retain and implement Clark County Code (CCC) 2.95 elements aligned with best practice.*

Risk Management is committed to ensure compliance with Clark County Code 2.95 as well as alignment with best practices. With that said, the County has started the review process of Clark County Code 2.95 and will be making recommendations to the Clark County Council for approval.

2. *Design controls to ensure Risk Management offices' histories are current and complete.*

Risk Management is developing business processes to ensure that information is kept in a systematic way; safeguarding that information is current and complete. This not only will



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assist with compliance, but will allow the County to fully analyze data; thereby, providing recommendations moving forward to mitigate further risk.

Currently there are four (4) data sources that the County maintains (spreadsheet, ProLaw, 4 year loss run and Civil PA case spreadsheet). Risk Management has been using ProLaw as a tracking software. It should be noted that this is not a claims tracking software, rather a litigation tool that was updated and configured to add a claims module. The reporting capabilities of ProLaw are very limited for Risk Management. Risk Management will continually review best practices and current applications that could enhance the data controls.

3. Design, implement and monitor controls to ensure outsourced processes meet program goals.

Risk Management has already started to develop business processes to ensure the third party administrator is not only adhering to contractual obligations, but also providing necessary information on trends in the industry, trends in Clark County and recommendations moving forward. Risk Management is in constant conversations with the third party administrator as well as the Clark County Prosecuting Attorney's office to ensure contract and program compliance.

4. Apply risk processes consistently between workers' compensation and general liability risk to ensure program objectives.

Both the workers' compensation and general liability risk programs have moved to Human Resources over the last year and are currently being managed as one (1) team. Moreover, leave administration has also been incorporated in this team. This program has started to realize efficiencies through consistent application throughout the County as many of these components crossover one another. The continuation of business processes will enhance this program further.

5. Update CCC 2.95 to reflect operational and procedural changes.

Updates are currently underway with CCC 2.95 and recommendations to the Council are forthcoming.

6. The Risk Management office should work with its stakeholders to identify the drivers of litigated claims and their associated costs.

Risk Management is developing a team of key stakeholders, including, but not limited to, Risk Management, Human Resources, Budget/Finance, Prosecuting Attorney's Office, Sheriff's Office, etc. This team will review trends, costs and provide recommendations for mitigating and reducing risk.

Additionally, Risk Management will work collaboratively with the Prosecuting Attorney's Office to obtain timely estimated legal expenses and settlement amounts based on the PA's legal analysis and recommendation.

Finally, Risk Management will provide updates to the Deputy County Manager on a monthly basis (or more if needed), as well as to the County Manager and County Council per CCC 2.95.

In summary, while Risk Management is committed to mitigating risk to the County through identifying risks and making recommended changes, it is important to state that support and

accountability from the County Manager and the Elected Officials will assist in ensuring a successful Risk Management Program. Again, we appreciate the feedback received from the audit and look forward to presenting changes that will further enhance the County's opportunity to mitigate risk.

Appendix B: Clark County Code 2.95 Risk Management

[CCC](#)

Chapter 2.95 RISK MANAGEMENT RISK MANAGEMENT

Page 1 of 9

Chapter 2.95 RISK MANAGEMENT

Sections:

- [2.95.010](#) Purpose of provisions.
- [2.95.020](#) Definitions.
- [2.95.030](#) Insurance administration.
- [2.95.040](#) Duties of county officers and employees.
- [2.95.050](#) Risk management committee—Created. (REPEALED)
- [2.95.060](#) Claims handling procedures.
- [2.95.070](#) Claims processing procedures.
- [2.95.080](#) Small claims collections.
- [2.95.090](#) Procedure for representing defendant employees.
- [2.95.100](#) Workers' compensation claims.
- [2.95.110](#) Recovery of losses.
- [2.95.120](#) Liability reserve fund.
- [2.95.130](#) Workers' compensation fund.
- [2.95.140](#) Employment security fund. (REPEALED)

2.95.010 Purpose of provisions.

The purpose of this chapter is to establish risk management procedures; provide for the purchase of insurance; improve conditions relating to employee and citizen safety; and provide procedures for dealing with claims and lawsuits for alleged tortious conduct involving the county. (Sec. 1 of Ord. 1987-07-27)

2.95.020 Definitions.

As used in this chapter, the following words and terms shall have the meaning set forth herein:

- (A) "Risk management report" shall mean quarterly reports and an annual report presented to the board at work sessions;
- (B) "Board" means the board of Clark County commissioners;
- (C) "Claim" means (1) any claim for, at least in part, monetary damages against the county, or agents or employees of the county, within the agents' or employees' scope of employment; and (2) any direct damages or loss to county property;
- (D) "Lawsuit" means any lawsuit naming the county or an agent or employee of the county acting within his or her scope of employment, as a defendant or third-party defendant, which lawsuit alleges a cause of action and seeks, at least in part, money damages;

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- (E) "Prosecuting attorney" means the prosecuting attorney of Clark County and such deputies as he or she shall delegate to perform functions referred to herein;
- (F) "Risk management" means a coordinated and continuous management process to identify and analyze potential loss exposures; to apply where possible reasonable and effective processes to transfer and reduce the risk of loss so as to preserve the assets of Clark County;
- (G) "Risk manager" means the person so designated by the board. (Sec. 2 of Ord. 1987-07-27; amended by Sec. 1 of Ord. 1991-11-30; amended by Sec. 1 of Ord. 2008-01-17; amended by Sec. 1 of Ord. 2012-05-31)

2.95.030 Insurance administration.

- (A) Duties of the Risk Manager.
 - (1) The risk manager may negotiate with and recommend the selection of insurance brokers for any type of liability, property and/or casualty insurance and/or officials' bonds as deemed necessary by the board. The broker of record will be selected by the request for proposal (RFP) process as outlined in county and state purchasing guidelines.

The consultant/broker shall be experienced in those fields of insurance for which the consultant/broker is appointed, and shall have prior experience in either consulting or brokering insurance for public entities. The consultant/broker shall have a staff adequate to assist in technical areas as required from time to time by the county. It is anticipated that the consultant/broker will not participate in any commissions on insurance contracts placed on behalf of Clark County, but should be compensated as outlined and approved by the BOCC.
 - (2) The risk manager shall be responsible for recommending to the county administrator the design of insurance programs, the amount of services to be established, and the appropriate retention levels. The reporting mechanism will occur through monthly, quarterly, and annual reports.
 - (3) The risk manager may recommend to all county departments, divisions, and other agencies loss control programs to reduce hazards to the employee and public that may exist in county facilities and operations.
 - (4) The risk manager shall maintain histories of all claims and lawsuits, whether insured or funded self-insurance, loss histories and investigations of claims and incident reports.

- (5) The risk manager or the prosecuting attorney shall make tenders of potentially insured claims to insurance carriers.
 - (6) The risk manager shall prepare such policies and guidelines as are necessary to inform county employees of their responsibilities in relation to accident reporting and risk management policy. These policies and guidelines shall be reviewed and approved by the county administrator. The risk manager shall be responsible for the dissemination of such policies and guidelines.
 - (7) The risk manager may investigate any incidents or conditions, for the purpose of possible litigation and/or preventing future incidents.
- (B) Duties of the Prosecuting Attorney.
- (1) The prosecuting attorney along with the risk manager shall advise and recommend to Clark County departments appropriate contractual clauses providing for indemnity, hold harmless, and insurance. He or she shall review contractual provisions relating to indemnity and hold harmless requirements as part of a coordinated process prior to finalization of all such contracts.
 - (2) The prosecuting attorney, as provided by state law, is responsible for the prosecution and defense of all lawsuits against the county, except where other counsel is provided by insurance coverage or appointed pursuant to RCW [36.22.200](#) or [36.27.040](#). The prosecuting attorney may appear as co-counsel with insurance counsel, where appropriate.
 - (3) The prosecuting attorney shall provide legal advice to all county officials regarding the disposition of all claims and lawsuits against the county. (Sec. 3 of Ord. 1987-07-27; amended by Sec. 2 of Ord. 1991-11-30; amended by Sec. 2 of Ord. 2008-01-17; amended by Sec. 2 of Ord. 2012-05-31)

2.95.040 Duties of county officers and employees.

- (A) Cooperation. All county officials and employees shall cooperate fully with the risk manager and the prosecuting attorney in all investigations, settlements and defenses of claims or lawsuits. All county officials and employees shall follow all claims and/or loss control policies and procedures. All officials and department heads shall provide all information requested by and otherwise assist the risk manager and the prosecuting attorney in the defense of claims and lawsuits. When deemed necessary by the risk manager and/or the prosecuting attorney, such assistance may include, but is not limited to, the providing of testimony and preparation of exhibits for use in litigation.

- (B) Guidelines Re: Communications. Except when authorized by the risk manager or the prosecutor, no county official or employee, acting individually or collectively, shall:
- (1) Negotiate or otherwise effect the settlement of a claim or lawsuit against the county;
 - (2) Make an admission of liability or fact after a claim or lawsuit has commenced or been filed
against the county or where a claim or lawsuit appears probable;
 - (3) Discuss with persons who are not county employees incidents which could reasonably lead to claims or lawsuits against the county, except as necessary to fulfill their employment duties;
 - (4) Make statements, written or oral, with regard to another employee, county premises or operations that would impute liability or negligence to the county in any claim or lawsuit of which the employee has knowledge.
- (C) Employee Responsibility Concerning Accident Occurrence. Any officer or employee shall, in the event of any accident or occurrence, immediately notify the risk manager and, as soon as possible, provide written notice identifying the names and addresses of all persons involved, the time, place and circumstances, and the names and addresses of any injured persons and of any available witnesses. They shall immediately forward to the prosecuting attorney every demand, notice, summons or other process relating to the incident received by him or her or their representative. They shall cooperate with the prosecuting attorney and risk manager or any attorney retained by the county or any claims representative retained by the county upon request, and shall further assist in making settlements, in the conduct of suits, and enforcing any claim or any right of contribution or indemnity against any person or organization who may be liable to the county because of bodily injury, property damage or other loss arising from the accident, incident or occurrence. They shall attend interviews, depositions, hearings and trials and assist in securing the attendance of witnesses upon request. No officer or employee shall voluntarily make any payment, assume any obligation or incur any expense other than for first-aid to others at the time of an accident. (Sec. 5 of Ord. 1987-07-27; amended by Sec. 3 of Ord. 1991-11-30; amended by Sec. 3 of Ord. 2008-01-17)

2.95.050 Risk management committee—Created.

- (Sec. 11 of Ord. 1987-07-27; amended by Sec. 4 of Ord. 1991-11-30; amended by Sec. 4 of Ord. 2008-01-17; repealed by Sec. 3 of Ord. 2012-05-31)

2.95.060 Claims handling procedures.

- (A) Service and Filing. In accordance with state law, claims must be filed with the general services department utilizing the county supplied tort claim form. Service of any summons and complaint must be with the county auditor.
- (B) Transmittal. General services' staff will transmit copies of the claim to the risk manager, prosecutor, and county manager within three (3) days of receipt. The auditor shall immediately forward copies of all summons and complaints to the prosecuting attorney's office, the risk management office, and the clerk of the board.
- (C) Service on Office or Employee. Any county official or employee other than the auditor or deputy auditor who is served with a summons and/or complaint in a lawsuit against the county or any officer or employee of the county acting in their official capacity shall immediately deliver such process to the prosecuting attorney, who will transmit a copy to the risk manager and county manager.
- (D) Independent Adjuster. The risk manager may use the service of an independent adjuster for the investigation and settlement of claims whenever it is deemed to be in the best interest of the county to do so. The independent adjuster will be licensed in the state of Washington, and will carry professional liability coverage in an amount set by the risk manager. (Sec. 4 of Ord. 1987-07-27; amended by Sec. 1 of Ord. 2015-07-05)

2.95.070 Claims processing procedures.

- (A) The risk manager shall have the authority to settle or dispose of claims involving property damage of thirty thousand dollars (\$30,000) or less. This does not apply to claims other than property damage.
- (B) The risk manager shall have the authority to settle or dispose of bodily injury claims of fifteen thousand dollars (\$15,000) or less.
- (C) It shall be the duty of the risk manager to recommend to the prosecuting attorney the settlement and disposal of bodily injury claims of over fifteen thousand dollars (\$15,000) but less than thirty thousand dollars (\$30,000). The risk manager, with the prosecuting attorney's concurrence, shall have authority to settle or dispose of claims of this amount.
- (D) The risk manager, or the prosecuting attorney, shall make recommendations to the county administrator as to proposed settlements or disposal of bodily injury and property damage claims in excess of thirty thousand dollars (\$30,000) and the county administrator shall have the authority to settle such claims in an amount not to exceed fifty thousand

dollars (\$50,000). (Sec. 6 of Ord. 1987-07-27; amended by Sec. 5 of Ord. 1991-11-30; amended by Sec. 5 of Ord. 2008-01-17)

2.95.080 Small claims collections.

- (A) County officials, department heads, or their designees shall have the authority to pursue, collect and/or defend monetary claims within the jurisdiction of small claims court, provided such department shall contact and coordinate such claim with the risk manager.
- (B) The risk manager will coordinate with all county officials, department heads, or their designees, to defend the county in small claims actions alleging tortious conduct on behalf of the county, an agent or employee of the county acting within the scope of employment. Advice can be requested of the prosecuting attorney's office.
- (C) The risk manager may, at his/her sole discretion, pursue, collect, or defend the monetary claims in small claims court.
- (D) County officials, department heads, or their designees are authorized, upon being awarded a judgment in favor of the county in small claims court, to employ a collection agency for services to collect and/or execute on said judgment.
- (E) The risk manager shall be responsible for maintaining records of each and every claim pursued, collected or defended. These records shall include detailed information as to the nature and amount of the claim, the official or department head responsible for its collection or defense, the individual who appeared in court on behalf of the county, and the disposition of the action. (Sec. 7 of Ord. 1987-07-27; amended by Sec. 6 of Ord. 1991-11-30; amended by Sec. 6 of Ord. 2008-01-17)

2.95.090 Procedure for representing defendant employees.

- (A) Agents or employees of Clark County who are named individually in a claim or lawsuit, and wish the county to indemnify or defend them, shall make application to the prosecuting attorney. Such application shall include a complete statement of the act(s) and/or omission(s) complained of, together with copies of any pleadings served and such additional information as may be requested. This application shall be submitted to the prosecuting attorney's office no later than ten (10) calendar days after service of process upon the applicant. If submission is not made within the ten (10) calendar day period, the prosecuting attorney may refuse to protect, provide defense or hold the applicant harmless in the legal action in question unless the applicant demonstrates that they had a reasonable excuse for the failure to comply with the time requirement.

- (B) Upon receipt of copies of all pleadings, the prosecuting attorney is authorized to appear in such action to the extent permitted by state law in order to maintain the status quo in the proceedings pending decision as to whether and on what terms legal counsel or indemnity will be provided.
- (C) Upon referral, the prosecuting attorney shall prepare a synopsis of the nature of the legal action and whether or not, in his/her opinion, the applicant acted in good faith and purported to act within the scope of his or her official duties, and forward such synopsis or meet with the board for a determination of whether the employee shall be provided a defense.
- (D) The board shall decide whether to defend or indemnify the official or employee pursuant to Chapter [2.97](#).
- (E) In the event the defendant officer or employee is protected by a policy of liability insurance, the policy shall be relied upon by the officer or employee to the extent that such policy insures the official or employee. If the officer or employee will suffer losses and/or expenses not covered by the policy, the county may provide protection for such excess losses and/or expenses. (Sec. 8 of Ord. 1987-07-27; amended by Sec. 7 of Ord. 2008-01-17; amended by Sec. 4 of Ord. 2012-05-31)

2.95.100 Workers' compensation claims.

- (A) Workers' compensation claims shall be reported and filed with the risk manager or designee in the manner and on the forms prescribed by RCW Title [51](#).
- (B) Workers' compensation claims shall be processed and resolved per RCW Title [51](#).
- (C) The risk manager may use the services of a claims administrator for the investigation and settlement of claims whenever it is deemed to be in the best interests of the county. The administrator shall be licensed in the state of Washington and carry professional liability coverage in an amount set by the risk manager. (Sec. 9 of Ord. 1987-07-27; amended by Sec. 8 of Ord. 2008-01-17)

2.95.110 Recovery of losses.

The risk manager shall be responsible for collecting such claims as defined in this chapter as he is requested to collect by the affected county officer, department or division. Any lawsuit or other proceeding to collect a claim, other than in a small claims court, shall be subject to the responsibility and control of the prosecuting attorney in conjunction with the risk manager. (Sec. 10 of Ord. 1987-07-27)

2.95.120 Liability reserve fund.

- (A) The county shall maintain an account known as the liability reserve fund. Such account shall be funded and administered as follows:
- (1) Contributions by the various departments to the liability reserve fund shall be determined during the annual budgeting process. The amounts will be in accordance with a formula proposed by the risk manager and approved by the county administrator. Contributions to the fund will be made quarterly.
 - (2) The accumulated reserves in the liability reserve fund should be maintained at an actuarially sound level.
 - (3) The treasurer shall invest according to the established county policy, the principal sums appropriated to the liability reserve fund, and any interest earned thereon shall accrue to such fund.
- (B) The following classes of expenditures may be made from the liability reserve fund:
- (1) Amounts for payments for liability claims involving bodily injury, personal injury, and property damage;
 - (2) Premiums for insurance as may be placed for the county at the direction of the board;
 - (3) Costs and expenses related to the administration, prevention, investigation, adjustment and litigation of the program;
 - (4) Amounts for payments arising out of the direct damage to all types of county property. (Sec. 12 of Ord. 1987-07-27; amended by Sec. 7 of Ord. 1991-11-30; amended by Sec. 9 of Ord. 2008-01-17; amended by Sec. 5 of Ord. 2012-05-31)

2.95.130 Workers' compensation fund.

- (A) The county shall maintain an account known as the "workers' compensation fund." Such account shall be funded and administered as follows:
- (1) Contributions to the workers' compensation fund shall be made by the various departments in accordance with a formula proposed by the risk manager and approved by the risk management executive committee. Contributions will be computed annually by the risk manager.
 - (2) The accumulated reserves in the workers' compensation fund should be maintained at an actuarially sound level.

- (3) Monthly contributions shall be made by the various departments to the fund.

The treasurer shall invest, according to the established county policy, the principal sums appropriated to the workers' compensation fund, and any interest earned thereon shall accrue to such fund.

- (B) The following classes of expenditures may be made from the workers' compensation fund:
 - (1) Amounts for payments for workers' compensation claims involving injury to employees and/or volunteers as established by the risk manager;
 - (2) Premiums for excess insurance as may be placed for the county at the discretion of the county commissioners through the risk manager;
 - (3) Costs and expenses related to the administration, prevention, investigation, adjustment and litigation of the program. (Sec. 13 of Ord. 1987-07-27; amended by Sec. 8 of Ord. 1991-11-30; amended by Sec. 10 of Ord. 2008-01-17)

2.95.140 Employment security fund.

(Sec. 9 of Ord. 1991-11-30; repealed by Sec. 11 of Ord. 2008-01-17)

The Clark County Code is current through Ordinance 2019-01-04, passed January 15, 2019.

Disclaimer: The Clerk of the Board's Office has the official version of the Clark County Code. Users should contact the Clerk of the Board's Office for ordinances passed subsequent to the ordinance cited above.

County Website:

<http://www.clark.wa.gov/>

(<http://www.clark.wa.gov/>)

County Telephone: (360) 397-2232

Code Publishing Company

(<https://www.codepublishing.com/>)

Appendix C: Objectives, Scope, and Methodology

Objectives

- (1) To determine how effective the Risk Management function is in identifying, analyzing, communicating and responding to loss exposure.
- (2) Determine how efficient the Risk Management function is at reducing the risk of loss.

Scope

This audit includes injury data from 2009 through 2017; general liability claims data from 2003 through 2017, expense data 2005 through 2018, and budget data 2009 through 2016. We also reviewed current management efforts and leading risk management practices. This was not a claims adjustment audit; our review included the claims documentation practices associated with the Risk office.

Methodology

Our approach was to work with the Risk Management office; associated department/office personnel with the risk process were contacted for brief interviews and/or documentation requests. These departments/offices include, Human Resources, Public Works, Sheriff Office and Prosecuting Attorney's Office. We collected and analyzed practices in claims processing; injury claims data, general liability claims data, budgets and costs data associated with their administration. Activities in various departments were considered to evaluate how information had been processed, approved, and communicated.

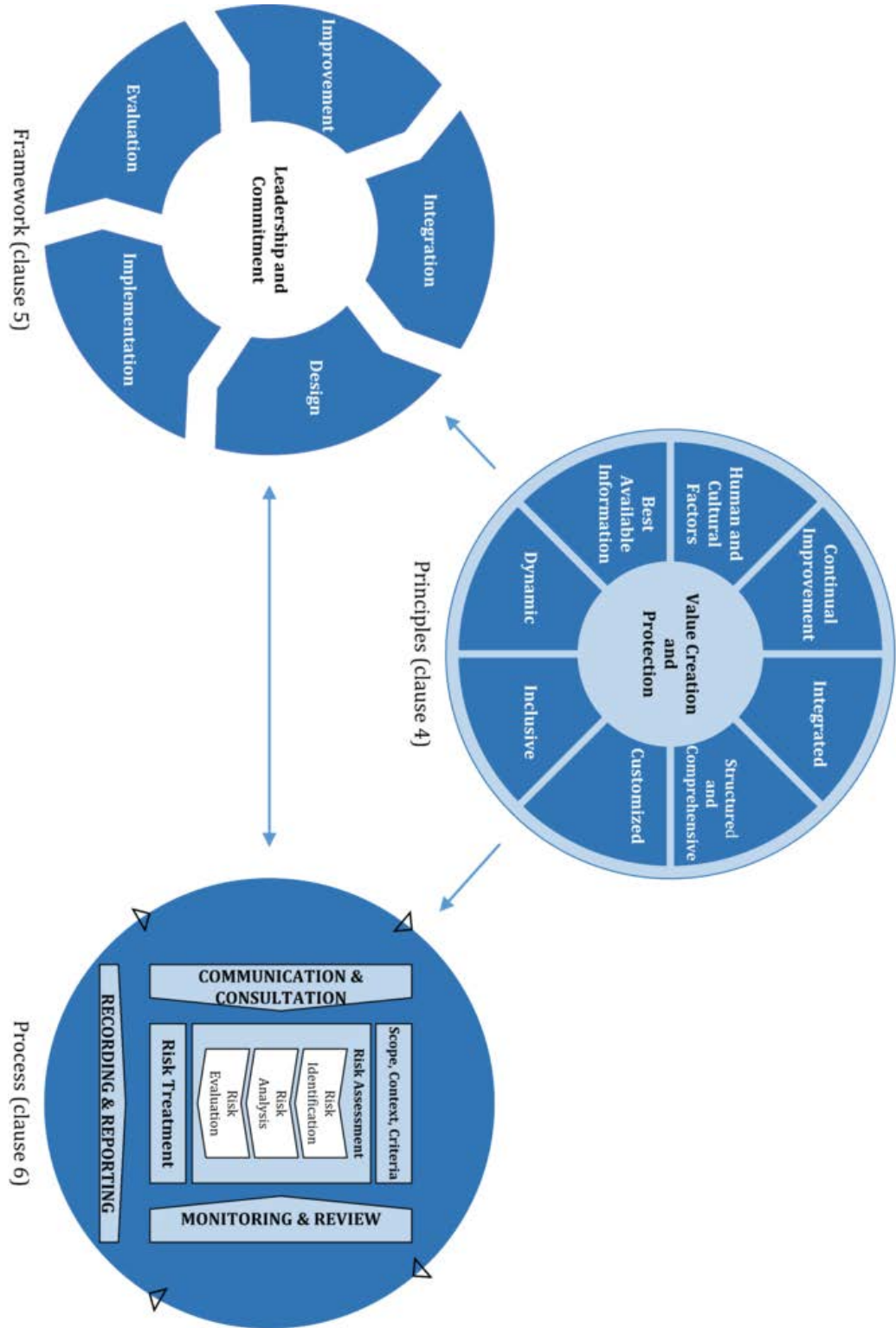
Samples were used during our analysis. Stop-or-go sampling, attribute sampling, 90% reliability with a 0% rate of occurrence, tolerance rate of occurrence 8%, expense sample size 30, and claims sample size 30. Three files were added for additional review, 15 of the 33 had associated payments. Due to concerns in data and claims histories reliability results should not be projected to the larger population.

Analysis of datasets included data management best practices, industry performance measures and indices. Department practices were compared to adopted policies, procedures, and relevant ordinance. Analysis is for directional use only due to limitations in expense categorization and general liability data's span ending in 2013.

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 findings and conclusions based on our audit objectives.

Appendix D: ISO 31000 Risk Management Guidelines Chart (2018)

[ISO 31000 Risk management-Guidelines \(preview\)](#)



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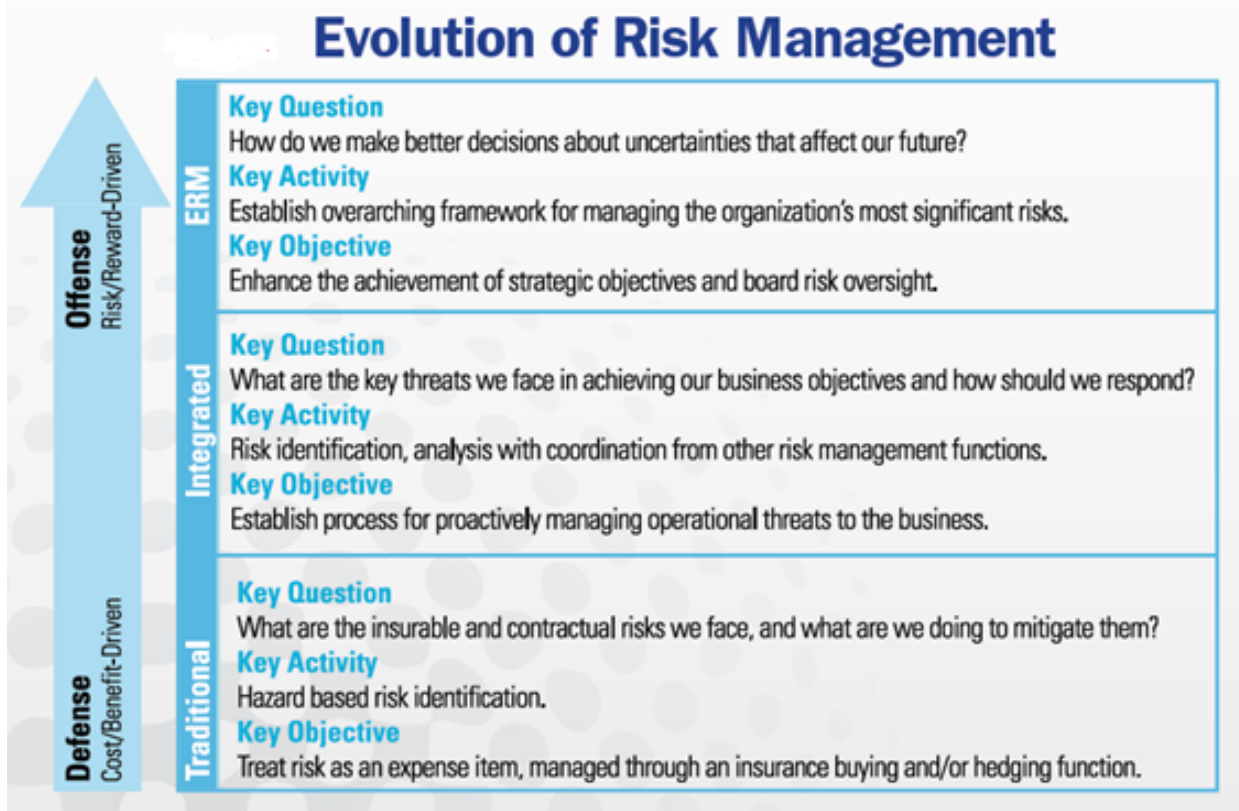
Appendix E: RIMS Risk Management Professional Core Competency Model



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Appendix F: IIA & RIMS Evolution of Risk Management

Risk Management and Internal Audit Forging a Collaborative Alliance



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Appendix G: One City's Approach

GFOA Risk Management an Unrealized Opportunity for Revenue

An October 2010 Government Finance Review article from the Government Finance Officers Association (GFOA) highlighted the City of Petaluma California response to risk funding challenges. The City of Petaluma employed a strategy that was focused on risk avoidance, applied measures to try to recover money that was owed or could be rebated and applied mitigation activities. Program activities were documented, measured and active communication with internal/external stakeholders aided in their success at reducing risk at their City.

Worker's Compensation Reserve Fund	-\$2.2 Million
Risk Reserve Fund	-\$438,496
New Claims	Up 20 Percent
Active Inventory Claims	85
Active Litigation Claims	50
Contract Risk Transfer of Claims	Unknown
Recovered Insurance Benefits to Date	None
Claims Subrogation Recovery	\$1,200
Insurance Coverage	Insufficient
Insurance Premiums	Rising

"Reducing claim frequency and severity and introducing risk management best practices gave the city an opportunity to receive future rebates and to decrease its insurance premiums"

Worker's Compensation Reserve Fund	+\$6.59 Million
Risk Reserve Fund	+\$6.667 Million
New Claims	Down 40 Percent
Active Inventory Claims	Down 74 Percent
Active Litigation Claims	Down 88 Percent
Contract Risk Transfer of Claims	Up \$4 Million
Recovered Insurance Benefits to Date	Up \$1.442 Million
Claims Subrogation Recovery	Up \$612,874
Insurance/Self-Insurance	Up \$656,607
Insurance Coverage	Expanded and Limits Raised
Insurance Premiums	Down 32 Percent

Though City of Petaluma 2010 success is reflective of their operating environment, similar results could be achieved by the county.

Appendix H: Performance Measures Tables

Table 8: Performance Measures Results-workers' compensation

Workers' Compensation	2009	2010	2011	2012	2013	2014	2015	2016	2017	Graph
Avg. Cost of Claim	\$15,492	\$10,809	\$7,113	\$5,337	\$4,821	\$6,513	\$7,444	\$10,874	\$5,606	
Frequency Rate Per 100 Employees	5.0	5.4	5.5	5.5	5.6	5.4	5.3	5.3	5.3	
% of Annual Indemnity Claims	46%	54%	40%	39%	38%	48%	53%	52%	47%	
% of Litigated Claims	2%	1%	1%	0%	1%	0%	1%	6%	2%	
Annual Cost Per FTE	\$778	\$614	\$389	\$327	\$331	\$321	\$446	\$577	\$283	
% of Open Claims	2%	0%	1%	1%	1%	0%	5%	10%	23%	
Avg. Claim Duration (Days)	400	458	324	332	291	236	302	254	186	
Costs as % of Payroll	1.30%	1.17%	0.46%	0.51%	0.50%	0.52%	0.74%	0.77%	0.38%	
Avg. Reporting Lag Time (Days)	68	78	31	67	42	27	34	36	33	

Source: Based on data from Third-party administrator 2009-2017

Workers' Compensation (2009-2017)	1	2	3	4	5					
% by Part of Body	Back, lower	20%	Knee, right	19%	Shoulder, right	7%	Multiple Body Parts	6%	Shoulder, left	6%

Source: Based on data from Third-party administrator 2009-2017

Table 10: Performance Measures Results-general liability

General Liability	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Graph
Avg. Cost per Claim	\$2,608	\$5,003	\$2,740	\$4,048	\$4,102	\$44,812	\$32,683	\$19,395	\$19,540	\$9,115	\$33,279	
Frequency Rate (per 10K citizens)	3.9	3.5	3.0	2.5	2.5	2.8	2.7	2.6	2.0	2.6	2.2	
% of Litigated Claims	5%	7%	5%	5%	6%	8%	6%	8%	13%	7%	13%	
% of Open Claims	0%	0%	0%	1%	0%	1%	0%	1%	0%	1%	2%	
Avg. Claim Duration (Days)	349	268	365	327	250	254	293	253	330	253	295	
Avg. Reporting Lag Time	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**Not Available n/a

**Note: Unable to trend beyond 2013
Source: Based on data from Washington Counties Risk Pool 2003-2013

Table 11: Performance Measures Results-general liability- Percentage of claim costs, top 5 departments

General Liability (2003-2013)	1	2	3	4	5
Loss % by Dept (Non-Litigated)	CCSO - Deputies	Roads	Criminal	Environmental Services	Jail
Loss % by Dept (Litigated)	CCSO - Admin	Roads	Jail	Criminal	SWAT
	50%	16%	7%	6%	4%
	30%	25%	10%	7%	7%

**Note: Unable to trend beyond 2013
Source: Based on data from Washington Counties Risk-Pool 2003-2013