



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

September 3, 2014

Motion 14212

Proposed No. 2014-0213.1

Sponsors von Reichbauer

1 A MOTION acknowledging receipt of a report and draft
2 ordinance related to performance measures for enterprise
3 risk management and proposed reporting requirements
4 submitted in compliance with Ordinance 17696, Section
5 22, Proviso P1.

6 WHEREAS, Ordinance 17696 contained proviso P1 in Section 22 stating that
7 \$100,000 shall not be expended or encumbered until the executive transmits a report,
8 ordinance and motion on performance measures for enterprise risk management, and

9 WHEREAS, the King County council has requested a report on proposed
10 reporting requirements, including, at a minimum, the results of enterprise risk
11 management efforts in the risk management annual report, and

12 WHEREAS, the executive has transmitted to the King County council the
13 requested report, draft ordinance, and a motion;

14 NOW, THEREFORE, BE IT MOVED by the Council of King County:

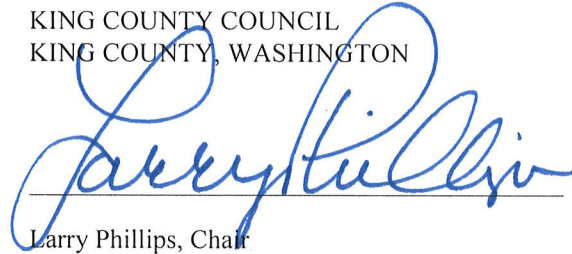
15 Receipt of the draft ordinance and report related to performance measures for
16 enterprise risk management, proposed reporting requirements and draft ordinance
17 submitted in compliance with Ordinance 17696, Section 22, Proviso P1, which are

18 Attachments A and B to this motion, is hereby acknowledged and the \$100,000
19 appropriation is hereby released.
20

Motion 14212 was introduced on 6/16/2014 and passed by the Metropolitan King County Council on 9/2/2014, by the following vote:

Yes: 8 - Mr. Phillips, Mr. von Reichbauer, Mr. Gossett, Ms. Lambert,
Mr. Dunn, Mr. McDermott, Mr. Dembowski and Mr. Upthegrove
No: 0
Excused: 1 - Ms. Hague

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON



Larry Phillips, Chair

ATTEST:



Anne Noris, Clerk of the Council

Attachments: A. Enterprise Risk Management Performance Measures King County 2013 2014 Biennial Budget Proviso Report, B. Draft Ordinance Related to Risk Management Reporting Requirements

14212
Attachment A



Council Ordinance 17696, Section 22
EXECUTIVE SERVICES – RISK MANAGEMENT

Enterprise Risk Management Performance Measures

King County 2013/2014 Biennial Budget Proviso Report

Caroline Whalen - County Administrative Officer
Jennifer Hills - Director, Office of Risk Management

May 30, 2014

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Executive Summary

This report is King County's response to a budget proviso in Ordinance 17695, the 2014 King County Budget Ordinance.

This proviso response explains the Office of Risk Management (ORM) plan to satisfy the Council's stated need for performance measures and reporting requirements for the Enterprise Risk Management (ERM) program in Council Ordinance 17696, Section 22, Proviso P1. This report includes:

1. The language of Council Ordinance 17696, Section 22, Proviso P1 for reference.
2. Background and purpose of ERM for King County
3. ERM Program performance measures, including:
 - a. The responsibilities and performance measures of the ERM Program Manager;
 - b. The purpose and performance measures of the ERM Work Group; and
 - c. Performance Measures Regarding Collaboration with Business Units
4. ERM Program reporting requirements

Proviso

For reference, the proviso in Council Ordinance 17696, Section 22, Proviso P1, is excerpted below.

Of this appropriation, \$100,000 shall not be expended or encumbered until the executive transmits a report on performance measures for enterprise risk management, a draft ordinance that would enact reporting requirements and a proposed motion that acknowledges receipt of the report and the draft ordinance, and the motion is passed by the council. Enterprise risk management is an approach that integrates risk management across an organization and is described in the June 25, 2013, performance audit of the office of risk management. The motion shall reference the proviso's ordinance, ordinance section, proviso number and subject matter in both the title and body of the motion.

The report shall describe the office of risk management's performance measures for enterprise risk management and proposed reporting requirements. The draft ordinance shall also set forth proposed reporting requirements, including, at a minimum, the results of enterprise risk management efforts in the risk management annual report that is required by K.C.C. 2.21.030. The draft ordinance shall be developed in consultation with council staff.

The executive must file the report, motion and draft ordinance required by this proviso by May 30, 2014 in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff and the lead staff to the government accountability and oversight committee or its successor.

Background and Purpose of ERM for King County

This report responds to a proviso in the 2014 King County Budget Ordinance requiring an explanation of performance measures for enterprise risk management, a draft ordinance to codify the enterprise risk management reporting obligations of the Risk Manager, and proposed motion to acknowledge receipt of the report. The proviso response is due by May 30, 2014.

The proviso enables compliance with a principal recommendation of the County Auditor's June 2013 Performance Audit of ORM. The audit included two recommendations related to ERM:

1. Design a framework to address the fundamental organizational management and performance components of ERM consistent with the international standard for enterprise risk management; and
2. Develop a plan to implement ERM based upon the framework.

ERM integrates risk management systems into the organization's culture and processes. The international standard which describes the principles, framework, and process of ERM is known as ISO 31000.

The audit made these recommendations with the expectation that an integrated approach to managing King County's risks would result in improved proactive risk identification, assessment, and treatment. These efforts are expected to decrease the impact of high-cost, low-frequency claims, which would enable King County to address new and unique challenges in the areas of operational, reputational, strategic, compliance, and financial risk; and to preserve its assets in the public interest.

ORM and the County Executive concurred with the audit findings and recommendations related to ERM. The timeline for implementation of the audit recommendations varies, with the majority to be completed throughout 2014 and 2015. Successful implementation of the audit recommendations will mark the first milestone in achieving long-term savings and cost reductions for King County through improved risk treatment. Thereafter, ERM will continue to be a part of King County's decision making process.

ERM Program Performance Measures

The King County ERM program is facilitated by ORM through the ERM Program Manager. It has two primary objectives:

1. Collaborate with business units to proactively identify and assess high-priority risks, and improve controls regarding those risks through documented action plans; and
2. Provide business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning.

ERM Program Manager Responsibilities and Performance Measures

The ERM Program Manager is responsible for performing the tasks, producing the deliverables, and achieving the milestones for the ERM Program as outlined in the performance measures listed below.

These performance measures support the first objective of successful collaboration with business units to proactively identify and assess high-priority risks, and improve controls regarding those risks through documented action plans:

1. Successfully lead, facilitate, and guide the ERM Work Group; and
2. Successfully collaborate with management within business units which own high-priority risks, measured by the responsiveness of business units and the completion of documentation; and
3. Where business unit implementation of risk treatment varies from ERM Work Group recommendations, document and analyze the variance and its results for their effectiveness and opportunities to improve ERM Work Group recommendations and process; and
4. Create and implement a maturity model to qualitatively characterize business unit adoption of ERM principles, framework, and processes and recommend improvements; and
5. Participate in Strategic Innovation Plan (SIP) development and collaboration with the Performance Management Action Team; and
6. Create and adhere to schedules for the following activities:
 - a. Periodic monitoring, review, and improvement of King County's implementation of the ERM framework; and
 - b. Ongoing implementation of ERM through all County departments and agencies

These performance measures support the second objective of providing business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning:

1. Create, implement, and maintain data-driven analytic tools to improve the accessibility and usefulness of operational, financial, strategic, and compliance data across business units; and
2. Create, implement, and maintain risk assessment tools to qualitatively identify and prioritize risks, evaluate controls, and recommend actions to improve the controls associated with those risks; and
3. Based upon achievement in the other ERM Program performance measures, identify and quantify the long-term benefits of ERM. The following are examples of the expected long-term outcomes of a successful ERM Program which would be captured in this performance measure:
 - a. Changes in the anticipated likelihood and adverse impacts of future risk-related incidents to the public as well as King County personnel and assets; and
 - b. Changes in the frequency of claims and severity of losses experienced by King County; and

- c. Changes in King County's total cost of risk; and
- d. Enable reductions in self-insured retention by demonstrating improved performance to reinsurers

ERM Work Group Purpose and Performance Measures

The ERM Work Group will be created to organize the County's ERM efforts in a methodical, intentional, and structured manner. The ERM Work Group will be composed of risk owners (senior managers and/or their designees) from agencies within the County selected by ORM for implementation of the ERM Program in addition to other factors such as loss history, potential for future risk-related incidents, and leadership interest in facilitating ERM implementation.

The ERM Work Group will conduct periodic meetings and other activities such as surveys or focus groups to identify risks, assess and prioritize them, evaluate the controls associated with those risks, and seek ways to improve those controls in collaboration with risk owners at the business unit level.

The creation and activities of the ERM Work Group are primary deliverables of the ERM program. Its success will be quantified by the following measures:

1. Successful involvement of the ERM Work Group members as active and engaged participants in the process of risk identification, analysis, evaluation, and treatment; and
2. Successful completion of a risk register document to proactively identify and prioritize risks to King County operations, reputation, strategic interests, financial performance and stability, and preservation of assets in the public interest; and
3. Periodic documented updates and revisions to the risk register document based on new information and the resolution of prior recommendations; and
4. The risks selected by the ERM Work Group for further analysis and recommendations are aligned with areas of risk where King County has experienced or has the potential to experience high severity losses; and
5. The process of analysis and evaluation used by the ERM Work Group is compatible with the Lean processes and philosophy adopted by King County; and
6. Documented recommendations from the ERM Work Group to business units, the ERM Program Manager, and ORM are specific, measurable, achievable, relevant, and time-bound; and
7. The ERM Work Group membership, methodology of analysis, meeting schedule, deliverables, and deadlines are clearly defined in its guiding documentation.

Performance Measures Regarding Collaboration with Business Units

The ERM Work Group efforts to identify and assess risks will create an intentional, analytic approach to existing risks and potential new risks. However, the success of the ERM Work Group and the ERM Program rely on the adoption of the ERM principles, framework, and process at the business unit level. The quality of these efforts will be evaluated by the following measures:

1. Business units with high priority risks are successfully engaged in the process of evaluating their risk control efforts and prioritizing improvements to those efforts; and
2. Documentation of decisions related to high-priority risks reflects accountable, practical, data-driven methods rather than organic, "default" decisions; and
3. Business unit adoption of ERM principles is characterized using a maturity model; and
4. Business unit implementations of ERM Work Group recommendations (or variance from those recommendations at the risk owners' direction) are documented; and
5. Evaluations of risk treatment effectiveness and related improvements are documented.

ERM Program Reporting Requirements

The Risk Manager's annual report will include a section on ERM which summarizes the activity and results of King County's ERM program. This section of the report will describe the activities undertaken by ORM, the ERM Work Group, business units, and the ERM Program Manager with a specific focus on efforts to improve business unit performance vis-à-vis identified high-priority risks. These results will be characterized using quantified data, descriptions, examples, and other information related to the ongoing implementation and iterative improvement of the ERM Program.

Activities to achieve the performance measures outlined in this report will be described in term of how they satisfy the two primary objectives of the ERM Program:

1. Collaborate with business units to proactively identify, assess, and improve controls regarding high-priority risks with documented action plans; and
2. Provide business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning.

The principles, framework, and process of ERM are iterative and include a methodology to ensure continuous improvement through monitoring and review. The ERM Program will generate documentation and reports which will be used within ORM, the ERM Work Group, and business units to analyze, monitor, and improve the implementation of ERM across King County. These reports and documents will inform the Risk Manager's annual report, but will be included only to demonstrate and describe ERM Program activities with appropriate examples.

Date Created:	5/15/2014
Drafted by:	Sean Catanese
Sponsors:	
Attachments:	

1 ..Title

2 AN ORDINANCE relating to the duties of the risk
3 manager; and amending Ordinance 11984, Section 3, as
4 amended, and K.C.C. 2.21.030.

5 ..Body

6 PREAMBLE

7 A performance audit of the office of risk management conducted in June
8 of 2013 concluded that King County could be exposed to costly and
9 unsustainable future liabilities unless it implements an integrated
10 countywide approach to managing risks.

11 King County is self-insured; it budgets an amount to fund potential future
12 losses based on actuarial calculations.

13 The county also maintains catastrophic insurance to cover individual
14 claims with losses above a certain threshold. This threshold is the self-
15 insured retention. King County is exposed to increased claim costs as a
16 result of the county's increased self-insured retention. Now at seven
17 million five hundred thousand dollars, the self-insured retention has more
18 than doubled since 2010 due to significant claims payments in 2010 and
19 2011.

20 A more-integrated approach to managing risks that is more effective in
21 identifying emergent risks and aggressively addressing persistent risks is

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22 needed to reduce the county's exposure to high cost claims. This requires
23 a countywide policy of departmental risk analysis with strategies to
24 mitigate future risks and associated costs. This approach to risk
25 management is typically referred to as enterprise risk management.
26 The office of risk management, in consultation with the county executive
27 has developed a work plan for an integrated risk management framework
28 for the county, allowing the county to realize the benefits of enterprise risk
29 management in reducing future claims.

30 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

31 SECTION 1. Ordinance 11984, Section 3, as amended, and K.C.C. 2.21.030 are
32 each hereby amended to read as follows:

33 A. The risk management division is established in K.C.C. chapter 2.16. The
34 manager of the risk management division shall be the risk manager, who shall report
35 directly to the director of the department of executive services.

36 B.1. The risk manager shall be responsible for administration of the risk
37 management program.

38 2. The risk manager shall coordinate with the civil division on contractual
39 matters giving rise to potential liability on the part of the county. The risk manager shall
40 seek the advice of the civil division as to appropriate language regarding insurance,
41 indemnification, releases and hold harmless clauses. Thereafter, the risk manager shall
42 advise department directors and division managers concerning these matters as part of a
43 coordinated process before finalization of county contracts.

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44 3. The risk manager shall be the chairperson of the committee and shall advise
45 the committee concerning insurance, risk management policies, broker selection and
46 other appropriate matters.

47 4. With the approval of the committee, the risk manager shall select appropriate
48 insurance brokers by use of a competitive procurement process for the marketing of
49 insurance and related services.

50 5. The risk manager shall be responsible for the purchasing and administration
51 of all insurance policies, funded self-insurance programs and related services as are
52 consistent with good risk management policy and the needs of the county. In purchasing
53 insurance policies, the risk manager shall obtain the approval of the committee.

54 6. The risk manager shall advise all county departments and other county
55 agencies regarding risk management and reduction of risk and exposure to loss, including
56 programs and precautions for safety to reduce hazards to the public that may exist in
57 county facilities and operations. The risk manager shall cooperate with the safety
58 manager in areas in which, in the opinion of the risk manager, the safety of employees
59 and of the public requires coordinated programs. The risk manager shall also be
60 responsible for answering all insurance or funded self-insurance coverage questions. The
61 risk manager shall be responsible for the evaluation of current and future county or
62 departmental insurance coverage programs and have the authority to make
63 recommendations where such an action is in the best interests of the county.

64 7. The risk manager shall have the power, subject to budget authorization, to
65 contract for such outside assistance and perform such other acts as are necessary to carry
66 out the risk manager's responsibilities in an expeditious manner.

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67 8. The risk manager is responsible for establishing reserve requirements for all
68 claims and lawsuits and recommending financing plans and budget actions to assure that
69 adequate resources are available to meet risk management financing requirements.

70 9. The risk manager is responsible for risk identification, control and reduction,
71 including authority to make recommendations to all county departments and agencies
72 regarding the safety of the public using county facilities or services.

73 C.1. The risk manager shall have the power to employ the services of claims
74 specialists or other persons who are necessary to process claims in an equitable and
75 expeditious manner.

76 2. The risk manager shall cooperate with the civil division in coordinating
77 information pertinent to claims and lawsuits against the county.

78 3. The risk manager shall dispose of claims as authorized in K.C.C. 2.21.070.E.

79 4. The risk manager shall maintain complete histories of all claims and claims
80 litigation, insured or funded self-insurance, loss histories and investigations of claims.
81 The risk manager shall be responsible to ensure that complete files are maintained of all
82 claims asserted against the county and all incidents reported to the risk management
83 division sufficient to document at least a five-year claims history.

84 D.1. The risk manager shall provide quarterly reports to the council on claims
85 that have been closed with an indemnity payment in the amount of one hundred thousand
86 dollars or more. The report shall identify the claimant, include a description of the claim,
87 identify the amount of the indemnity payment, identify if the payment was a result of a
88 settlement, a judgment, or payment to an insurance company or other party and shall
89 include any other information the risk manager feels would be helpful to the council in

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90 understanding the nature of the claim. The reports are due thirty days after the end of
91 each calendar quarter of the year.

92 2. The risk manager on or before March 31 each year shall report to the council
93 ~~((the total number and amount of all claims filed against the county and the number and~~
94 ~~amounts of all claims paid by the county during the preceding calendar year. The risk~~
95 ~~manager shall also make an annual report to the committee and the council regarding~~
96 ~~insurance coverage, and the level of retained risk)) on the performance of the risk
97 management program, including the cost of risk, claim filings, claim payments and
98 insurance coverage. For enterprise risk management, the annual report shall identify
99 priorities for the previous calendar year, agency actions, measurable results, and goals for
100 the current year.~~

101 E. The reports required by this section shall take the form of one original letter
102 with an attached table that provides the information required in this section, and an
103 electronic version of the letter and table, submitted to the clerk of the council for
104 distribution to all councilmembers.