

Performance Update

**Board of Risk and Insurance
Management**

BRIM Reported Positive Earnings During FY 2005, in Large Part By Increases in Premium Revenues from the State Agencies Program, But Continued to Have an Unfunded Liability in the Senate Bill 3 Program

BRIM's Loss Control Staff Prioritizes Loss Control Recommendations When Working With Insured Entities to Ensure Compliance



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John Sylvia
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January 9, 2006

The Honorable Edwin J. Bowman
State Senate
129 West Circle Drive
Weirton, West Virginia 26062

The Honorable J.D. Beane
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Performance Update of the *Board of Risk and Insurance Management*, which will be presented to the Joint Committee on Government Operations on Monday, January 9, 2006. The issues covered herein are "BRIM Reported Positive Earnings During FY 2005, in Large Part By Increases in Premium Revenues from the State Agencies Program, But Continued to Have an Unfunded Liability in the Senate Bill 3 Program;" and "BRIM's Loss Control Staff Prioritizes Loss Control Recommendations When Working With Insured Entities to Ensure Compliance."

We transmitted a draft copy of the report to the Board of Risk and Insurance Management on December 22, 2005. The Board of Risk and Insurance Management opted not to have an exit conference. We received the agency response on January 5, 2006.

Let me know if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "John Sylvia".

John Sylvia

JS/wsc

Joint Committee on Government and Finance

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Executive Summary

Issue 1: BRIM Reported Positive Earnings During FY 2005, in Large Part By Increases in Premium Revenues from the State Agencies Program, But Continued to Have an Unfunded Liability in the Senate Bill 3 Program.

During FY 2005, positive retained earnings reached \$526,804. This is the first time since FY 1999 that BRIM has had positive earnings, which reached \$2.3 million during FY 1999.

During recent years, BRIM has utilized premium rate increases in the State Agencies, SB 3 and Medical Malpractice (BRIM II) programs as a means to reduce the unfunded liability. The Legislature also made appropriations to BRIM in the following amounts, for the purpose of reducing the unfunded liability: \$1,907,904 for FY 2003, \$1,942,000 for FY 2004 and \$2,000,000 for FY 2005. BRIM has also made special assessments for insured entities in the State Agencies and SB 3 Programs for the same purpose.

However, there is an unfunded liability of over \$27 million in the SB 3 Program in FY 2005.

Since FY 2003, BRIM has made rapid progress in eliminating the unfunded liability. BRIM has placed particular emphasis on reducing the unfunded liability that previously existed in the State Agencies Program. In the past fiscal years the recent reduction in the unfunded liability was the result of increases in revenues from the State Agencies, SB 3, and Mine Subsidence Programs. During FY 2005, positive retained earnings reached \$526,804. This is the first time since FY 1999 that BRIM has had positive earnings, which reached \$2.3 million during FY 1999. Fiscal year 2005 was also the first year that the State Agencies Program has had positive retained earnings since BRIM began maintaining separate retained earnings data for each insurance program in FY 1998.

Clearly, BRIM has not yet made significant progress in eliminating the SB 3 Program's unfunded liability. By emphasizing premium increases and surcharges, BRIM was able to reduce the State Agencies Program from an unfunded liability of \$26.9 million in FY 2003, to positive earnings of \$7.2 million in FY 2005. The SB 3 program had an unfunded liability of \$26.5 million in FY 2003, a figure which almost matched the unfunded liability of the State Agencies Program at that time. **The Legislative Auditor recommends that BRIM focus its efforts on eliminating the unfunded liability that still exists in the SB 3 Program as it has with the State Agencies Program.**

Issue 2: BRIM's Loss Control Staff Prioritizes Loss Control Recommendations When Working With Insured Entities to Ensure Compliance.

BRIM continues to pay over a half million dollars annually to loss control vendors. BRIM allocates loss control staff to follow up on loss control recommendations issued by vendors. The amount spent on loss control vendors has been fairly consistent during recent years.

BRIM feels that most loss control recommendations are of relatively minor importance and prioritizes its efforts when encouraging compliance.

Since the last preliminary performance review, BRIM has informed the Legislative Auditor's staff that there is a system for prioritizing Hartford Steam Boiler recommendations and that both the contractor and BRIM make efforts to ensure compliance. While Hartford Steam Boiler has made additional inspections and loss control recommendations to insured entities, BRIM has received fewer documented responses by insured entities regarding recommendations. The Shirmer Engineering Corporation performs the vast majority of loss control inspections for BRIM. The most notable development during FY 2005 was that the number of documented responses to recommendations from Schirmer Engineering during the current year declined by 29%. BRIM feels that most loss control recommendations are of relatively minor importance and prioritizes its efforts when encouraging compliance. BRIM is in compliance with Recommendation 3 of the February 2005 report, which recommended that BRIM follow-up on all categories of loss control recommendations. The Legislative Auditor recognizes that the most serious loss control recommendations should take priority when contacting insured entities.

The Legislative Auditor recognizes that the most serious loss control recommendations should take priority when contacting insured entities.

While tracking the number of and responses to loss control vendor recommendations is an easily-quantifiable method to track loss control activity, the Legislative Auditor recognizes that BRIM takes other loss control actions that are more difficult to measure. Currently, BRIM employs three technical representatives who not only prioritize the delivery of services to customers but also make on-site visits to insured entities. During FY 2005, BRIM's technical representatives averaged 10 visits to customers per month and 7 visits per month during FY 2004. BRIM did not maintain records of on-site visits prior to 2003. Given that BRIM has a loss control staff that includes a loss control manager and two loss control specialists, on-site visits may account for a considerable amount of staff time.

BRIM is currently evaluating the success of on-line driver safety training and weighing this against the cost, which is a reasonable step before expanding the program and consistent with recommendation 4 of the February 2005 preliminary performance review.

Recommendations:

1. *The Legislative Auditor recommends continuing the Board of Risk and Insurance Management.*
2. *BRIM should focus its efforts on eliminating the unfunded liability that still exists in the SB 3 Program as it has with the State Agencies Program.*

Review Objective, Scope and Methodology

The objective of the Performance Update of the Board of Risk and Insurance Management (BRIM) is to provide a status report on issues reported in earlier preliminary performance reviews of BRIM. This report seeks to address the following issues:

1. The status of BRIM's plan to eliminate its unfunded liability; and
2. Updates on the loss control-related issues from the February 2005 Preliminary Performance Review.

Scope

The scope of this review focuses on developments since the last report in February 2005, but extends as far back as Fiscal Year 1997 to provide the recent history of the issues discussed.

Methodology

BRIM provided financial information, including annual reports and financial statements used to indicate the status of the unfunded liability. BRIM also provided information used to update the status of loss control-related recommendations made in February 2005 by the Legislative Auditor. This included information on the amounts spent by BRIM for loss control vendor services, data on responses by insured entities to loss control recommendations, data on the number of on-site visits made by BRIM loss control staff. BRIM also provided information on its loss control policies and method for prioritizing loss control recommendations for the purpose of working with insured entities. This update was conducted in accordance with Generally Accepted Government Auditing Standards.

Issue 1

BRIM Reported Positive Earnings During FY 2005, in Large Part By Increases in Premium Revenues from the State Agencies Program, But Continued to Have an Unfunded Liability in the Senate Bill 3 Program.

BRIM has also made special assessments for insured entities in the State Agencies and Senate Bill 3 Programs for the same purpose. As a result, during FY 2005, BRIM's retained earnings reached \$526,804.

Issue Summary

During recent years, BRIM has utilized premium rate increases in the State Agencies, Senate Bill 3¹ and Medical Malpractice (BRIM II) Programs as a means to reduce the unfunded liability. The Legislature also made appropriations to BRIM in the following amounts, for the purpose of reducing the unfunded liability: \$1,907,904 for FY 2003, \$1,942,000 for FY 2004 and \$2,000,000 for FY 2005. BRIM has also made special assessments for insured entities in the State Agencies and Senate Bill 3 Programs for the same purpose. As a result, during FY 2005, BRIM's retained earnings reached \$526,804. This was the first time since FY 1999 that BRIM reported positive earnings. The SB 3 Program is the only remaining BRIM program that still has an unfunded liability. BRIM was able to bring the State Agencies Program from an unfunded liability of \$26.9 million in FY 2003, to positive earnings of \$7.2 million in FY 2005. The SB 3 program had an unfunded liability of \$26.5 million in FY 2003, a figure which almost matched the unfunded liability of the State Agencies Program at that time. **The Legislative Auditor recommends that BRIM focus its efforts on eliminating the unfunded liability that still exists in the SB 3 Program as it has with the State Agencies Program.**

BRIM's Plan to Eliminate Its Unfunded Liability

The November 2003 report on the Performance Update of BRIM described BRIM's financial plan to eliminate the unfunded liability:

¹The Senate Bill 3 Program provides insurance to boards of education, county commissions, cities and towns, as well as other governmental entities and many non-profit organizations around the state.

BRIM has developed a financial plan to eliminate the unfunded liability. For the last three years BRIM has made an assessment to SB3 insureds, in addition to standard premium charges, totaling \$1 million. This assessment is divided among the 1,400 entities in this program. Beginning in FY 2004, state agencies will also be assessed an additional \$1 million. BRIM will continue to request \$2 million annually from the Legislature to be applied towards the unfunded liability. In describing the program, a BRIM representative stated:

If all agencies pay their respective amounts, practice good loss control, and losses don't continue to deteriorate, we expect that we can eliminate the unfunded liability within 10 years.

During recent years, BRIM has utilized premium rate increases in the State Agencies, SB 3 and Medical Malpractice (BRIM II) Programs as a means to reduce the unfunded liability.

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BRIM's Executive Director recently commented on the factors that have led to the Board's positive retained earnings during FY 2005:

The elimination of the Unfunded Liability is as a result of several factors. In view of the fact that the claim liability projection, as prepared by our independent actuaries, has continued to annually increase, we realized it was imperative that we adjust premiums accordingly, rather than to continue operating at a loss. Consequently, premiums for State Agencies and for Senate Bill #3 entities were increased proportionately. Secondly, we implemented very aggressive loss control measures that included personal visitations with agency representatives and advised them in areas to either reduce or eliminate the opportunities of an occurrence that would give rise to a loss. Thirdly, the investment income on premium revenue increased as compared to last year.

Increases in Premium Revenues from State Agencies Account for the Elimination of the Unfunded Liability in All Insurance Programs Except the Senate Bill 3 Program

Table 1 illustrates the recent development of BRIM'S unfunded liability. Since FY 2003, BRIM has made rapid progress in eliminating the unfunded liability. BRIM has placed particular emphasis on reducing the unfunded liability that previously existed in the State Agencies Program. The recent reduction in the unfunded liability was largely the result of increases in revenues from the State Agencies, SB 3, and Mine Subsidence Programs. During FY 2005, positive retained earnings reached \$526,804. This is the first time since FY 1999 that BRIM has had positive earnings, which reached \$2.3 million during FY 1999. Fiscal Year 2005 was also the first year that the State Agencies Program has had positive retained earnings since BRIM began maintaining separate retained earnings data for each insurance program in FY 1998.

In the past fiscal years the recent reduction in the unfunded liability was the result of increases in revenues from the State Agencies, SB 3, and Mine Subsidence Programs. During FY 2005, positive retained earnings reached \$526,804.

Clearly, BRIM has not yet made significant progress in eliminating the SB 3 Program's unfunded liability. By emphasizing premium increases and surcharges, BRIM was able to bring the State Agencies Program from an unfunded liability of \$26.9 million in FY 2003, to positive earnings of \$7.2 million in FY 2005. The SB 3 program had an unfunded liability of \$26.5 million in FY 2003, a figure which almost matched the unfunded liability of the State Agencies Program at that time. **The Legislative Auditor recommends that BRIM focus its efforts on eliminating the unfunded liability that still exists in the SB 3 Program as it has with the State Agencies Program.**

Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	Flood	House Bill 601 Med. Malpractice: Preferred and High Risk	Total BRIM Retained Earnings or Unfunded Liability (End of Year)
1997	*N/A	N/A	N/A	N/A	–	\$-18,035,000
1998	\$-7,51,000	\$-6,429,000	\$12,507,000	\$2,158,000	–	\$485,000
1999	\$-5,928,000	\$-7,423,000	\$13,438,000	\$2,251,000	–	\$2,338,000
2000	\$-19,032,000	\$-14,699,000	\$12,634,000	\$2,063,000	–	\$-19,034,000
2001	\$-14,849,000	\$-19,005,000	\$12,215,000	\$2,252,000	–	\$-19,387,000
2002	\$-27,674,451	\$-23,587,509	\$14,494,921	N/A	\$-1,167,328	\$-37,934,367
2003	\$-26,942,251	\$-26,467,822	\$16,829,402	–	\$-2,665,558	\$-39,246,229
2004	\$-15,690,572	\$-29,571,951	\$17,356,992	–	\$519,581	\$-27,385,951
2005	\$7,194,296	\$-27,197,455	\$19,729,304	–	\$800,658	\$526,804

Source: Board of Risk and Insurance Management

**BRIM's accounting practices did not separate retained earnings/unfunded liability by line of business prior to FY 1998.*

From FY 2004 to FY 2005 there was a \$20 million dollar decrease in total premium revenues but substantial increases in premium revenues for the State Agencies and SB 3 Programs.

Table 2 illustrates BRIM's premium revenues since FY 1998. From FY 2004 to FY 2005 there was a \$20 million dollar decrease in total premium revenues but substantial increases in premium revenues for the State Agencies and SB 3 Programs. Premium revenues for the State Agencies Program increased by \$9.7 million, as opposed to a \$5.2 million increase in revenues for the SB 3 Program. The end of the Medical Malpractice Program caused a \$35.7 million loss in premium revenues during FY 2005 but also led to a reduction in claims losses from the Program.

Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	House Bill 601 Medical Malpractice: Preferred High Risk	Total
1998	\$25,078,000	\$25,545,000	\$1,494,000	\$0	\$52,117,000
1999	\$26,377,000	\$23,071,000	\$1,440,000	\$0	\$50,888,000
2000	\$20,373,000	\$20,597,000	\$1,435,000	\$0	\$42,405,000
2001	\$23,241,000	\$20,951,000	\$1,414,000	\$0	\$45,606,000
2002	\$22,839,530	\$21,922,125	\$1,480,460	\$2,425,560	\$48,667,675
2003	\$26,914,959	\$27,198,665	\$1,528,078	\$20,846,596	\$76,488,298
2004	\$36,793,345	\$35,793,345	\$1,550,969	\$35,721,041	\$109,268,185
2005	\$46,466,295	\$40,952,188	\$1,594,274	\$17,026	\$89,029,782

Source: Board of Risk and Insurance Management

BRIM's Total Claims Losses Decreased By \$29.4 Million During FY 2005

During FY 2005 no BRIM lines of business had claims losses exceeding premium revenues. The biggest difference in claims losses was due to the end of the Medical Malpractice Program on July 1, 2004, when BRIM II successfully novated into the West Virginia Physicians' Mutual Insurance Company.

During FY 2005 no BRIM lines of business had claims losses exceeding premium revenues. The biggest difference in claims losses was due to the end of the Medical Malpractice Program on July 1, 2004, when BRIM II successfully novated into the West Virginia Physicians' Mutual Insurance Company. This left BRIM to insure only the hospitals that were not eligible to obtain coverage through the Physicians' Mutual Insurance Company. Without having to insure physicians, physician corporations and physician-operated clinics, the Medical Malpractice Program experienced a \$31.1 million reduction in claims losses from FY 2004 to FY 2005. While both the State Agencies and SB 3 entities continued to have increased claims losses, the Mine Subsidence entity decreased its claims losses by \$869,253.

Fiscal Year	State Agencies	Senate Bill 3	Mine Subsidence	Flood*	House Bill 601 Medical Malpractice: Preferred and High Risk**	Total
1998	\$17,999,000	\$16,886,000	\$194,000	\$22,000	\$0	\$35,101,000
1999	\$25,797,000	\$23,386,000	\$942,000	\$0	\$0	\$50,125,000
2000	\$32,401,000	\$27,886,000	\$2,542,000	\$300,000	\$0	\$63,129,000
2001	\$21,431,000	\$25,707,000	\$2,502,000	\$0	\$3,240,858	\$68,731,497
2002	\$39,542,308	\$25,723,065	\$225,266	\$0	\$3,240,858	\$68,731,497
2003	\$28,557,137	\$28,071,633	\$79,479	\$0	\$18,457,068	\$75,165,317
2004	\$24,284,896	\$34,366,477	\$1,044,581	\$0	\$26,425,950	\$86,121,904
2005	\$26,187,741	\$35,021,571	\$175,328	\$0	\$-4,709,937***	\$56,674,704

Source: Board of Risk and Insurance Management

**BRIM's Flood Insurance Program experienced negligible losses after FY 2001. Due to the small dollar amounts, these data were not separated from other claims losses in BRIM's financial statements.*

***BRIM's Medical Malpractice Program did not exist until FY 2002.*

****Represents a reduction in the claims adjustment expense made at the direction of BRIM's actuary.*

Conclusion

During recent years, BRIM has utilized legislative appropriations, as well as premium rate increases in the State Agencies, SB 3 and Medical Malpractice (BRIM II) Programs as means to reduce the unfunded liability.

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Recommendations:

1. *The Legislative Auditor recommends continuing the Board of Risk and Insurance Management.*
2. *BRIM should focus its efforts on eliminating the unfunded liability that still exists in the SB 3 Program as it has with the State Agencies Program.*

Issue 2

BRIM's Loss Control Staff Prioritizes Loss Control Recommendations When Working With Insured Entities to Ensure Compliance.

Issue Summary

BRIM pays over a half million dollars annually to loss control vendors. BRIM allocates loss control staff to follow up on loss control recommendations issued by vendors. BRIM feels that most loss control recommendations are of relatively minor importance and prioritizes its efforts when encouraging compliance. BRIM received fewer responses from insured entities to recommendations during FY 2005. The Board feels that many insured entities address loss control recommendations without submitting a formal plan of action to BRIM, thereby affecting the number of responses reported by insured entities.

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BRIM's Loss Control Efforts Focus on the Most Important Loss Control Recommendations

The Performance Evaluation and Research Division released its last update to the preliminary performance evaluation on BRIM during February 2005. Recommendations 2, 3 and 4 of that report focused on BRIM's Loss Control Department. Recommendation 2 stated:

BRIM should evaluate its staff needs and determine if one additional Loss Control Representative is adequate to monitor its loss control vendors and carry out the other functions of BRIM's Loss Control Department.

A BRIM representative appeared satisfied with the Board's current loss control staffing level:

We continue to monitor the need for additional Loss Control personnel. If we determine that additional staffing is necessary, we will address the issue within the Department of Administration. We are pleased with what we are now able to do, with the addition of one additional technical representative, and may well seek additional staffing in the future. I should note that our Loss Control Manager is retiring at the end of November [2005] and the search for his

replacement is under way. The new manager will become familiar with our operation and may have ideas that take us in other directions, which may affect our staffing needs.

As noted in Table 4, BRIM continues to pay over a half million dollars annually to loss control vendors. BRIM allocates loss control staff to follow up on loss control recommendations issued by vendors. The amount spent on loss control vendors has been fairly consistent during recent years.

Fiscal Year	Hartford Steam Boiler	Schirmer Engineering	CNA Insurance	Total
1999	–	\$248,000	\$159,500	\$407,500
2000	–	\$248,000	\$159,500	\$407,500
2001	–	\$243,000	\$155,500	\$398,500
2002	–	\$243,000	\$155,500	\$398,500
2003	\$247,175	\$243,000	–	\$490,175
2004	\$247,175	\$250,000	–	\$497,175
2005	\$247,175	\$262,500	–	\$509,675
2006	\$244,728	\$262,500	–	\$507,228

Source: Board of Risk and Insurance Management

Recommendation 3 of PERD’s February 2005 report stated:

BRIM should make following-up on Hartford Steam Boiler recommendations a priority in order to encourage compliance with all categories of loss control recommendations.

Since the last preliminary performance review, BRIM has informed the Legislative Auditor's staff that there is a system for prioritizing Hartford Steam Boiler recommendations and that both the contractor and BRIM make efforts to ensure compliance. As discussed later in this report, BRIM feels that most loss control recommendations are of relatively minor importance and prioritizes its efforts when encouraging compliance. BRIM is in compliance with Recommendation 3 of the February 2005 report. The Legislative Auditor recognizes that the most serious loss control recommendations should take priority when contacting insured entities. While BRIM makes the most important recommendations the top priority, BRIM follows up in writing on every recommendation, regardless of importance:

As discussed later in this report, BRIM feels that most loss control recommendations are of relatively minor importance and prioritizes its efforts when encouraging compliance.

BRIM does follow up in writing, on all recommendations and monitors compliance with those recommendations; however, it lacks the resources to personally address each and every recommendation made by the vendor. Therefore, our intentional prioritization of recommendations allows us to focus on the more serious ones initially, and work towards the less serious ones as time allows.

Table 5 indicates that while Hartford Steam Boiler has made additional inspections and loss control recommendations to insured entities, BRIM has received fewer documented responses by insured entities regarding recommendations. A BRIM representative explained why this has occurred:

Table 5 indicates that while Hartford Steam Boiler has made additional inspections and loss control recommendations to insured entities, BRIM has received fewer documented responses by insured entities regarding recommendations.

...in FY 05, HSB made more inspections and more recommendations. They were instructed to take a more persuasive roll toward getting recommendations corrected at the time of inspection. As previously commented, it has been our experience that customers usually take immediate action to correct deficiencies, often before receiving our formal letter identifying the recommendation. There are very few recommendations carried over to the next reporting period. I cannot say why all customers do not send in a plan of action, but would surmise that they make the correction and just neglect to respond.

Table 5 illustrates that responses to Hartford Steam Boiler's recommendations by insured entities dropped from 60% in FY 2004 to 25% in FY 2005. As the above quote states, BRIM feels that many insured entities address loss control recommendations without submitting a formal plan of action to BRIM, thereby affecting the number of responses to recommendations reported by insured entities.

Table 5 Recommendations Made By Hartford Steam Boiler			
Fiscal Year	Boiler Inspection	Advisory/Recommendation Letters Mailed	Responses to Recommendations
2003	2,096	242	44
2004	1,736	112	67
2005	2,093	160	40

Source: Board of Risk and Insurance Management

Table 6 reviews the status of recommendations issued by the Schirmer Engineering Corporation. The Schirmer Engineering Corporation performs the vast majority of loss control inspections for BRIM. The most notable development during FY 2005 was that the number of documented responses to recommendations during the current year declined by 29%. A BRIM representative explained the decrease:

The Schirmer Engineering Corporation performs the vast majority of loss control inspections for BRIM. The most notable development during FY 2005 was that the number of documented responses to recommendations during the current year declined by 29%.

We may note that the higher number of completed recommendations in FY04 is attributed to BRIM's implementation of the Standards of Participation that began in FY04 and the push for customer cooperation toward meeting BRIM's Standards. BRIM's push involved notifying customers that the credit/surcharge incentive plan was coming and our attempt to have Schirmer's field inspectors take a persuasive roll during their exit interview after each location inspection. BRIM also began staff "face to face" meetings with customers to assist in the development of plans to meet the Standards of Participation. These activities resulted in getting the attention of customers and their desired cooperation to remove recommendations.

Overall BRIM continues to make progress. As a BRIM representative noted:

Of interest is the fact that we are seeing a reduction in: (a) the remaining recommendations, (b) in new recommendations, and (c) in total outstanding recommendations each year. We hope that the reduction trend continues as we see the Standards of Participation acceptance.

Table 6
Status of Recommendations Issued By the Schirmer Engineering Corporation

Status	September 1997	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005*	Change from 2004-2005
Total Recommendations from Previous Years	17,866	7,147	7,802	6,804 (2,592 / 4,212)	13% Decrease
Recommendations Completed During Current Year	3,659	2,095	3,245	2,306 (669 / 1,607)	29% Decrease
Remaining Recommendations from Previous Years	14,207	5,045	4,557	4,498 (1,893 / 2,605)	1% Reduction
New Recommendations from Current Year	4,009	4,338	3,396	2,978 (950 / 2,028)	12% Reduction
Total Outstanding Recommendations	18,216	9,358	7,953	7,476 (2,843 / 4,633)	6% Reduction

Source: Board of Risk and Insurance Management

**State Agencies Program/Senate Bill #3 Program shares of total recommendations shown in parenthesis.*

A BRIM representative commented on the Board's policy with respect to following up on loss control vendor recommendations. He stated that while some insured entities may never address some recommendations, BRIM follows up on the most important ones:

With regard to the list of vendor recommendations, you will note that we are seeing a reduction in the number of new recommendations being issued. Recommendations are now categorized (as detailed last year) and they are addressed by BRIM according to their importance. As stated before, our vendors point out everything they find, regardless of the level of importance. We monitor the customer's plan for addressing the recommendations provided. Not every recommendation can or will be corrected for various reasons. We do make certain that the important ones are addressed.

BRIM's Loss Control Staff Works Directly With Individual Insured Entities

A BRIM representative commented on the other loss control functions of BRIM's staff:

I would like to point out that monitoring vendor recommendations and responses is only one of many things that our Loss Control Representatives are asked to do. We continue to believe that our loss control successes will come about primarily due to our "retail" interactions, as opposed to "wholesale" one – meaning that we feel we get our best results from one-on-one interaction with our customers. Large projects, geared to all customers in general, are not as successful as individual interaction.

Prior to meeting with our customers, the Loss Control Representatives thoroughly review many factors to determine what the customers' needs are. Issues considered include claim history, types of exposures, changes in exposures, vendor recommendations compliance with our previous and ongoing loss control programs, etc. Once the representative identifies the areas needing attention, he works closely with the customers to institute practices that will enable the customers to address the problems noted. We are called on to speak at various meetings and conferences; we address risk problems noted by our claim handling organization; we have sponsored a Public Entity Liability Seminar for many years; we provided on-line driver training to selected state employees over the last fiscal year and we continue to look for ways we can work with our customers to help them better manage their risks.

Currently, BRIM employs three technical representatives who not only prioritize the delivery of services to customers but also make on-site visits to insured entities. During FY 2005, BRIM's technical representatives averaged 10 visits to customers per month and 7 visits per month during FY 2004.

While tracking the number of and responses to loss control vendor recommendations is an easily-quantifiable method to track loss control activity, the Legislative Auditor recognizes that BRIM takes other loss control actions that are more difficult to measure. Currently, BRIM employs three technical representatives who not only prioritize the delivery of services to customers but also make on-site visits to insured entities. During FY 2005, BRIM's technical representatives averaged 8.6 visits to customers per month. BRIM did not maintain records of on-site visits prior to 2003. Table 7 contains data on the number of such visits since September 2003. Given that BRIM has a loss control staff that includes a loss control manager and two loss control specialists, on-site visits may account for a considerable amount of staff time. A BRIM representative listed the factors considered by each technical representative before determining that a customer will receive an on-site visit:

-
1. *Loss leaders in total [claims losses] incurred (includes expenses and reserves on open claims) per rate group;*
 2. *Significant losses in coverage areas that are amendable to prevention, i.e. Auto losses, Wrongful Acts losses and some types of General Liability losses;*
 3. *A history of a large number of similar losses;*
 4. *A history of a large number of claims in which a large loss payment was made;*
 5. *A failure on the part of the customer to address serious recommendations made by our Loss Control vendor, or to address other obvious General Liability or life safety exposures; and*
 6. *An unfavorable Loss Ratio (Losses + Expenses as compared to premium collected).*

Table 7
Loss Control Visits by the Board of Risk and Insurance Management

Month and Calendar Year	Number of Visits
September 2003	7
October 2003	10
November 2003	3
January 2004	13
February 2004	4
March 2004	8
April 2004	7
May 2004	5
July 2004	8
August 2004	5
September 2004	8
October 2004	6
November 2004	8
January 2005	16
February 2005	10
March 2005	13
April 2005	2
May 2005	12
June 2005	7
July 2005	16
August 2005	6
September 2005	8
<i>Source: Board of Risk and Insurance Management</i>	

Status of BRIM's On-line Driver Training Program

Part of the Standards of Participation for Insured Entities that BRIM implemented during FY 2004 concerned driver safety. As noted in the last report, BRIM planned to conduct an on-line driver training program for state employees who drove a state vehicle or their own during the course of their duties. Last year a BRIM representative described the program:

As noted in the last report, BRIM planned to conduct an on-line driver training program for state employees who drove a state vehicle or their own during the course of their duties.

BRIM sent letters out to each state agency in early 2004 seeking a list of those drivers. We rolled out the program in the fall of 2004. BRIM purchased 10,000 on line driver training programs, and to date, almost 5,000 have been used. We will purchase additional views if necessary.

Since BRIM did not include employees of Senate Bill 3 entities in the study, The Legislative Auditor made Recommendation 4 in the February 2005 report:

BRIM should consider extending its on-line driver training to the employees of Senate Bill 3 entities, if it proves successful with state employees and cost effective.

According to BRIM, almost 18,000 state employees took the test and completed the program successfully. BRIM is currently evaluating the success of on-line driver safety training and weighing this against the cost, which is a reasonable step before expanding the program and consistent with the Legislative Auditor's recommendation.

As of October 20, 2005 BRIM has not extended the on-line driver training program to SB 3 entities. A BRIM representative stated:

We are gauging the success of the program involving state drivers. The endeavor was expensive and we want to see the results before we consider extending it to our Senate Bill #3 entities. The Senate Bill #3 entities have reported almost 66,000 employees (36,000 in Boards of Education) and at \$7.00 per on-line session, the cost may prove to be prohibitive, especially if measurable success isn't documented in our efforts with state drivers. It may take a couple of years for this review to be complete.

According to BRIM, almost 18,000 state employees took the test and completed the program successfully. BRIM is currently evaluating the success of on-line driver safety training and weighing this against the cost, which is a reasonable step before expanding the program and consistent with the Legislative Auditor's recommendation. BRIM is in planned-compliance with Recommendation 4 of the February 2005 report.

Conclusion

BRIM prioritizes loss control recommendations, making the most serious ones a priority, while the BRIM loss control staff follows up later on less important recommendations. The Board devotes a substantial portion of its loss control staff's time to on-site visits to insured entities. BRIM is still in the process of evaluating the success of the on-line driver training program and it may take some time to determine if the program was a measurable success compared to its cost.

Appendix A: Transmittal Letter

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

December 22, 2005

Charles E. Jones, Jr., Executive Director
West Virginia Board of Risk and Insurance Management
90 MacCorkle Avenue S.W., Suite 203
South Charleston, WV 25303

Dear Mr. Jones:

This is to transmit a draft copy of the Preliminary Performance Review of the West Virginia Board of Risk and Insurance Management. This report is scheduled to be presented during the January 6-8, 2006 interim meeting of the Joint Committee on Government Operations. We will inform you of the exact time and location once the information becomes available. A representative from your agency should be present at the meeting to orally respond to the report and answer any questions the committee may have.

Please contact us if you would like to schedule an exit conference to discuss any concerns you may have with the report. We need your written response by noon on Friday, December 30, 2005 in order to include it in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, January 5, 2006 to make arrangements. Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "John Sylvia".

John Sylvia

JS/rk

Enclosure

Joint Committee on Government and Finance

Appendix B: Agency Response

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
BOARD OF RISK AND INSURANCE MANAGEMENT



90 MACCORKLE AVENUE SW, SUITE 203
SOUTH CHARLESTON, WV 25303

JOE MANCHINI
GOVERNOR

(304) 766-2646 ADMINISTRATION
(304) 766-2653 FAX
(800) 345-4669 TOLL FREE WV
www.state.wv.us/brim

January 5, 2006

SENT VIA FACSIMILE

Mr. John Sylvia
Director
Performance Evaluation & Research Division
West Virginia Legislature
Building 1, Room W-314
1900 Kanawha Boulevard, E.
Charleston, West Virginia 25305-0610

RECEIVED
JAN 05 2006

PERFORMANCE EVALUATION AND
RESEARCH DIVISION

Dear Mr. Sylvia:

We acknowledge receipt of the Performance Evaluation and Research Division review report of the Board of Risk and Insurance Management (BRIM) dated December 22, 2005. We also acknowledge that the report will be presented to the Joint Committee on Government Operations during the January 9, 2006 interim meeting starting at 4:00 p.m.

BRIM concurs with the report and recommendations that are contained therein.

It is accurate that BRIM audited financial statements illustrate overall positive retained earnings; however, there remains an unfunded liability within the Senate Bill #3 Program. In order to maintain positive retained earnings and to eliminate the Senate Bill #3 unfunded liability, we will continue to focus on premium adjustments and aggressive loss control initiatives for those entities whose loss history is indicative of frequency and severity issues.

Sincerely yours,

A handwritten signature in black ink that reads "C.E. Jones Jr.".

Charles E. Jones, Jr.
Executive Director

CEJ:lld

