BENJAMIN J. CAYETANO
GOVERNOR

RAYMOND H. SATO
Comptroller

MARY PATRICIA WATERHOUSE
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

September 23, 1999

COMPTROLLER'S MEMORANDUM 1999-28

TO:

SUBJECT: Risk Management Cost Allocation

With the purpose of increasing the agencies awareness of their costs of risks and to hold them accountable for their losses, the Risk Management Program will implement a cost allocation system which will allocate and collect from each agency the costs of risks based on each agency's exposures and loss experience. The concept of holding agencies accountable for their losses is supported by the Department of Budget and Finance because it would encourage agencies to take remedial actions to reduce or eliminate potential exposure to losses and reduce the amount of funds needed.

BACKGROUND:

Although Chapter 41D, HRS (State Risk Management and Insurance Administration) provides the Comptroller the authority to apportion, and collect from agencies benefits received under the chapter, no assessments have been collected except for a few revolving and special funded agencies. General funds were appropriated directly to the Risk Management Program by the Legislature and the Program came under its review.

POLICY:

Effective with Fiscal Year 2000-2001, all agencies will be responsible to include Risk Management costs in their budget to cover benefits received under Chapter 41D, HRS. These benefits include the purchase of Statewide insurance policies to protect against catastrophic losses and payments of self-retained losses. General funds, previously appropriated directly to the Risk Management Program for these benefits will no longer be appropriated to the Program, although the Program will continue to have overall responsibility for risk management services. These amounts will not be included in the various program review groups for FY 2000-2001. However, it is expected that such amounts will be included in future budgetary planning and review.

The determination for the amount of the costs of risks allocable to each agency will be done by the Program. The following table shows the costs of risks allocated to your agency and to be included in your Fiscal Year 2000-2001 budget.

	Automobile	Property	Liability	Crime	Total
FY 2000-01					

Comments:

The total amount of your agency's allocation must be paid during the first quarter of the fiscal year to assure funds will be available in the revolving fund to make payments. During the fourth quarter of the fiscal year, an assessment of the allocation will be made to determine whether the actual costs of risk were over or under the allocated amount. Based on the assessment, a credit or debit adjustment will be made resulting in either a refund or additional amount due, either one of which will be applied to the following year's allocation.

Departmental Risk Management Coordinators or their designees will be responsible for monitoring the allocation. The allocation is to be an operating cost item (object code 5900). Should the agency wish to apportion the agency's allocation to their divisions, they may do so. The Risk Management staff will be available to provide assistance. Typical reason for apportioning cost is that an agency may charge its operating costs on a programmatic basis, or that a part of its operating costs are reimbursed by the Federal government.

Billing by the Risk Management Program for the agency's costs of risks will be transmitted to the agency's Administrative Services Office (ASO) or its equivalent during the first quarter of each fiscal year. It will be the responsiblity of the ASO to make full payment to the State Risk Management Revolving Fund (S-XX-321-M). Failure to make full payment on a timely basis will result in the curtailment of risk management services, which include the issuance of Automobile Self-Insurance Certificates (No-Fault Cards) required to operate vehicles.

SUMMARY:

The cost allocation system creates a benchmark for measuring the performance or effectiveness of the agency's loss prevention activities. A major increase in costs from one year to the next, for example, could trigger a review by public officials and/or require their approval for additional funds. The cost allocation system is another step in preventing losses, which can impair the financial and operational integrity of our State government.

Any questions or comments regarding this memorandum should be directed to Mr. John Takamune, Risk Management Officer, at 586-0550.

Raymond H. Sato

RAYMOND H. SATO
Comptroller

c: Department of Budget & Finance/BPPM Div.
Risk Management Coordinator