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Executive Summary

Enduris is a government entity pool which was formed in 1987 in order to provide property and liability coverage through risk-sharing for its member entities. Since then, it has grown from under 100 to over 500 members. Most members are small with limited risk management resources and often rely on Enduris for claims and risk related services.

Mr. Bowlus has served as the pool's property and casualty claims auditor since 1998. Our contacts during the audit were Mark Kammers - Executive Director and Sheryl Brandt - Chief Risk Officer.

A review of 26 files was conducted at the Enduris office from June 27 - 29, 2017. These files included 37 "suffixes", as some had both property and liability exposures, and two involved multiple injury claims. A representative sample from the membership and coverage groups was examined. The principal focus was to examine files with large exposures. Most losses requiring reporting to the excess insurer were examined, as were most employment practices liability (EPL) cases. Fourteen (14) property/auto property damage files and 17 casualty files were included. The property count was increased over last year due to concerns over files reviewed in 2016.

The audit conformed to Enduris' Administrative Policy document, which requires:

2.1 The audit review will include, at a minimum, an evaluation of:

- 2.1.1 Claims handling performed in a timely and efficient manner
- 2.1.2 Communication with Enduris, members, and claimants by the claims administrator
- 2.1.3 Condition of Enduris' claims handling and reserving practices
- 2.1.4 Case reserving practices
- 2.1.5 Loss experience reports accurately reflect case reserves and payments
- 2.1.6 Member satisfaction with claims handling

The following recommendations are being made:

1. The number of EPL incidents and eventual claims that Enduris deals with is significant. Enduris would benefit from a deeper underwriting analysis of this data.
2. If Enduris plans to continue to manage claims in-house, it needs to retain a claims analyst/adjuster with substantially more experience than the prior adjuster had.
3. An independent appraiser should always be retained when auto property damage (APD) claims are likely to exceed \$50,000. When possible, this individual should be involved in the salvage process.
4. Until Enduris staffs the currently open position, we recommend retaining an outside General Adjuster on all property losses where the claim is likely to exceed \$50,000. If

the future hire does not have a strong property background, this procedure should stay in force.

5. Enduris should be more aggressive in investigating all types of liability claims when serious injuries are involved.
6. Insure that Origami does not present the opportunity for setting up files that can be created outside of mandated parameters. All new files must generate mandatory supervisory review, and an adjuster should not be able to request a check in excess of an agreed value without approval.
7. The future Claims Analyst/Adjuster must improve on adding notes to Origami when implemented. These should be concurrent with conversations with claimants, adjusters, members, and counsel.
8. Detailed supervisory notes should be added to Origami to clearly document file review and instructions with the Claims Analyst.
9. Continue to use Evergreen Adjusting Company while the Claims Analyst position is filled, and triage all losses with values of over \$25,000 through them until then.
10. Enduris needs to be more demanding in obtaining documentation and validating the amounts spent by members on property claims and in insuring that betterment is not being overlooked.

Review Scope

Claim audit worksheets (Section 3) were prepared for each of the 26 files examined. This included 30 open and six closed suffixes.

Files were reviewed for timeliness and completeness of investigation including: communication with pool management, members and claimants; control over vendors; reserve development including accurate reporting on case reserves and payments; reporting to reinsurers and excess insurers; litigation management; risk transfer evaluation; deductible collection; salvage management; subrogation collection; and coverage evaluation. Some salient statistics are tracked below.

A. Statistical Findings

1. Incurred Value Summary

The files examined over the past five years can be sorted into bands, with aggregated value on all suffixes in a file as follows:

	2013	2014	2015	2016	2017
0 - \$24,999	8	8	11	9	6
\$25,000 - \$49,999	3	2	4	5	3
\$50,000 - \$99,999	7	6	5	4	5
\$100,000 - \$249,000	5	2	3	5	9
\$250,000 - \$999,999	0	3	3	2	3
\$1,000,000 and over	1	2	1	0	0
	24	23	27	27	26

The total incurred and average values within the **primary layer** for all files examined over the past five years are summarized below (“incurred” meaning the amount paid plus the amount of money that has been estimated will be paid, or “reserved”). As in prior years, the value of these files is much higher than that seen in an average Enduris file because the audit focused on higher than average value claims, those that present the most serious exposure to the pool.

Audit Year	2013	2014	2015	2016	2017
File Count	24	23	27	27	26
Incurred Value	\$1,895,000	\$2,357,839	\$3,510,846	\$3,275,984	\$3,290,774
Average	\$79,000	\$103,000	\$130,000	\$121,000	\$126,568

In this year’s sample, the total primary incurred value for all files examined was \$3,290,774, or approximately \$127,000 per file. The total incurred value and the average incurred value on files examined over the past three years has been consistent. Larger, more complex files remain the focus of the audit since 2014. The GL and property damage files in this range have historically driven audit comments.

2. Entity Type

Entity Type	File Count	Total Incurred	Average Incurred
Fire District	6	\$1,297,000	\$216,000
Health District	3	\$314,000	\$105,000
Park & Recreation	4	\$554,000	\$139,000
Port	6	\$690,000	\$115,000
Special District	2	\$201,000	\$101,000
Water & Sewer	4	\$234,000	\$59,000
	26	\$3,291,000	\$127,000

As in prior years, fire districts lead in both frequency and severity. Two of the files examined generated a total of 11 suffixes. Both involve units responding to emergency calls. The number of port claims examined was increased this year, as they are generating an increasing number of complicated property claims.

3. Loss Type

Coverage Type	File Count	Total Incurred	Average Incurred
Automobile Liability	3	\$1,107,000	\$369,000
Auto Physical Damage	3	\$110,000	\$37,000
Employment Practices	4	\$293,000	\$73,000
General Liability	8	\$315,000	\$39,000
Property	8	\$1,282,000	\$160,000
	26	\$3,291,000	\$127,000

Automobile Liability

The two automobile liability claims discussed last year have, as anticipated, generated substantial exposure. Both involve fire districts responding to emergency calls. The first (115-132) resulted in serious injuries to one of the passengers in the other vehicle; payments on this file totaled over \$650,000. The second (116-052) involves multiple passengers in a van, including one with a moderately severe head injury. The current incurred value is over \$413,000.

Employment Practices Liability

Litigated Employment Practices Liability files examined since 2013 have trended as follows:

<u>Year</u>	<u>Count</u>	<u>Average</u>
2013	9	\$69,000
2014	8	\$102,000
2015	7	\$53,000
2016	4	\$40,000
2017	4	\$73,000

Most, but not all, of Enduris' EPL claims were examined. The average total incurred value on an Enduris member EPL claim over the past five years has been \$67,000. This is substantially lower than seen with other public entities in the West. The open file count remains low.

Potential EPL claims continue to get a high level of attention. Enduris keeps track of all EPL incidents that are reported by members where there is some level of pre-litigation activity focused on reducing or eliminating exposure to a lawsuit. This activity over the past four years is summarized below. Counts are based on the year in which the incident was reported.

Member Type	2013	2014	2015	2016	2017	Total
Port	4	9	11	8	6	38
Fire/EMT	16	13	17	27	8	81
Other	20	27	55	39	24	175
Total	40	49	83	74	38*	294

*Values for 2017 are through July 19.

The pre-litigation fund (budgeted at \$120,000 a year) which allows the pool to proactively get involved in these investigations or management of an incident before a claim is filed remains very effective. Members are encouraged to get the pool involved in employment matters where it is possible that there could be an eventual claim. With so many members being small, often without the risk management acumen needed to evaluate such matters, the ability to access resources that allow risk management specialists and attorneys who can help make such an assessment is a true benefit of being a pool member.

It remains a certainty that early attention is decreasing the number of incidents which develop into lawsuits, and lowering the ultimate value of cases that do go into suit. The average incurred value on an EPL case reviewed in 2017 remains 25% lower than pre-2013 levels. The pool has generated an average of over six EPL incidents a month over the past three years. Dealing with these occupies substantial amounts of Ms. Brandt's time. At an average of six hours per incident, this process takes one week out of her month, but clearly pays dividends for the pool. We strongly endorse this strategy, and commend Enduris for taking an aggressive approach to a difficult class of claims. In fact, we have asked Enduris to present a session on this strategy at the risk pooling symposium Aon hosts once every two years.

First-responders cases (fire and EMT) generate the highest number of EPL incidents. Over the past five years, they represent 28% of the activity. Ports (13%) represent another frequent source of incidents. There is no discernable trend with "other" member types. As addressed last year, **the number of EPL incidents and eventual claims that Enduris deals with is significant, and we continue to suggest that Enduris would benefit from a deeper underwriting analysis of this data.** There may be trends associated with member types or disproportionate exposures that could benefit from specific loss prevention efforts. This is another area where the implementation of Origami can be of use. Loss control (after the fact) is clearly working. Enduris will benefit from a greater understanding of historical EPL trends. It will be able to do what amounts to predictive modeling, which will assist with the underwriting process.

General Liability

The loss experience associated with general liability claims remains low. The files reviewed averaged \$40,000 in value, consistent with the last three years. There do not appear to be any GL claims presenting significant exposure. The reopened file involving a health department allegedly misdiagnosing an illness leading to a death (110-118) does not appear to present any viable liability, as is the case with the burning death of a wheelchair bound MS resident another health care district was peripherally involved with (117-162).

Property

The average value on the six (6) property claims examined this year was \$156,000, down from \$311,000 in 2015. This value is consistent with most prior years. Seven of the eight files examined have incurred values in excess of \$100,000. Several of these files generated audit comments raising concerns about file handling and coverage evaluation as will be addressed later in this report.

B. Reserving

Reserving (projecting the ultimate future costs of investigating, settling and/or defending) was usually appropriate. Historically, about 20% of the files reviewed showed significant reserve increases between 2014 and 2015. In 2016 reserving was generally on track, although some files were reserved late. In 2017, reserving on 85% of the files reviewed was appropriate but occasionally late. Only three files showed large reserve changes, but the amounts involved were significant. One other file shows a recent reserve increase where the business logic needs to be validated.

The reserves or ultimate incurred values on these three files (115-132, 115-202 and 116-052) rose from a total of \$636,000 to \$1,152,000 over the past 12 months, representing a 45% increase on these files. Most of the increase resulted from a lack of early and thorough investigation on the two automobile liability files addressed earlier in this report (and in last year's report). In both cases, an overly optimistic view of liability resulted in undervaluation of the claims. On the third file, a series of unanticipated supplements to upgrade a used fire engine resulted in an ultimate cost that was almost four times the initial reserve. Similarly, in this calendar year, reserves on 117-059 have increased substantially in association with the possibility of a member port renting equipment from a peer. The business logic in this last instance is not clear.

C. Investigation/Contact/File Control

This is an area of concern which has been dealt with through the replacement of the former in-house claims adjuster (claims analyst). This replacement was warranted, largely because of deterioration in his attention to investigation, contact and control on both property and casualty files. Some examples, across all coverage lines, follow. **If Enduris plans to continue to manage claims in-house, it needs to retain an adjuster with substantially more experience than the previous claims analyst had.**

Auto Physical Damage (APD)

File 115-202 involved a total loss to a 30-year-old fire truck. The district suggested replacing it with a used unit for \$17,000, which could then be upgraded to meet the district's needs. An appraiser was never retained to determine the viability and probable ultimate cost of this solution. Over the next year, the initial estimate of \$25,000 to accomplish the replacement grew to over \$90,000. Salvage resolution was also an issue. We have addressed other APD concerns in prior audit reports. **We recommend that an independent appraiser always be retained when auto property damage claims are likely to exceed \$50,000. Further, when possible, the appraiser should manage the salvage process** (more on that later).

Auto Liability

The two very serious auto liability cases involving fire districts (115-132 and 116-052) both lacked any significant early investigation. In both instances, there were multiple witnesses, employees and potential claimants who should have been contacted in order to develop an assessment of exposure and determine if an attempt at control made sense. Simply reviewing the police report to develop a theory of liability is rarely sufficient. In both cases, significant reserve increases were eventually involved. **Enduris should be more aggressive in investigating all types of liability claims when serious injuries are involved.**

Evergreen can be retained for this purpose when locations are remote, or when staffing levels or caseloads compromise the ability to do this in house. Plaintiff attorney has done accident reconstruction on 116-052. If the various claims cannot be resolved soon (especially the head injury) Enduris will want to get counsel's advice on doing its own accident reconstruction. In cases involving serious injuries and questionable liability, accident reconstruction is most effective when done early. This also enables Enduris to get the best expert first, thus "blocking" plaintiff attorney from doing so. This strategy should be considered in the future.

General Liability

File 117-016 shows a lack of investigation. Here, an individual who appears to be a tenant's employee was injured when a hangar door malfunctioned. If this individual was not an invitee, but an employee, workers' compensation should be his method of recovery. If the workers' compensation carrier feels that the member is at fault for the injury, they can pursue recovery. In this instance, one might assume the claimant, who is now in China, may not be documented and might have been getting paid under the table. Some kind of investigation into these issues is warranted. Of underwriting concern is the fact that all members should be contractually certain that all tenants are providing workers' compensation coverage to all employees.

Property

In 2014 we recommended that Enduris consider retaining an outside General Adjuster to (at a minimum) prepare a scope of loss when the claim is likely to exceed \$250,000. In 2015 while there was better compliance with this approach, the quality of the adjusting was suspect. Last year it was noted on the file review sheets that some large property files were presenting problematic issues. These issues accelerated over the last 12 months. This year's audit presents several examples where property files have been mishandled. Some examples follow. **Until Enduris staffs the currently open adjuster position with a claims professional who has significant property experience, we recommend retaining an**

outside General Adjuster on all property losses where the claim is likely to exceed \$50,000.

File 117-059 involves a port's dredge that sank in heavy seas when being towed by a third party. There was minimal investigation into the facts, no validation that the third party had insurance (it developed that they did not) and no consideration for limiting property damage payments to the stated value of the dredge. There is an indication in the file notes that Enduris might be willing to pay multiples of that value for the member to rent a dredge from another Port. Even if there is coverage for extra expense on the policy, logic would dictate that buying another dredge for \$37,000 would be far cheaper than renting one from another port for what appears to be a cost of over \$100,000. This is currently being evaluated by Evergreen, who have been retained to help evaluate the matter.

File 117-096 involves what should have been a surety case. In addition to an erroneous coverage decision, much of the "property damage" paid for was not well documented, not independently validated, and in some instances is more associated with a cost overrun than any kind of damages. The file is illustrative of some of the shortfalls in the MicroNiche system. It would take a forensic account quite some time to go through the hundreds of un-sortable emails in the file to clearly understand what was paid on this file.

Notes in file 117-149 allude to the possibility of two property losses. Evergreen is now involved in this loss and need to validate how many events are involved, inasmuch as the number of deductibles will be at issue.

D. Communications with Excess Insurers

On file 115-132-1 excess made an APD payment of \$18,023 to Enduris. Salvage concerns were addressed in last year's audit, as the excess carrier would be entitled to first recovery. In fact, the estimated salvage recovery of \$10,000 morphed into \$220, allegedly "equal to towing costs". It is not clear whether or not this information has been conveyed to the excess carrier, who may still have an open file in anticipation of some recovery. If not, they should be instructed to close their file.

File 117-059, involving the sunken dredge, may create some concerns at an excess level. These could include failure to contain certain claim costs, the possibility of additional dredge rental costs, a significant delay in dealing with risk transfer and subrogation issues, and reliance on assumed risk transfer or successful subrogation. All of this has resulted in late notice to excess. The reserves on the file were twice the property retention in April, but it was not reported until June, six months after the loss occurred.

There are no existing files where reporting to excess on an auto or general liability claim is an issue. The pool's retention in these matters is in the effected policy years is \$1,000,000. File 115-132 is nearing conclusion, and will close in the mid six figures. Reporting could become a factor on 116-052, where the incurred is approaching half of the SIR, but that will depend on whether or not there is a significant head injury, which currently does not appear to be the case. Two death cases, one involving a horrific claim where a wheelchair bound MS sufferer

burned to death, and a case involving an alleged misdiagnosis of tuberculosis, have been reported on a precautionary basis, but do not seem to be of concern to the excess carrier.

Reimbursement from the excess carrier has been timely on auto physical damage and property damage claims that have exceeded Enduris' self-insured retention. As addressed last year, we would like to see clearer documentation concerning communications with excess. MicroNiche emails do not automatically migrate to the claims files, and most of the documentation concerning interchanges with excess is brief file notes and a ledger entry. **When Origami is operational, programming should include creating a section of the claims file where communications with excess carriers can easily be tracked; independent diaries should be on the risk manager's dashboard.**

E. Litigation Management

In fact, there are very few cases in litigation. Enduris is going a very good job of avoiding litigated files. The reporting format that Enduris developed to manage the reporting process remains effective. It is comprehensive enough to allow Enduris to determine its exposure on most lawsuits. Reporting frequency from defense counsel was adequate in the files reviewed, and selection of attorneys is appropriate.

F. Settlement/Case Resolution

There were a number of case resolutions that could have been more effective. As will be discussed in the next caption, some settlements never should have been made at all.

On file 115-058, the question is, "if you have a third party admitting to liability and willing to pay damages, why not let them"? In this instance, the in-house adjustment took too long to complete, and the member's delay in providing documentation resulted in additional damages being submitted after a release was sent to the responsible party. Enduris is now looking at a probable \$32,000 shortfall as a result. Protracted property claim adjustments and accepting all of a member's claimed damage was a developing pattern over the past 24 months, as illustrated in this claim.

File 115-102 involves the fire truck which went from \$25,000 to \$90,000 to repair without any clear evidence in the file of the adjuster validating that the costs were needed and were accurate. While it is a small amount, on file 116-175 Enduris paid for service issues in addition to body damage. File 117-106 involving what should be a workers' compensation claim shows a lack of obtaining documentation necessary to force the settlement value of the down, or make it go away entirely. 117-059 involving the sunken dredge shows a lack of creativity in trying find a way to reduce recovery cost efforts (i.e., get the Coast Guard to back off earlier) and certainly in avoiding "rental costs" that are five times the value of the dredge.

While GL and EPL settlements are in line (in fact, superior on EPL) APD and property resolutions show a pattern of almost always giving the member what they ask for, in many cases based on a simple review of supporting invoices. Site inspections were rare. Asking

hard questions about the necessity for add on damages were rare. Multiple supplemental payments, delays and a lack of attention to detail were on the increase.

G. Coverage/Contractual Issues

A series of poor coverage decisions, apparently made unilaterally by the former claims analyst, have resulted in Enduris contributing at least \$300,000 towards losses which were not covered.

File 117-096 presents a significant coverage issue. A member park & recreation district generated a contractual dispute in association with failed construction at a baseball park. The contractor involved had, in the district's opinion, failed to perform properly. The district fired them and made a claim for damages against their surety bond with Travelers, who subsequently denied the claim based on a coverage position associated with the district having terminated the contract for "convenience". The district then turned to Enduris looking for some kind of coverage. The claims analyst, for reasons unknown, made a representation that there was coverage for damages under the property policy, without actually setting up a file in MicroNiche and/or checking with management. He made what amounted to a unilateral coverage decision, and made a series of payments which now total over \$200,000. Enduris is attempting to make a recovery through Travelers; however, recovery is far from assured. A construction dispute would not generate coverage as there is no "occurrence".

Similarly, there were payments made on another file where a contractual dispute but no occurrence existed. In fact, file 117-095 involves a member port who first made a claim associated with a contractual dispute with a tenant in 2011. This claim was quickly denied, in writing, by Mr. Kammers. In September of 2016, the member re-submitted the claim directly to the claims analyst, who again made a unilateral decision that some of the causes of action in a lawsuit between the member and the former tenant could be covered, thus generating some kind of duty to defend, triggering the payment of legal defense costs through the Enduris policy. In fact, there was no duty to defend, as subsequently confirmed by Enduris' General Counsel. The denial of coverage has been re-affirmed; with the "interim" payments made to the port's counsel allowed in consideration of the claims analyst's error in representing there was coverage. Something in excess of \$63,000 has been paid to date in association with the time period where that representation was made.

File 117-103 involves damage to a vessel which was paid under the Enduris GL policy; the claims analyst should have forwarded the loss to Marine Owners Liability carrier, but paid it under the Enduris policy. Enduris is now attempting to recover \$25,000 in payments from the correct carrier; however, it appears that some of the "loss of use" monies paid were poorly documented and were probably inflated because it took so long to resolve the claim. Full recovery is not guaranteed.

File 117-150 presents an interesting coverage situation where a member's organized sporting event ended up damaging a gymnasium. What was initially evaluated as a GL exposure may more properly be a PD exposure based on contractual obligations the member agreed to.

Evergreen has been retained to look at this issue and evaluate damages to gymnasium floor. In this instance, betterment could be a significant issue.

We asked Ms. Brandt about how it was that the claims analyst was able to unilaterally make these coverage decisions and issue payments without clearing it with her. Due to software shortcomings, the claims analyst, who apparently had a very hard time saying no to a member on either a coverage request or a reasonable limitation on property damage payments, had the ability to set up a file on his own without the system generating management level notifications. The stand-alone email system, not automatically linked to the MicroNiche system, allowed him to communicate with members without oversight by management. It seems that he was making payments “to keep everyone happy”. Going forward, it is imperative that Enduris **build into the Origami software management failsafe features that will not allow an adjuster to pay anything towards a claim without management oversight.**

H. Deductibles/Subrogation/Salvage/Recovery

These are areas where a lack of attention to detail was apparent. Subrogation and salvage were not high on the claims analyst’s list of things to do as he began to develop a backlog of problematic files. Both activities need more attention going forward.

File 114-097 involves a case of what we view as clear liability against a third party. In September of 2014 it was clear that the owner was willing to contribute towards some or all the \$2,300 payment. Several letters were eventually sent, asking for contribution. They were ignored. The statue ran, and now no recover is possible.

File 115-058 involves a property loss that occurred in November of 2014 where a semi tractor-trailer hit insured property. Their adjuster was willing to pay the loss, but the claims analyst decided to handle the matter instead. The adjustment took almost two years to complete. After a release was obtained from the responsible party, the member came up with some additional damages. Even with irrigation season delays, the adjustment should have never taken this long. The subrogation demand was based on the pre-supplement total, with a variance of \$32,000 involved. The third party has signed a release; thus, the deal is done.

File 115-132 involved the total loss of a fire truck. In February of 2016, it was estimated that the salvage value of the unit was in the \$10,000 range. When the file was settled earlier this year, the claims analyst accepted a verbal representation that “the salvage value is equal to the tow bill, which was \$220”. We do not see a clean paper trail regarding salvage disposition. The variance in these values is significant and bears further explanation.

File 117-059 involves a member port’s dredge that was being towed from one location to another by a third party. The towing company lost control of the dredge and it sank. The claims analyst never did anything concrete to validate that the towing company even had any insurance, but made an assumption it existed. Expectations of recovery contributed towards late reporting of this matter to the excess carrier. After his departure in May, Evergreen quickly determined that not only did the one-man company not have any liability coverage, but that there was also no contract in effect with the member.

I. Housekeeping

The remaining “hard” files are well-organized. There were only one or two examples of misfiled documents. Documentation in the hard files matched that which was captured in the claims management system. Enduris has now fully transitioned into a “paperless” environment for claims management. This is creating problematic issues as emails are not captured in the MicroNiche system, rather in a separate data base that is very difficult to sort. Origami installation should remedy this.

J. Claims Management Information System

Last year it was noted that Enduris had outgrown existing software capabilities and needed to upgrade its claims management system. This is in process through the acquisition and impending implementation of Origami software. This is scheduled to be completed by October of this year.

The MicroNiche system shortfalls are, as addressed last year, most significantly centered on accounting issues and the ability to clearly match claims documentation with them. Emails are stored outside of the system, and it is very difficult to go through email logs and match them with financial values in MicroNiche. On losses with multiple payments, it is a complex process to validate records against entries.

Another area of concern, which became very apparent over the past twelve months, is a lack of management safeguards in MicroNiche. The claims analyst began setting up files in the system without adding associated documentation into MicroNiche. As his attention to detail in the files began to deteriorate, he did not add his email traffic (stored in a separate data base) into MicroNiche, thus obscuring it from management review. The Origami system design must include safeguards to insure that:

- It is not possible to create a file without management review
- lack of adjuster note input triggers a management review
- reserves are created, and then reviewed, at a management level
- management directives exist and are memorialized on all files above a certain value

K. Client Satisfaction Survey

The most recent member satisfaction survey undertaken by Enduris was reviewed. Most member survey results associated with claims issues were entered in October of 2016. Satisfaction with claims handling was very good, with all categories measured generating something in the 95% range for excellent or good ratings.

L. Management

There is evidence supporting the involvement of the Executive Director in files where his interaction is required. General Counsel is involved as needed, but her input with individual files is limited, with the most active involvement seen in larger files such as the molestation

matters and in assisting Enduris in an evaluation of prescription issues particular to health districts.

There is a time element issue that still exists at the supervisory level. Enduris' Chief Risk Officer, Ms. Brandt, handles all EPL incidents and active files and is adequately dealing with defense counsel with the assistance of Ms. Johns. As noted earlier, the incidents alone occupy a quarter of her time. Once they generate an open file, EPL claims and lawsuits remain time consuming.

We addressed some of the issues associated with supervisory efforts with the claims analyst last year. It was recommended that specific notes relating to directions given him be added to the MicroNiche file. Some of these added over the past 12 months were noted; however, not all files included such documentation. In part, this is because interaction between Ms. Brandt and the claims analyst is part of the stand-alone email data base, which is difficult to audit. Further, where the claims analyst was able to create and then shelter a file, Ms. Brandt would have no opportunity to give him direction.

Over the past 12 months, the claims analyst was counseled at various times relative to member calls regarding slow turn around, his failure to reach out to management for assistance, and when it was discovered, his failure to properly set files up and his unilateral decisions. These issues led to his dismissal in May of this year.

The open claims count at Enduris runs at about 120 files at any one time. This is a manageable caseload for a manager who has other responsibilities and a competent in-house claims adjuster. Our assessment is that the claim analyst's tendency to always say yes to members, to allow files to stay open too long, and his practice of avoiding confrontation with members on coverage issues (by creating a file that was not managed and making payments without consulting with management) led to an eventual backlog of problems that could not be solved by simply paying to make them go away.

Future management controls have to be stronger, and the claims management system has to be utilized properly to help accomplish this. Fail-safes involving file creation, authority levels and mandatory diaries must exist. A section of the file needs to be created where specific supervisory input is documented and an associated diary created to insure that directives have been followed. Until the proper colleague is identified for the adjuster position, these management diaries need to be in effect for Evergreen. Current assignments to Evergreen are appropriate, their reporting is generally good, and there is evidence of interaction between them and Ms. Brandt.

Going forward, Enduris needs to be more demanding in obtaining documentation, in validating the amounts spent on property claims, in moving property claims toward conclusion and in insuring that betterment is not being overlooked. His concern about always insuring member satisfaction may have been a contributing factor in the claims analyst's tendency to almost always pay claims, almost always give the member the benefit of the doubt and to wait for long periods of time, occasionally to the detriment of getting claims settled and generating increasing costs, for a member to do what was necessary to move a

claim towards conclusion. These behaviors resulted in some significant increases in costs on some files.

M. Heat Map Analysis

Starting in 2012, the audit report includes a “heat map” providing a visual summary of audit results, indicating where there is room for improvement (a yellow cell), where significant improvement is needed (an orange cell) or an area where the entity is doing particularly well (a green cell). No color indicates that the entity is meeting industry standards. Last year, most of the cautionary areas addressed in the audit report focused on operational issues. Many of these had to do with shortcomings in the existing claims management information system, but there were concerns about other aspects of property and APD claims. Unfortunately, there is much more activity on the heat map in 2017. We have added a column to the coverage heat map (last tab) that illustrates some of the variances in what should have been paid versus what was actually paid or is expected to be paid on files. The total delta on estimated overpayments or deficient recoveries exceeds \$440,000. Most of this is coverage related, as addressed in the coverage caption. A review of the property coverage section in particular shows too many instances where file handling should have been of higher quality.

N. Summary

A combination of deterioration in adjuster level claims handling and a somewhat antiquated claims management software package led to a “perfect claims handling storm” over the past 12 months. Multiple deficiencies in file handling were discovered in this year’s audit. This is in the process of being remedied through the dismissal of the former claims analyst, the addition of a state of the art claims management system and the search for a more experienced claims adjuster. Enduris will benefit from all of these changes, as it will from strengthening claims management protocols.

Thank you for allowing me to continue to act as your claims auditor. Should you have any questions or comments regarding this report or the enclosures, please contact me.

Sincerely,



Craig Bowlus, ARM
Managing Director | Risk Pooling
Aon Risk Services