

ALASKA MENTAL HEALTH TRUST AUTHORITY
AUDIT & RISK COMMITTEE MEETING

April 19, 2018
1:13 p.m.

Taken at:
Alaska Mental Health Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:
Laraine Derr, Chair
Carlton Smith
Mary Jane Michael
Chris Cooke
Paula Easley
Jerome Selby
Verne' Boerner

Trust staff present:
Mike Abbott
Miri Smith-Coolidge
Andy Stemp
Carley Lawrence
Valette Keller

TLO staff present:
Wyn Menefee
Jusdi Doucet
Craig Driver
Sarah Morrison

Also participating:
Sandra Vasquez; Jessica Hanneman.

PROCEEDINGS

CHAIR DERR calls the Audit and Risk Committee to order. She states that all trustees, except for Mary Jane Michael, are present. She asks for any announcements. There being none, she asks for a motion to approve the agenda.

TRUSTEE COOKE makes a motion to approve the agenda.

TRUSTEE SELBY seconds.

There being no objection, the motion is approved.

CHAIR DERR asks for any ethics disclosures. There being none, she moves to the approval of the minutes of January 4, 2018.

TRUSTEE SELBY makes a motion to approve the minutes of January 4, 2018.

TRUSTEE EASLEY seconds.

There being no objections, the motion is approved.

CHAIR DERR notes that Trustee Michael has arrived. She moves on to risk management, recognizing Andy Stemp.

RISK MANAGEMENT

MR. STEMPEL thanks the trustees for this first kind of training session at the Audit and Risk Committee level. He also thanks and turns the meeting over to Sandra Vasquez and Jessica Hanneman from the Marsh & McLennan agency.

MS. HANNEMAN states that she has been with Marsh & McLennan for a little over three years, doing business relations and business development for the firm. She adds that she is a lifelong Alaskan and spent the majority of her life in Fairbanks and Salcha, moving to Anchorage after high school.

MS. VASQUEZ adds that Ms. Hanneman is a former Miss Alaska and has also traveled the United States representing Alaska, as well. Ms. Vasquez states that she is not a lifelong Alaskan, but has lived here longer than anywhere else. She worked with Brady & Company since 2000, and went through the transition of the purchase by Marsh, which is the largest global leader in risk management and insurance services. She continues that there are about 120 offices under the Marsh & McLennan Agency, which is the piece of the company that is designed to work with middle to large-size clients. It really fits the Alaska marketplace. She gives a little background on the types of clients that she works with and states that they both want this to be interactive and to ask questions and interrupt.

TRUSTEE COOKE asks if the Trust has a current relationship with Marsh & McLennan as our provider or broker for coverage.

MR. STEMPEL replies that the Trust does not have a business relationship with Marsh & McLennan. They were invited as a pro bono public service just to provide training today. He states that this is not a commercial undertaking. There are no RFPs or anything that should create any conflicts.

MS. VASQUEZ states that they are here to talk about the exposures and what is available. She begins with the basic, which is risk. She continues that the four things that can be used to manage risk are to avoid it, reduce it, transfer it, or retain it. She explains each risk and then moves it to a corporate risk view, which is a constant circle of looking at ways to minimize, monitor, and control those risks. It is to get the best financial and operational outcome for all. She adds that it is a constant reevaluation of your risk management program when it comes to the viability of the company. She continues her slide presentation and puts the cost of risk in perspective. The single largest cost that most companies have is workers' comp, which can come in many fashions such as in the premium, as a self-insurance. She goes through some examples of different scenarios and states that she can actually profile a company just by looking at their risk profile.

TRUSTEE SMITH asks, from a corporate standpoint, the first bullet, if that takes place in the form of a corporate policy on risk management.

MS. VASQUEZ replies that she always says that a plan should be written down in some way; it can be as complex or simple as desired. She states that enterprise risk management is a big term and a very complex process. It can take 18 months to years to roll out an enterprise risk management program. She continues that she has the opportunity of having Alaska Housing Finance as one of her clients, which is different from the Trust. She adds that both have one similarity: there is a corporate financial responsibility that supports the social mission. There is a whole business with an end goal that has a completely social aspect to it. It is a very delicate balance of all of the responsibilities. She continues with her presentation, explaining the similarities with different companies that are clients and the different insurance risks.

TRUSTEE SMITH states his thanks for referring to the business side of the Trust. He states that he understands what the liability may be in some of the real estate investments, but is concerned about insuring the income streams. He asks about business interruption insurance. If the assets in Texas go away, how do we insure so that income stream continues. He states that, in his opinion, Texas is one of the most volatile, most challenged areas in the country for facilities loss. He states that it is hurricane and flooding country.

MS. VASQUEZ replies that in catastrophic land country with hurricanes and flooding, business interruption can definitely be insured. She states that business interruption is tricky and some of the toughest parts of property losses is that business interruption piece. She continues that there is a need of assistance of someone that can help work through the worksheets of what the business interruption loss is and also the forms with respect to not only business interruption loss, but also the way the policy is written. She adds that the other thing is to make sure the extensions for those catastrophic exposures are on the policy.

TRUSTEE COOKE questions the point of all this. The Trust has property, and providing insurance on that property is part of the cost of operating it. The employees are covered through the State system for a variety of risks. He hopes that even the board is covered for errors and omissions kinds of risks. He asks if there will be a report about the status of the current risk management process.

MR. STEMPEL replies that part of this is just some overview and background. He explains that, historically, there has been a hands-off approach where State risk management takes care of this or there is an insurance broker in Texas and it is removed from the purview of the institution. The challenge in this environment is that he can delegate his authority out to managers, but he cannot delegate his responsibility away. He is still, to some degree, responsible for the ultimate outcomes. He states that he is not proposing starting over. He wants to make sure that questions are being asked and are being informed of what is going on out there.

CHAIR DERR states that part of the reason for this training session is that it has not been done before. She continues that in all the years that she has been on the Trust, there has never been a discussion about risk and how to address what happens if there is a loss. She adds that it is just time for the trustees to review what the possibilities are.

TRUSTEE COOKE states that he is not seeing the board element policy here.

MR. ABBOTT states that the trustees are the ultimate fiduciaries for the Trust assets and the Trust mission. So it will be the staff and the management that will do the day-to-day work to ensure that the Trust's assets are appropriately protected. But it will ultimately be up to the trustees to make sure that work is being done. He continues that the creation of an Audit and Risk Committee last year during the governance process and this training is designed to make sure that you know what you need to be making sure that staff is doing. This presentation is to make sure that the trustees know enough to be able to appropriately challenge staff. He suggests that this may end up being an hour to two hours a year. He adds that staff will not be bringing insurance policies to decide what the level of deductible is needed on the errors and omissions policy.

TRUSTEE COOKE states that he hopes to hear from time to time about the scope and adequacy of the insurance management tolls there are to deal with various risks. He adds that the trustees do not want to micromanage insurance matters.

MR. STEMPEL states that it would be appropriate to ask Ms. Vasquez to go up to a higher level in the dialogue and move from the presentation to a Q&A format.

MS. VASQUEZ states that in putting this presentation together she focused on what tools may be needed for trustees to make sure there was enough information to make sound decisions for the organization. She continues that some of it gets down to a minutiae level where it would not necessarily be the Board of Trustees doing the work, but understanding what those things are to make it easier to get data and knowing what to do with it. She states that the three coverages that she was going to focus on were management liability, cyber and network security, and environmental.

MR. STEMPEL suggests talking briefly about things that are new and emerging.

MS. VASQUEZ begins with the property natural disaster. She states that this is a new report that came out by her corporation, put together by FireEye. FireEye is one of the top leading cyber security firms in the world, and they put out annual reports on what is happening in the

cyber world. She continues that it is five practical pieces every organization should know and get with respect to their cyber exposure. She adds that cyber network security covers everything from first-party coverage data that is held, which is now your responsibility; every employee is your responsibility. She states that one of the big pieces involved with network security and cyber liability is there is a crisis management component that can be purchased. She explains what can happen and what is involved, focusing on reputational risk. She states that a plan is developed, that is also updated, as needed.

MR. STEMPEL states that this is relevant to him. Cape Fox was attacked by a spear phishing attempt that got some of Cape Fox's money. He continues that one of the elements was that people were very busy. There was a level of authority and an expectation that instructions would be obeyed without questions, and the people that were involved thought they had legitimate instructions; they acted; and the money was gone at that point. He states that the human element is something where the trustees can really engage and help set a tone of risk management within the institution. He continues that we have to be comfortable asking questions about why and what is being done. There should be an environment where any employee that works within the Trust and even the partners are comfortable asking to double-check things. He adds that no one will get angry for verifying something before it is being done, and those items are very important for the Audit and Risk Committee to consider. He encourages the trustees to think about the role each play within the organization; the example that is upheld by the board; and the model that he hopes to see throughout the business decisions. He states that this is the first attempt at providing some training, and he is very interested in feedback or recommendations from the trustees.

TRUSTEE EASLEY states that there may be a few minutes during the Finance Committee to address any questions.

TRUSTEE SMITH asks how an organization, like the Trust, protects itself against what is called a "me too" event. He states that liability is out there, and how would we go about that.

MS. VASQUEZ replies that employment liability was on the slide and "me too" is a concern for every organization in today's world. She states that employment liability coverage has been around for 15 to 20 years. She adds, the employer practices liability coverage is intended to cover everything from the point of interview through the point of dismissal and everything that can happen to an employee during that entire time. She also states that the causes of loss for employment is long and that is how to protect yourself as far as insurance goes. Beyond insurance, it is training, and a matter of constant vigilant annual training.

MS. HANNEMAN adds that even as some claims are not true, the insurance coverage is necessary and is largely for defense costs.

MR. STEMPEL adds that one of the strongest defenses is the expectations that the trustees set, the conduct and behavior and the expectations that are put forth saying, "This is how we operate. This is how we treat people. These are the things that are core to the identity of the Trust." That will be the strongest defense.

TRUSTEE COOKE states that one of the points made is a comment of having insurance audits. The Trust is a unique entity because a wide variety of things are done and there is a special mission as a Trust for the beneficiaries. He continues that, at some point, he would like to know what an insurance audit would show about risks that belong to the Trust, what risks are covered by other aspects of our nature, such as the State involvement, what is provided for insurance directly, what is provided for people that enter into contracts with the Trust. He states that it would be a useful topic for the trustees to get a picture of where we stand in terms of the kinds of risks encountered and what is provided.

CHAIR DERR thanks all and states that they are out of time. She asks if there is anything else to bring before the committee.

MR. STEMPEL thanks all for participating.

TRUSTEE SELBY thanks Mr. Stempel for bringing this presentation. He states that, in the future, simply an annual report of where loss control stands. It is important for the board to do this because of a need to create a culture of loss control in this organization. He explains his reasoning.

CHAIR DERR thanks Trustee Selby and asks for a motion to adjourn.

TRUSTEE EASLEY makes a motion to adjourn the meeting.

TRUSTEE SELBY seconds.

There being no objection, the meeting is adjourned.

(Audit & Risk Committee meeting adjourned at 2:14 p.m.)