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DEPARTMENT OF ACCOUNTING
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COMPTROLLER'S MEMORANDUM 2007 -05

TO: Heads of Departments and Agencies

FROM: Russ K. Saito, State Comptroller

SUBJECT: Risk Management Cost Allocation

This memorandum revises Comptroller's Memorandum 1999-28, Risk Management Cost Allocation, which implemented a risk management cost allocation system by the Risk Management Program (the Program). The objectives of the revisions are to:

1. Streamline the risk management cost allocation process.
2. For the Department of Education and the University of Hawaii, risk management costs continue to be allocated to provide data to calculate a comprehensive cost of education for those organizations.
3. Reduce the emphasis on losses in the allocation of risk management costs which agencies may have little or no control (i.e. natural disasters, arson, etc.).
4. Provide a quarterly loss report to agencies identifying loss areas requiring management attention.

Specific changes to the risk management cost allocation process are as follows:

1. Consolidate the budget of the general fund agencies' risk management costs into the Program with the exception of the Department of Education, the University of Hawaii and the Judiciary.
2. The Department of Education and the University of Hawaii were excluded from the consolidation to keep the components of the cost of education intact.

3. The property insurance cost allocation was revised to have a majority weight in the allocation on departments' replacement cost values of buildings, contents and equipment.

In the past, the cost allocation assumptions were based on the departments' loss experience and cost basis of their inventory assets. These assumptions placed approximately 75% weight of the cost allocation on the loss experience of the department and 25% weight of the cost allocation on the risk exposure (value of the assets – buildings, contents and equipment).

4. The revised cost allocation assumptions place approximately 75% weight of the department's assets and approximately 25% of the weight based upon the loss experience. These assumptions reflect those generally used by the insurance companies.
5. A quarterly report will be issued which will detail all agencies' loss experience for that quarter and for the fiscal year-to-date highlighting areas of concerns and/or trends.

Any questions on this memorandum should be directed to Ms. Julie Ugalde of the Risk Management Office at 586-0550.