



Internal Audit Report

Comprehensive Operational Audit
Risk Management Department

January 1, 2010– December 31, 2011

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a comprehensive operational audit of the Risk Management Department.

We reviewed information relating to the Risk Management Department from January, 1 2010, through December 31, 2011.

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.

We extend our appreciation to the Risk Management staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objectives The purpose of the audit was to determine whether management has implemented adequate controls to ensure:

- Policies and procedures are followed and kept current
- Performance measures are tracked
- Receipts are properly accounted for

We reviewed information for the period January, 1 2010, through December 31, 2011.

Background The Risk Management Department provides many services and performs many tasks for the benefit of the Port as a whole: 1) incident reporting, 2) claims management, 3) contractual risk analysis, 4) risk financing, 5) insurance purchasing, 6) driver safety training, 7) enterprise risk assessments and 8) special event management. The Department also has a role in self-funding for employee health benefits, fleet management as it pertains to driver safety, contractual liability management with the Central Procurement Office, construction safety and management of the federally mandated drug testing requirements for commercial driver license holders (emphasis in 2012 is on the new hires for the rental car facility busing operations). Risk Management uses broker intermediaries to purchase commercial insurance policies that pay for losses exceeding the self-insured retention of \$1 million. Reported incidents number approximately 700 per year, with less than one percent becoming claims.

Departments throughout the Port are responsible for all liability and property claim and litigation costs not covered by property and general liability insurance up to the Port's \$1 million self-insured retention, including outside attorney services. Departments do not budget for these types of uncertain losses and related claims as they generally fall within the Port's self-insured retention (deductible). However, claims and losses may exceed the available limits of coverage, may relate to events for which there is no insurance available or where the Port chose not to purchase insurance.

There were 4,289 incidents for the five year period 2007-2011 in the incident-tracking database. The following totals include Worker's Compensation incidents, which are not included in the scope of this audit:

<i>Year</i>	<i>Incidents</i>
2007	850
2008	921
2009	823
2010	801
2001	894

Audit Result Summary The Risk Management Department has adequate controls to ensure policies and procedures are followed and kept current, performance measures are tracked and receipts are properly accounted for.

Background

The Risk Management Department provides many services and performs many tasks for the benefit of the Port of Seattle as a whole: 1) incident reporting, 2) claims management, 3) contractual risk analysis, 4) risk financing, 5) insurance purchasing, 6) driver safety training, 7) enterprise risk management assessments and 8) special event management. The Department also has a role in self-funding for employee health benefits, fleet management as it pertains to driver safety, contractual liability management with the Central Procurement Office, construction safety and managing the federal mandated drug testing requirements for commercial driver license holders (emphasis in 2012 is on the new hires for the rental car facility busing operations). Risk Management uses broker intermediaries to purchase commercial insurance policies that pay for losses exceeding the self-insured retention. The Risk Management Department uses industry claims management software to track all reported incidents, adjust claims and monitor litigation.

The incidents in the table below include worker's compensation incidents, which are tracked in the same database, but are not the responsibility of the Risk Management Department. Of the incidents cited below, Risk Management is responsible for approximately 700 incidents annually.

<i>Year</i>	<i>Incidents</i>
2007	850
2008	921
2009	823
2010	801
2001	894
Total	4,289

Port departments are directly responsible for all liability and property claim and litigation costs not covered by property and general liability exposures up to the Port's \$1,000,000 self-insured retention. These costs are borne by the business unit that manages the operation or the revenue center where the liability arises. Departments do not budget for these losses, as they generally fall within the Port's self-insured retention. However, claims may exceed the available limits of coverage, may relate to events for which there is no insurance available or may be areas for which the Port chose not to purchase insurance. The Port establishes reserves to cover potential claims costs.

The Port had an owner controlled insurance program from 2001 to 2008, to manage claims and provide insurance coverage for the major capital program at the airport, which included the AOB, CTE, Third Runway, STS Upgrade and several other projects. Although the program ended in 2008, the policies are still active to receive and respond to claims through 2016. This program will generate refunds on Port collateral, premium refunds and interest earnings on collateral.

The following tables depict the top ten incident locations and the top six incident types relative to incidents that involve property damage and bodily injury.

Top 8 Incident Locations	2007	2008	2009	2010	2011	Total
Escalator	113	131	126	171	199	740
Parking Garage	58	53	52	53	55	271
AOA/Ramp	28	71	30	34	50	213
Parking Lot	31	39	31	36	44	181
Street	37	49	27	35	28	176
Main Terminal	30	33	37	30	26	156
Dock	12	27	18	20	22	99
Baggage Claim	25	28	28	10	14	105
Grand Total	334	431	349	389	438	1941

Source: RiskMaster – incident tracking and claims management database

Top 6 Incident Types	2007	2008	2009	2010	2011	Total
General Liability Aviation Bodily Injury	351	322	310	353	347	1683
Vehicle Incident - First Party Only	19	49	44	47	73	232
General Liability Aviation Property	43	77	66	35	63	284
Port Property Loss Real Estate	1	3	29	27	48	108
Port Property Loss Aviation	34	50	24	33	45	186
Vehicle Incident	62	77	60	63	39	301
Grand Total	510	578	533	558	615	2794

Source: RiskMaster – incident tracking and claims management database

Financial Highlights

Reserves declined significantly in 2011, due to settlement of litigated claims.

Insurance Premiums	Actual 2010	Actual 2011	Budget 2012
Property Insurance Premiums	1,180,332	1,216,743	1,400,000
Liability Insurance Premiums	670,000	692,000	725,000
Claims and Litigation Reserves	10,838,315	2,400,000	2,600,000
Driver Program Liability Costs	13,300	25,000	50,000
Workers Compensation Self Insured Reserves	1,333,000	1,200,000	1,400,000
Driver Program Physical Damage Costs	31,300	20,000	35,000

Source: 2012 Budget Summary

DESCRIPTION	2010	2011	2011
	ACTUAL	ACTUAL	BUDGET
OPERATING REVENUE	0	0	0
OPERATING EXPENSE			
SALARIES & BENEFITS	547,697	522,392	551,050
OTHER OPERATING AND MAINTENANCE	87,659	22,139	33,268
TOTAL OPERATING & MAINTENANCE EXPENSE	635,356	544,531	584,318

Source: Responsibility Reports

Highlights and Accomplishments

Claims Review

In May 2010, a claims officer from an insurance carrier independently reviewed the Port's claims management program. This review encompassed handling procedures and a sample of 33 claims, which represented a cross section of losses spanning several operations, including those at the airport, seaport, cruise and moorage terminals, as well as vehicular accidents and situations giving rise to employment related claims. The conclusion was that the overall management of the process was very professional, from the investigation to liability assessment to evaluation of damages to negotiation of settlements.

Claims Management

The claims program generates approximately \$1,000,000 in reserves and self-insured retentions each year, as well as payments of approximately \$300,000 per year to claimants and service providers. The Risk Management Department is responsible for the management and resolution of approximately 700 events per year, which involve a wide variety of property and liability. The coverage, exclusions, self-insured retentions and deductibles vary widely with retentions up to \$1,000,000 and policy limits up to \$500,000,000.

Enterprise Risk Management

Enterprise Risk Management had been discussed for a number of years at the Port. In 2010 a pilot study was done for Harbor Services. The Port used a consulting firm to assist the Port and educate management on a risk assessment framework. In 2011, another ERM project was conducted, which involved the ICT Corporate Services Department. This latter study was performed without consultants. Results of both assessments were presented to the Audit Committee.

Liability and Property Insurance Broker Selection

A five-year contract with a national brokerage firm was signed in May 2011, after a competitive process and a team evaluation of the proposal, to assist the Port with its liability risk management (including claims and procurement of insurance). A three-year contract was signed in March 2012, following a separate competitive process, to select a broker to assist the Port with the purchase of its property insurance, equipment breakdown inspections and property claims management.

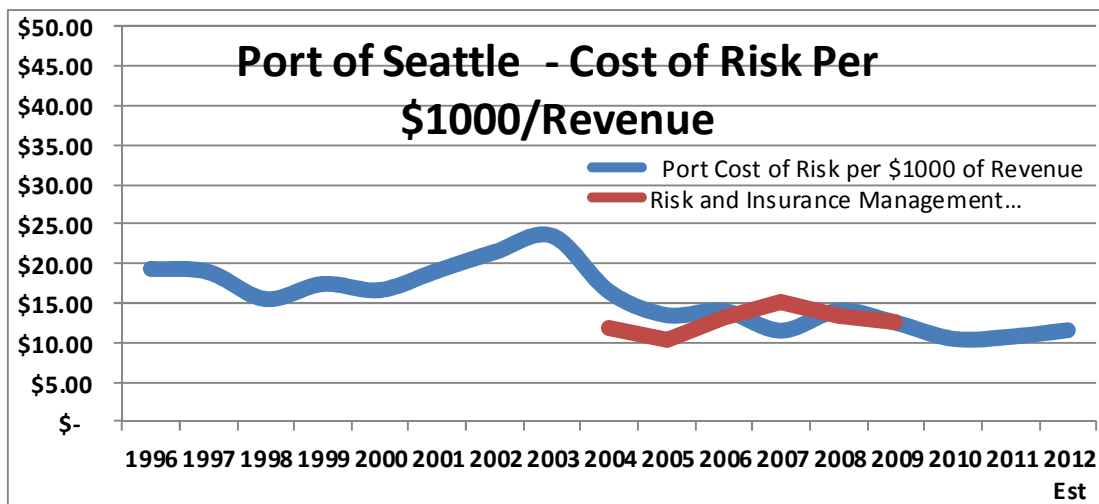
Driver Safety

Risk Management oversees the driver safety program, which covers all Port drivers as well as specialized drivers that require commercial driver licenses. This program covers the Port's self-insured auto program, the management of first-party and third-party auto claims, recovery of damages from liable third parties, maintaining a list of employees eligible to drive, driver training and communication of safety performance criteria through the Port's Health and Safety Program. Since the Port began its self-insurance program in 2003, savings are approximately over \$3.5 million dollars, with an additional amount of over \$150,000 collected from the parties responsible for physical damages to Port-owned vehicles.

Self-Funded Employee Benefit Programs

In 2009, Risk Management initiated the Port's research into the merits of self-funding medical and dental benefits for the Port. Self-funding provides more control over benefits offered and cost savings of profit that would otherwise go to the insurance company. Transition to the self-funded program began in 2010, with 2011 the first year of implementation, covering about 950 employees. Total incurred costs for 2011 medical claims were \$10.3 million (\$1.1 million below the budgeted costs). Total incurred costs for 2011 dental claims were \$1.3 million (\$190,000 below the budgeted costs). The run of claims from the 2010 (and prior) fully insured plans with Premera will result in the Port receiving an estimated \$2 million refund of its Premium Stabilization Reserve in 2012, after the reserve is closed.

Cost of Risk - Risk and Insurance Management Society (RIMS) Benchmark Survey



Note-The Port's Cost of Risk is in line with industry standards.

Review of Contracts

Risk Management reviews over one hundred contracts annually, which include leases, MOAs, interlocal agreements, personal and professional service agreements and construction contracts. The department's review ensures that insurance and indemnity requirements are adequate. Risk

Management participated in the CPO-led study team in 2011 (Service Agreement Advisory Committee), which reviewed CPO-1 and recommended changes to facilitate utilization and execution of this policy for service agreements.

Audit Scope and Methodology

We reviewed information for the period 2010-2011 and analyzed reported incidents for a five-year period (2007-2011). We utilized a risk-based audit approach, from planning to testing. We gathered information through interviews, observations and analytical reviews, in order to obtain a complete understanding of the operations and responsibilities of the Risk Management Department.

We applied detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- We reviewed Policy EX-7, which guides incident reporting, and Policy EX-14, which guides driver safety.
 - We determined whether the policies had been reviewed and updated, as necessary.
- We reviewed the performance measures used by the department to determine whether appropriate and reasonable.
 - We compared performance measures to industry standards, to determine whether comparable.
 - We determined whether performance measures were related to goals and objectives.
- We identified receipts flowing directly into the Risk Management Department and determined whether properly accounted for.
 - We determined whether receipts had been deposited timely
 - We determined whether receipts had been properly recorded

Conclusion

The Risk Management Department has adequate controls to ensure policies and procedures are followed and kept current, performance measures are tracked and receipts are properly accounted for.