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**SENT VIA E-MAIL- August 9, 2021**

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**WASHINGTON SCHOOLS RISK MANGEMENT POOL**  
**PROPERTY & CASUALTY CLAIMS MANAGEMENT AUDIT**

Audit Dates: July 17-23, 2021  
Audit Location: Remote Audit

**INTRODUCTION**

This narrative will serve as Praxis' report of findings following the remote audit and claims handling review for the Washington Schools Risk Management Pool ("WSRMP"). The claims are self-administered by WSRMP's in-house claims unit.

The Washington Schools Risk Management Pool is managed by Ms. Deborah Callahan, SLCA, Executive Director. Mr. Charles Upchurch is the Deputy Executive Director. Ms. Dana Grandey, JD, ARM is the Director of Claims & Underwriting.

**EXECUTIVE SUMMARY-OBSERVATIONS & RECOMMENDATION**

**Observations:**

*Exceeds Standards*

- Claim files are set-up timely and initial contacts are within expected timeframes.
- Potential coverage issues are documented and addressed; reservation of rights letters are issued when appropriate.

- Claims are actively managed with current diaries.
- Relevant claim file documentation is attached in Origami, the claims management system.
- The claim files show consistent efforts by the claim consultants to obtain case evaluations, status updates, and budgets from defense counsel.
- Initial reporting as well as ongoing status reports are reported timely to excess/reinsurance carriers.
- Co-defendants are identified and cross complaints are filed when appropriate. Tender of defense & indemnity are pursued in applicable cases.
- Reserves are re-evaluated when new facts are presented. There was no evidence of stair-stepping of reserves.
- Negotiations and settlement are aggressively pursued which helps mitigate damages.
- Consistent evidence of supervisory involvement and review of claim files.
- Check issuance and authority procedures are in place and are strictly followed.

### Meets Standards

- Overall, files showed an appropriate assessment of coverage and applicable immunities.
- Coverage counsel is utilized for complex or unique coverage scenarios. There was one situation where coverage counsel was not timely in their evaluation.
- Overall, liability assessments are timely and comprehensive taking into consideration government codes, immunities, case law, etc. There were two claims where the commencement of the liability investigation was delayed.
- Claim activity notes generally outline interactions with claimants, members, legal counsel, and vendors. Praxis identified six files that did not meet expected standards.
- Current status and plan of action are noted in nearly all of the claim files.
- Praxis identified two claim files that did not have an appropriate diary span resulting in the timeframe between claim actions being untimely.
- Overall, damage evaluations are present within the claim file and take into consideration both compensatory and general damages. There are three claims where the exposure evaluation was not clearly outlined in the notes as well as two additional files that were awaiting defense counsel's overdue damage evaluation.
- The receipt of initial case evaluations, status reports, or legal budgets was delayed in five files.
- Subrogation potential is appropriately identified, documented, and pursued in most circumstances. There are two files with subrogation outlined as "not applicable" where further explanation or documentation is required.
- Reserves are established according to the philosophy outlined in WSRMP's Claims Manual which provides for establishing reserves based on "Jury Verdict Value" by assessing damages at full value discounted by the percentage chance of winning the case. Praxis recommends two loss reserve decreases as well as one loss reserve increase. Claim specific recommendations are outlined within the audit review worksheet.
- WSRMP complies with Washington Law WAC 200-100-050.
- WSRMP complies with AGRiP's Advisory Standards specific to claims management.

### Needs Improvement

- There were nine files where defense counsel was not responsive to the claim consultant's multiple requests for information.

### **Recommendation:**

- Specific to litigated files, Praxis recommends WSRMP include *Section E. Initial Report, Litigation Plan & Budget* as well as *Section G. Status Reports* of WSRMP's Guidelines for the WSRMP Attorney Panel in the initial attorney assignment correspondence to stress adherence to the case evaluation reporting requirements.

### **AUDIT LOGISTICS**

A pre-audit phone call was conducted with Dana Grandey on March 3, 2021. Ms. Grandey provided a loss run and supplied credentials for access to WSRMP's claims management system, Origami.

Praxis remotely reviewed 110 claim files. The files were reviewed by Timothy Vincent, CPCU, of Praxis.

Prior to the commencement of the audit, Praxis was provided with the following:

- WSRMP Claims Reporting Procedures
- UE Reporting Checklist
- Reinsurance Layers Document
- Claims Processing Document
- 2020-2021 Coverage Agreement
- WSRMP Vendor list
- WSRMP Claims Authority Matrix
- 2020-2021 Claims Team Bios
- Attorney Expertise Panel
- Attorney Investigators
- Claims Manual- revised 2021
- WSRMP Organizational Chart

All documents were reviewed by Praxis either prior to, at the time of, or following the file review; and utilized or referenced throughout the report narrative preparation.

### **EXHIBITS**

The following exhibit is included with this report:

- 1) Audit review spreadsheet - Exhibit 1.

## CLAIMS AUTHORITY LEVELS

	<b>Settlement Authority</b> <i>(Not counting board Authority)</i> <i>(Per Claimant)</i>	<b>Expense</b> <i>(Per Invoice)</i>	<b>Reserve</b>	<b>Check Approval</b> <i>(Per Claimant)</i>	<b>Write Off Authority</b>
Deborah Callahan Executive Director	\$400K per claimant, plus 10% above Board Authority	NA	NA	May grant authority up to policy limits via email	NA
Charles Upchurch Deputy Executive Director	\$400K	NA	NA	May grant authority up to policy limits via email	NA
Dana Grandey Director of Claims	\$400K	\$400K	\$30M	\$2M or policy limits w/email authority from DRC or CU	Up to 100% of loss
Iesha Kidd Manager of Claims	\$150K	\$25K	\$1M	\$150,000 Ind.	Up to 100% of loss
Sharon E. Sampson Sr. Claims Consultant	\$150K	\$25K	\$1M	\$150,000 Ind.	NA
Seema Pandey Sr. Claims Consultant	\$150K	\$25K	\$1M	\$150,000 Ind.	NA
Cai Hadfield Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind.	NA
Julie Hardersen <small>Started 9/8/20</small> Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind. (Updated 3/23/21)	NA
Denise Douthett Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind. (Updated 3/23/21)	NA
Nancy Nichols Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind.	NA
Lisa Day <small>Retired 9/9/20</small> Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind.	NA
Sue Peterson Claims Consultant	\$75K	\$10K	\$1M	\$75,000 Ind.	NA
Ingrid Brown Sr. Claims Coordinator	\$25K	\$5K	\$1M	\$25,000 Ind.	Up to 30% of loss/demand
Naomi Zier Claims Coordinator	NA	NA	NA	NA	NA

## **CHECK ISSUANCE**

Claims Consultants enter voucher requests directly into the claims management system. Voucher requests within the Claims Consultant's authority are auto approved electronically. Voucher requests over the Claims Consultant's authority are auto forwarded electronically to the Director of Claims & Litigation or Senior Claims Consultant for approval.

The Director of Claims & Litigation or Senior Claims Consultant will review and approve or reject payments within their authority by the criteria listed below. Rejected payments will be returned electronically to the Claims Consultant with text explaining the reason for rejection within the voucher request. The Claims Consultant will need to fix any error and reassign to the Director of Claims & Litigation for final approval.

For those files in excess of the Claims Consultant's authority, the Director of Claims & Litigation will review the file checking the following criteria:

- a. The reserve is adequate to cover payment requested
- b. The amount of file authority and the date granted by the Executive Board
- c. Payment is reasonable and necessary
- d. Appropriate documentation in file
- e. Claims notepad entry explaining why the payment is reasonable and necessary

All Checks are mailed. On an exception basis and only when absolutely necessary, a party may pick up their check at the front desk of WSRMP. If a Check is picked up at the front desk, the receptionist will obtain a photocopy of valid photo identification of the receiving party, fill out a receipt and have the person picking up the Check sign the receipt. No Checks are to be kept in the safe except for emergency reasons. Claims Consultants are not allowed to keep Checks at their desk. Checks should not be hand-delivered except in extreme emergencies and only with Director of Claims & Litigation or Executive Director approval.

## **TECHNICAL REVIEW**

### **Timely Set-up of Claims & Initial Contacts**

WSRMP's Claims Manual indicates assignment of the claim is to be made within 1 to 2 business days of receipt. Contact with both the member and claimant is made within three days of the assignment to the Claims Consultant.

There were no exceptions found in this area.

### **Coverage:**

Overall, files reviewed reflect coverage analysis and confirmation in the file notes. Any potential coverage questions or concerns were addressed immediately with the member and the

issues were clarified and documented. There is one file in which Praxis could not locate an updated coverage evaluation upon a new filing.

If there is a need to document an issue of coverage via a reservation of rights letter (ROR), the Claims Consultant will review the complaint, discuss the complaint with the Director of Claims & Litigation. It will then be reviewed to confirm that all issues are addressed in the submitted ROR.

Coverage counsel is utilized for complex or unique coverage scenarios. There was one situation where coverage counsel was not timely in their evaluation.

### **Liability Determination:**

Liability determination takes into consideration government codes and immunities as well as case law. Following that initial assessment, the claim consultant needs to evaluate the duties owed as well as the duties breached. In determining comparative aspects, the importance of each duty is also evaluated. If there is evidence of a breach of a duty owed, the claims consultant then evaluates whether there was notice, either actual or constructive. Each of these components make up the overall liability assessment.

Praxis identified two files where the investigation and assessment of liability did not occur within an appropriate period.

### **File Documentation/ Action Plan:**

Throughout the life of the claim or litigated case, the file activity notes should contain chronological documentation of activities, and the cause and effect of these activities as they relate to exposure. Received and generated correspondence should be uniformly stored and identified for ease of access.

A properly documented claim file or litigated case, as applicable, should contain activity notes that contain at a minimum:

- A clear, detailed description of the claim being made.
- An initial analysis of coverage and any applicable immunities.
- Known facts and unknown information needed.
- An initial plan of action.
- A prompt and detailed initial investigation with documented results.
- An assessment of that investigation as it relates to liability and damages.
- A detailed documented rationale supporting the loss reserve and as needed, expense reserves.
- An updated assessment of liability, damages and reserve changes as needed, and a revised detailed plan of action based on the results of any new or developing information.
- Files in litigation should contain an initial case evaluation report from defense counsel that details initial case analysis, a litigation budget, and a proposed litigation plan.

- Defense counsel should provide a meaningful updated status every three to six months depending on the stage in the life of the file.
- The file notes should contain a summary and analysis of all documents received. The notes should reflect that the document has been read and its effect on the exposure.
- An activity diary that is set at an interval commensurate with the needs of the file, and the file notes should be updated periodically by the claim handler depending on what stage it is in, or if there is a significant change or event.
- A summary of any roundtable discussions or supervisory direction as applicable.

The documentation of claim files is accomplished through Origami, the claims management system. The claim activity notes outline interactions with claimants, members, legal counsel, and vendors as well as outline the current status and plan of action. The claim file documentation is generally detailed and comprehensive. Supporting documents are stored within Origami and have descriptions with sufficient detail to determine content.

Praxis identified six files that did not meet expected standards for documentation. The specific findings are outlined in the audit review spreadsheet.

There were two claim files in which Praxis could not determine the claim consultant's plan of action.

### **Supervision:**

The role of the manager and/or supervisor is to guide the process from claim receipt through resolution to ensure consistent claim management processes are implemented and to act as a "second set of eyes" specific to the Claim Consultant actions and decisions. The supervisor should document the claim file notes with any supervisory activity and instruction for future claim handling.

Praxis found consistent evidence of supervisory involvement and review of claim files.

### **Reporting to Reinsurance/Excess Carrier:**

This area confirms that the Claims Consultant properly recognizes excess exposure and complies with required excess reporting requirements. The Manager of Claims & Legal Affairs is responsible for first notice and continual updates of information to reinsurers once specific thresholds have been reached or certain claim types have occurred.

There were no exceptions found in this area.

### **Damage Evaluation:**

This category measures the evaluation and potential financial impact of each claim and the documentation within the claim file to support the evaluation. Industry claims handling practices require the claims handler to develop and document liability probabilities together with an

estimate of reasonable economic and general damages. Further, the claims handler must adjust the evaluation as additional facts are developed. The claims handler, as early as possible, should form an opinion as to liability by applying the facts to the law, and estimate the probable outcomes to reach a reasonable range for settlement value. This process should also form the basis for ultimate reserve development. Evaluations should be properly documented to clearly explain and convey the claim handler's view of liability, damages and other factors that may influence the settlement value.

Overall, damage evaluations are present within the claim file and take into consideration both compensatory and general damages. There are three claims where the exposure evaluation was not clearly outlined in the notes as well as two additional files that were awaiting defense counsel's overdue damage evaluation.

### **Subrogation/Contribution:**

This category measures whether opportunities for subrogation, third party contribution and indemnity are identified and pursued.

Subrogation potential is appropriately identified, documented, and pursued in most circumstances. There were two files with subrogation being identified as not applicable where further explanation or documentation is required.

Co-defendants are being identified and cross complaints filed when appropriate. Tender of defense and indemnity are pursued in applicable cases. Praxis found no exceptions.

### **Litigation Management:**

Here we look to determine that files being litigated are being handled in accordance with WSRMP's Litigation Section of the Claims Manual, that referrals are specific to approved counsel, that defense counsel activities are monitored, and costs are controlled. The claims consultant should engage counsel and interact in all aspects of the case, as well as ensure that litigation plans are timely and complete.

The claim files show consistent efforts by the Claim Consultants to obtain case evaluations, status updates, and budgets from defense counsel.

There were nine files where defense counsel was not responsive to the Claim Consultant's multiple requests for information. The receipt of initial case evaluations, status reports, or legal budgets was delayed in five files.

Specific to litigated files, Praxis recommends WSRMP include *Section E. Initial Report, Litigation Plan & Budget* as well as *Section G. Status Reports* of WSRMP's Guidelines for the WSRMP Attorney Panel in the initial attorney assignment correspondence to stress adherence to the case evaluation reporting requirements.



### **Settlement/Disposition:**

This category measures the negotiation and claim file disposition process to be sure claims are being settled promptly and in accordance with industry best practices. This category also measures whether negotiations to settle claims are conducted promptly and aggressively. There should be evidence of the claim consultant's and/or defense counsel's approach to negotiation and ultimate claim file disposition. We look for evidence of a pre-planned negotiation strategy, a chronology of the settlement efforts and maximum settlement value.

Praxis identified two first-party property files with a plan of action to close where it is recommended that the Claims Consultant reach out to the member for an update.

Closed files chosen for review reflected proper negotiations resulting in favorable settlements. Files reflect that in most cases, the Claims Consultant and defense counsel take an aggressive defensive position which generally produces favorable results.

### **Reserves & Reserve Adequacy:**

Reserves are established according to the philosophy outlined in WSRMP's Claims Manual which provides for establishing reserves based on "Jury Verdict Value" by assessing damages at full value discounted by the percentage chance of winning the case.

WSRMP recognizes liability and exposure early on and reserves are established early in the life of the claim. There is no evidence of stair stepping or suppression of reserves.

WSRMP's defense counsel provides input of ultimate liability probabilities coupled with recommended plans of action which assist the claims consultant in determining the potential upside and/or downside to each decision made.

Praxis recommends two loss reserve decreases as well as one loss reserve increase. Claim specific recommendations are outlined within the audit review worksheet.

### **Observations specific to Washington Law WAC 200-100-050:**

The following summarily address the requirements of WAC 200-100-050. For more detail, please refer to the claim audit narrative above.

#### **Claims filing procedures and forms:**

All claims filing procedures and form requirements are outlined in the WSRMP Claim Manual are followed with 100% compliance.

#### **Standards requiring case reserves for each claim are established in the amount of the jury verdict value:**

WSRMP utilizes “Jury Verdict Value” adjusted by the degree of liability, potential co-defendants, and other factors for establishing and adjusting reserves. This results in reserves that accurately reflect the “ultimate expected value”. We believe this is a valid approach to reserving.

**Standards requiring case reserves are reviewed every ninety days or when reasonably practicable and such review is documented in the claims diary:**

The file review reflects that the reserves are evaluated and, if needed, adjusted as the exposure changes. The files are on diary and are reviewed generally more often than the administrative code requires.

**Standards requiring appropriate Claims Consultant workloads:**

Claims Consultant workloads are within industry standards.

**Standards requiring claims payment procedures include sufficient internal controls to ensure adequate review and approval by claims management staff:**

The system for check requests, check issuance, check security, and management approval follow WAC 200-100-050 as well as industry standards.

**Standards requiring file documentation is complete and up-to-date:**

The claims management system, Origami, contains the claim file notes and file attachments/documentation. A significant majority of files reviewed were in compliance for this requirement.

**Standards requiring timely and appropriate claim resolution practices:**

The Claims Consultants, in all appropriate cases, are making efforts to move claims to resolution. The Claims Consultant responds to claimant demands and counter offers in a timely manner and uses mediation or alternative dispute resolution when appropriate. We found no deficiencies in this area.

**Standards requiring opportunities for recoveries be reviewed and documented for each claim:**

Opportunities for recovery are recognized early and are pursued in the form of subrogation, contribution, deductible recovery, and restitution.

**Standards requiring compliance with Internal Revenue Service (IRS) rules for 1099MISC regulations:**

WSRMP is in full compliance.

**Standards requiring claims files are audited on the following categories:**

**Staffing, caseloads, supervision, diary, coverage, reserves, promptness of contacts, field investigations, file documentation, settlements, litigation management and subrogation.**

Praxis submits this report and confirms that WSRMP complies. This area is fully discussed in the narrative report.

**All joint self-insurance programs shall maintain a financial system that identifies claim and claim adjustment expenses.**

WSRMP utilizes a claims management system, Origami, to record and track claims reserving, payments, and file activity notes.

**All joint self-insurance programs shall provide for the purchase of goods and services to replace or repair property in a manner which will, in the judgment of the governing body of the joint self-insurance program, avoid further damage, injury, or loss of use to a member or third-party claimant.**

Repair methods and materials utilized followed current building codes and recommended industry repair/replacement standards.

**All joint self-insurance programs shall maintain claim expense reports for all claims made against the joint self-insurance program and its members.**

WSRMP utilizes Origami to record and track claims reserving, payments, and file activity notes. This system will also allow for the generation of individual “loss runs” which provide a record of a member’s loss history. Posted reserves and payments recorded on the loss run provided to Praxis prior to the audit accurately matched (sans any timing differences) the electronic files reviewed.

**All joint self-insurance programs shall obtain an independent review of claim reserving, adjusting and payment procedures every three years at a minimum. Said audit shall be conducted by an independent qualified claims auditor not affiliated with the program, its insurers, its broker of record, or its third-party administrator. Such review shall be in writing and identify strengths, areas of improvement, findings, conclusions and recommendations. Such review shall be provided to the governing body and retained for a period not less than six years. The scope of the claims audit shall include claims administration procedures listed in subsection (1) of this section.**

Praxis’ prior audit was conducted in 2018.

The 2021 audit was performed by Praxis Claims Consulting. Praxis has been in business since 2006 and has performed audits on behalf of cities, counties, school districts, states, special districts, risk pools and captive carriers. Praxis’ clients have primarily been public sector risk pools, and private sector insurers and re-insurers.

Praxis is independent from WSRMP and any of its insurers, brokers, or third-party administrators.

### **AGRiP Advisory Standards:**

*Praxis is familiar with the revised AGRiP Advisory Standards covering at a minimum what should be reviewed and has addressed each one in this narrative report.*

#### *IX-D Independent Claims Audit:*

*Regardless of whether the pool administers claims using in-house staff or a contracted relationship, the pool conducts a claims audit by a qualified firm or individual, at least once every three years. The claims audit is conducted by a firm or person independent of the pool and its claims administrators, reinsurers, or excess carriers.*

*The independent claims audit includes, at a minimum, review of the following key of the pool's claims management policies and procedures:*

- *Timely claims handling*
- *Claim file documentation and supervisory oversight*
- *Adherence to claim payment and settlement authorities*
- *Claim reserving practices*
- *Adequacy of claims investigation*
- *Adequacy of claim communication with the pool member and claimant*
- *Litigation management activities*
- *Alignment of loss experience reports to case reserves and payments*

*The pool governing body will be provided a written report of findings from the audit, including any areas of deficiencies or exceptions and how the pool will address such deficiencies. Include the date of the last claims audit.*

This report narrative and the individual claim file observations and recommendations address the above bulleted points. Prior to this audit, the last claim audit was conducted in 2018.

### **Wrap-up Discussions:**

Upon completion of the claim file review, the audit review worksheet was provided to Ms. Dana Grandey for review and comment. A virtual wrap-up meeting was held with Dana Grandey and Iesha Kidd, Manager of Claims & Legal Affairs, on July 30, 2021. Praxis' findings and observations were generally discussed.

**CONCLUSION:**

WSRMP demonstrates the technical expertise and sophistication necessary to properly handle the Program's claims to proper resolution.

Sincerely,



Brian D. Stiefel, CPCU  
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