

# California Association of Joint Powers Authorities (CAJPA)



# ACCREDITATION STANDARDS

As of July 1, 2015

These standards replace all previous versions.

California Association of Joint Powers Authorities (CAJPA)  
700 R Street, Suite 200  
Sacramento, CA 95811  
(916) 231-2139  
[www.cajpa.org](http://www.cajpa.org)

Copyright – 2015

# TABLE OF CONTENTS

<b>I.</b>	<b>GOVERNING DOCUMENTS &amp; ADMINISTRATIVE CONTRACTS</b>	<b>3</b>
<b>II.</b>	<b>GOVERNMENT RULES</b>	<b>6</b>
<b>III.</b>	<b>INSURANCE AND COVERAGES</b>	<b>8</b>
<b>IV.</b>	<b>ACCOUNTING &amp; FINANCE</b>	<b>9</b>
<b>V.</b>	<b>INVESTMENT OF FUNDS</b>	<b>11</b>
<b>VI.</b>	<b>FUNDING AND ACTUARIAL STANDARDS</b>	<b>14</b>
<b>VII.</b>	<b>RISK CONTROL</b>	<b>15</b>
<b>VIII.</b>	<b>CLAIMS MANAGEMENT</b>	<b>16</b>
<b>IX.</b>	<b>UNDERWRITING</b>	<b>18</b>
<b>X.</b>	<b>OPERATIONS AND ADMINISTRATIVE MANAGEMENT .....</b>	<b>19</b>

## ACCREDITATION STANDARDS

The California Association of Joint Powers Authorities (CAJPA) Accreditation Program was developed to establish standards by which risk sharing California joint powers authorities (JPA) can measure their ability to provide efficient services to their member agencies.

The stated purposes of the CAJPA Accreditation Program are:

- To assist managers of JPAs in achieving standards of quality for essential elements of JPA management.
- To assure public officials, governing board members and the public that JPAs are operating with professionalism and meet or exceed industry standards of excellence.
- To convince state regulators and legislators that JPAs are well managed, financially secure and effectively self-regulated.

To meet these purposes the CAJPA Board of Directors has adopted standards by which JPAs are evaluated. The standards are reviewed and updated annually.

## I. GOVERNING DOCUMENTS & ADMINISTRATIVE CONTRACTS

### OBJECTIVE

To determine that the governing documents and contracts with major service providers contain all essential provisions.

### STANDARDS

- A. JPA maintains in its records a signed original of the joint exercise of powers agreement or other acceptable documentation from each member agency. (Mandatory)
- B. Agreement shall contain all of the provisions required in the enabling legislation in Section 6500 et. seq. of the Government Code.
  - 1. Section 6503 - requires that the purpose or power to be exercised and the method by which the purpose will be accomplished or the manner in which the power is to be exercised is to be stated in the agreement. (Mandatory)
  - 2. Pursuant to Section 6509 of the Government Code, the agreement shall specify the member which restricts the manner of exercising the power of the JPA (Suggestion). The member has to be named by name.
  - 3. In accordance with provisions of §6505.5 or §6505.6 the agreement must designate a treasurer and an auditor. (Mandatory)
  - 4. Section 651 requires that the agreement provide for the disposition, division or distribution of any property acquired as the result of the joint exercise of powers. (Mandatory)
  - 5. Section 6512 or 6512.2 requires that the agreement provide that any surplus money on hand after the completion of its purpose shall be returned in proportion to the contributions made or, in the alternative, in proportion to contributions made and claims or losses paid. (Mandatory)
- C. The following are described in the appropriate governing document (agreement, bylaws, resolutions, master plan documents, memorandums of coverage, memorandums of understanding, adopted board policies or other similar documents):
  - 1. Eligibility criteria; (Mandatory)
  - 2. Procedure for electing officers; (Mandatory)
  - 3. Terms of office; (Mandatory)
  - 4. Record retention policy; (Excellence only)
  - 5. Power and duties of board; (Mandatory)

6. Indemnification for liability; (Excellence only)
  7. Provisions for dissolution of pool; (Mandatory)
  8. Provisions for financial audit; (Mandatory)
  9. Provisions for actuarial study; (Excellence only)
  10. Provisions for claims audits; (Excellence only)
  11. Provisions for assessments and distributions; (Mandatory)
  12. Provision for withdrawal from a program or JPA as a whole; (Mandatory)
  13. Provision for termination (such as the right to cancel for non-payment of premiums, underwriting problems, or the failure to adequately control risks); (Mandatory)
  14. Provision for a meeting of the board at least annually; (Mandatory)
  15. Provision for the resolution of coverage and claims disputes with its Members; (Excellence only)
  16. Provision for obligations of members. (Mandatory)
- D. JPA is in substantial compliance with its governing documents. (Mandatory)
- E. JPA governing board has reviewed the prior CAJPA Accreditation Report for findings and recommendations. (Excellence)
- F. JPA has written contracts with firms or individuals that provide program administration services, insurance brokerage services, claims administration services or have access to JPA funds. Such contracts shall include: (Mandatory)
1. Scope of services of the contractor;
  2. Indemnification and insurance requirements;
  3. Compensation;
  4. Term of Agreement;
  5. Contract cancellation provisions;
  6. Ownership of records;
  7. Duty to disclose conflicts of interest including but not limited to other sources of income; and

8. Language addressing how and by whom fines and penalties are to be paid. (Applies to workers' compensation third party claims administrators only).
- G. JPA has certificates of insurance on file evidencing coverage required in contracts under E., above. (Mandatory)
- H. If the JPA offers employee benefit programs to its member agencies, a written plan description must be provided to the covered employees. (Mandatory)
- I. JPA keeps minutes of all meetings of its governing body and major committees. (Mandatory)

## II. GOVERNMENT RULES

### OBJECTIVE

To determine that the JPA complies with the various reporting requirements and other mandates imposed by the State of California and its regulatory agencies.

### STANDARDS

- A. JPA has filed a notice of its joint exercise of powers agreement and any amendments or membership changes with the California Secretary of State identifying (GC 6503.5): (Mandatory)
  - 1. Name of each member;
  - 2. Effective date;
  - 3. Purpose or power to be exercised; and
  - 4. Description of the amendment, if any.
- B. JPA has made the necessary public agency roster filing with the California Secretary of State and county clerks in the counties in which the JPA has offices. (GC 53051) (Mandatory)
- C. JPA has adopted a Conflict of Interest Code, and formally reconsiders it prior to October 1 of all even numbered years, and oversees any required filings of the Statements of Economic Interest with the Fair Political Practices Commission or the designated filing agent. (GC 87306.5) (Mandatory)
- D. If the JPA is subject to Education Code 17566(e) or 81602(e), it procures triennial actuarial studies on its employee benefit programs. (Mandatory)
- E. JPA's governing body approves the annual budget. (GC 6508) (Mandatory)
- F. JPA has filed the "Special Districts Financial Transactions Report" with the State Controller/Division of Local Government Fiscal Affairs Special District Unit. (GC 53891) (Mandatory)
- G. JPA has filed its Audited Financial Statement with each member and with the county auditor of the county where the home office of the JPA is located within 12 months of the end of each fiscal year. (GC 6505(c)) (Mandatory)
- H. JPA and/or member has a valid certificate(s) of consent to self-insure Workers' Compensation (Labor 3700) and files any changes in claims administrators (8 Cal. Code Regulations § 15402) and the necessary annual reports with the Department
  - 1. Of Industrial Relations on or before October 1 of each year. (Labor 3702.2) (Mandatory)

- I. JPA properly posts meeting notices and conducts its meetings in accordance with the Brown Act. (GC 54954.2, GC 54953.2 and 42 U.S.C. Sec. 12132) (Mandatory)
  
- J. JPA's that self-insure medical benefits plans annually file a copy of their audit with a declaration to the Department of Managed HealthCare as required for exemption from Knox-Keene requirements. (Code of Civil Procedure 2015.5) (Excellence only)



### **III. INSURANCE AND COVERAGES**

#### **OBJECTIVE**

To determine the JPA properly identifies and handles its own exposures to loss, secures any insurance required by its governing documents and/or any other legal requirement, monitors the adequacy of coverages it provides to its members and maintains permanent policy files.

#### **STANDARDS**

##### **A. JPA Internal Operations**

1. JPA maintains an official bond as required by state law (GC 6505.1 and 6505.5). JPA requires fidelity coverage for person or persons that are entrusted with any property of the JPA. (Mandatory)
2. JPA insures or self-insures for the following exposures as appropriate: (Mandatory)
  - a. Public Officials Errors and Omissions;
  - b. Employee Fidelity; (insurance only, self-insurance not allowed)
  - c. Commercial General Liability;
  - d. Workers' Compensation;
  - e. Fiduciary Liability;
  - f. Auto Liability;
  - g. Property.
3. For the risk retained by the pool, the JPA provides a coverage document that includes or references a declaration page that includes:
  - a. Definitions
  - b. Insuring agreement
  - c. Conditions
  - d. Exclusions

##### **B. Programs for Member Agencies**

1. JPA evaluates its insurers, excess insurers and reinsurers and risk pools for quality, stability and financial solvency. (Mandatory)

##### **C. JPA keeps all memoranda of coverages and insurance policies permanently on file. (Mandatory)**

##### **D. JPA maintains and distributes coverage agreements and insurance policies as appropriate. (Mandatory)**

## IV. ACCOUNTING & FINANCE

### OBJECTIVE

To determine that the JPA complies with all applicable accounting standards and has adopted an investment policy.

### STANDARDS

- A. JPA materially adheres to all applicable GAAP, GASB and other accounting standards. (Mandatory)
- B. JPA issues to its members periodic financial reports at least annually or more frequently if required by its governing documents. (Mandatory)
- C. Independent Financial Audits
  - 1. JPA has undergone annual independent financial audits conducted by a Certified Public Accountant in accordance with generally accepted auditing standards, a report of which has been made available to all members as required by its governing documents. (Mandatory)
  - 2. If JPA has received an opinion other than an unqualified opinion on the audit of its financial statements, the JPA governing board has satisfactorily addressed any such qualifications of opinion, audit exceptions or negative statements. (Mandatory)
  - 3. The independent auditor shall include a report on internal controls. (Mandatory)
  - 4. If a management letter or report on internal controls has been issued, the JPA governing board has addressed any recommendations. (Mandatory)
- D. Sufficiency of Net Position
  - 1. JPA has assets sufficient to pay all unpaid claims liabilities and maintains a reasonable contingency margin. The determination of whether there is a reasonable margin for contingencies will include consideration of investment income, excess of loss insurance, aggregate stop loss insurance, assessability, size of program, volatility of risk, tolerance of membership, disclosure to board and any other relevant factors. (Excellence only)
  - 2. If the JPA does not currently have sufficient assets to pay unpaid claims liabilities, it has a reasonable financial plan in effect which will generate sufficient revenues to pay all unpaid claims liabilities and to establish a contingency margin. (Mandatory)
    - a. For both D (1) and (2) above, unpaid claims include:
      - (1) Case reserves for reported claims;
      - (2) Incurred but unreported claims;
      - (3) Expected loss development; and
      - (4) Allocated and unallocated loss adjusting expenses.

3. JPAs with a self-funded medical benefits plan must fund at a level sufficient to cover expected claims, including the run-out, plus a reasonable contingency for adverse experience. Absent any acceptable evidence to the contrary, the contingency for adverse experience shall be set at an amount equal to or greater than the expected run-out of claims. (Mandatory)
  4. JPAs with self-funded benefit plans other than medical must fund such programs at a level sufficient to cover the expected claims and the projected run-out. (Mandatory)
- E. JPA's current contribution levels for each self-funded program is in concert with Section D above. (Mandatory)
- F. JPA has adopted a targeted equity policy and considers it when evaluating funding and dividends. (Mandatory)
- G. Any JPA with a non-risk sharing program(s) must clearly indicate in the governing documents the financial and operational structure of such program(s). (Mandatory)
1. To be considered as a workers compensation non-risk sharing program, it must not be operating under a master workers' compensation certificate filed with the Office of Self Insurance Plans.
  2. In lieu of the funding standards contained in Section E above, a non-risk sharing program must:
- H. Calculate and communicate the individual member net assets balances and liabilities to the members annually.
- I. Be sufficiently assessable to ensure that the program's cash flow needs are met.
- J. Demonstrate that it has adequate cash on hand to meet future claims costs.
- K. JPA maintains a suitable management information system that includes premium computation methods and/or allocation formulas. (Excellence only).

## V. INVESTMENT OF FUNDS

### OBJECTIVE

To assure that policies and procedures are in effect to protect and preserve the JPA's financial assets.

### STANDARDS

- A. JPA has a written investment policy that contains:
  - 1. A statement of objectives as required by Government Code § 53646; (Mandatory)
  - 2. Description of permitted investments, which must be in conformity with California Government Code § 53601 and reasonable under "prudent investment rule." (Mandatory)
  - 3. The written investment policy is reviewed annually by the governing body or an investment committee pursuant to California Government Code § 53646(a) (Mandatory)
- B. JPA invests its funds in conformity with Government Code § 53601. (GC § 6509.5). (Mandatory)
- C. JPA provides evidence that the governing body or an investment committee periodically considers diversification of risk as to type of investment and individual institution. (Excellence only)
- D. JPA has in place internal controls that include:
  - 1. Separation of functions (buying and selling of securities is separate from accounting and reporting of transactions) if the size of the staff can accommodate this; (Mandatory)
  - 2. Separate verification of all transactions (Mandatory)
  - 3. Written documentation of procedures. (Mandatory)
- E. If the Treasurer has the authority to reinvest, sell and exchange securities:
  - 1. JPA makes such delegation of authority annually. (Government Code §53607) (Mandatory)
  - 2. The Treasurer renders a monthly report of investment transactions to the governing board. (Government Code §53607) (Mandatory)

The following requirements (F, G, H, & I) only apply to JPAs that manage their own investments, with or without the use of investment consultants.

- F. JPA provides evidence that the Treasurer or Chief Financial Officer has submitted a quarterly report in a timely manner to the governing board containing the investment information required by California Government Code § 53646 (b) (1), a description of compliance with the statement of investment policy (Government Code § 53646 (b) (2)), and a statement of ability to meet expenditure requirements over the next six months (Government Code § 53646 (b) (3)). (Mandatory)
- G. The quarterly investment report filed with the governing body shall also contain:
1. Types of investments (Mandatory)
  2. Issuing institution (Mandatory)
  3. Dates of purchase and maturity (Mandatory)
  4. Par and dollar amount invested on all securities (Mandatory)
  5. Investments and monies held by the JPA (Mandatory)
  6. Current market value, including source (Mandatory)
  7. Coupon rate (Excellence only)
  8. Effective yield rate (Excellence only)
  9. Portfolio total rate of return (Excellence only)
  10. Cash and security transactions (Excellence only)
  11. Percentage of portfolio by issuer or security type. (Excellence only)
- H. JPAs that own investment securities shall have an independent custodian who shall not be from the same department of the financial institution or broker/dealer from whom the JPA buys or sells the security, or the investment advisor. (Mandatory)
1. There shall be a written contract between the JPA and the custodian that includes: (Mandatory)
    - a. Scope of services
    - b. Compensation
    - c. Termination
  2. Monthly reports shall be sent directly from the custodian to a specific person at the JPA. (Excellence only)

3. Custodial statements shall be reconciled with an in-house or investment advisor's report. (Mandatory)
  4. Third-party custodian shall maintain adequate fidelity coverage. (Excellence only)
- I. For JPAs that engage in services of a professional investment advisor, the following safeguards are in place:
1. A written contract between the advisor and the JPA that includes: (Mandatory)
    - a. Scope of services
    - b. Compensation
    - c. Duty to disclose conflicts of interest
    - d. Termination
    - e. Disclosure to the JPA of any investigation by a regulatory body for investment-related regulatory violations.
  2. JPA has a process to ensure the investment advisor has disclosed any conflict of interests. (Mandatory) (This may be satisfied by a provision in the contract as addressed in H (1) above, or FPPC form 700, or review of Form ADV Parts 1 and 2.)
  3. All securities are purchased in the name of JPA. (Mandatory)
  4. Advisor sends monthly reports to JPA containing information described in Section D above; and (Mandatory)
  5. Advisor reports at least quarterly an evaluation including the total rate of return and a comparison of the pool's total rate of return to reasonable benchmarks (i.e., U.S. Treasury securities, an index comprised of Treasuries, or LAIF). (Excellence only)
  6. Investment advisor carries Investment Advisor Professional Liability Insurance with a per claim/aggregate limit of at least \$1,000,000. (Mandatory)
- J. JPAs that place their investments in or through County or State investment pools, or in FDIC insured contracts will issue quarterly reports to the governing body, chief financial officer and auditor in accordance with Government Code § 53646 (e). (Mandatory)

## **VI. FUNDING AND ACTUARIAL STANDARDS**

### **OBJECTIVE**

To determine that the JPA has completed actuarial studies or independent evaluations on each of its self-funded programs. There may be instances in which the provisions of this section may be waived because such studies may not be considered necessary (such as for property or vehicle physical damage programs).

### **STANDARDS**

- A. JPA has had a property or casualty (including workers compensation.) actuarial study(ies). Such study was conducted by a member of the American Academy of Actuaries and addressed all of the relevant items in Sections IV. E and IV. F. Such study(ies) shall be conducted within the last three years (Mandatory) or annually. (Excellence only)
- B. If loss reserves requirements were computed on a discounted (present value) basis, the payout pattern and projected rate of return were reasonable. (Mandatory)
- C. If the JPA has a self-funded medical benefits plan, it must conduct an independent rate study and fund level evaluation, including consideration of a reasonable contingency margin for adverse experience. Such study shall be conducted annually (Excellence only) or within the last 36 months (Mandatory).
- D. If the JPA has other miscellaneous self-funded programs (such as dental, vision, long-term disability or life), it must conduct independent rate studies and fund level evaluations within the last 36 months (Mandatory) or bi-annually (Excellence only).

## VII. RISK CONTROL

### OBJECTIVE

To determine that the JPA actively promotes risk control principles and practices to its members and that necessary budgetary appropriations for such services are made. An excess JPA may meet this requirement by requiring its member agencies to be responsible for having their own risk control program.

### STANDARDS

- A. JPAs are active in promoting risk control principles among their member agencies. This shall include the following: (Compliance with two or more is required for Excellence.)
1. Promoting a risk transfer policy that addresses additional insured's, minimum insurance limits, and proof of suitable insurance coverage;
  2. Establishing risk control standards for the significant exposures of its member agencies;
  3. Prioritizing the use of its risk control resources, based on such factors as:
    - a. Loss ratios;
    - b. Frequency rates; and
    - c. Severity rates.
  4. Offering risk control assistance to its member agencies including:
    - a. Conducting or facilitating risk control inspections;
    - b. Investigating large losses;
    - c. Conducting risk control training for its member agencies; and/or
    - d. Providing wellness and/or employee assistance program.
  5. Providing or facilitating the procurement of appraisal services, in order to maintain accurate records of its members' property components and values.
- B. JPA's budget provides for the above. (Excellence only)
- C. JPA maintains a suitable management information system that includes: (Excellence only).
1. Relevant information about the type and quantity of exposures being assumed;
  2. Relevant information about the type, number and cause of accidents result in claims against its member agencies.



## VIII. CLAIMS MANAGEMENT

### OBJECTIVE

Measure the nature, scope and quality of the claims management services provided by JPA and its contractors.

### STANDARDS

- A. JPA has established a claims management system. Excess JPAs must have a process to monitor primary claims handled by, or for, its member agencies. (Mandatory)
- B. JPA has established a litigation management program. (Excellence only)
- C. JPA has conducted a claims audit on each significant self-funded program, within the last two years. Significant self-funded programs shall include workers compensation, liability, and medical malpractice. (Excellence only) The audit should be conducted by a qualified claims auditor, independent of the JPA, the claims administrator and the insurers and should determine whether or not:
  - 1. Claims are handled in a timely and organized manner;
  - 2. The claims administrator adequately communicates with the JPA, its members, and the claimants;
  - 3. Case reserving practices are reasonable;
  - 4. Loss experience reports accurately reflect the case reserves and the payments. As an alternative, this determination may be made during the financial audits required in Section IV. C of these Accreditation Standards;
  - 5. The JPA is receiving quality claims services. General evidence of this may be indicated from the following:
    - a. Staffing levels are adequate in relation to caseloads;
    - b. Adjusters identify claims with subrogation potential;
    - c. Excess insurers are notified of claims with excess potential;
    - d. Litigated claims are adequately managed;
    - e. Coverage is verified; and
    - f. Adequate investigations are performed.
- D. JPA has addressed all major recommendations and significant findings included in the audit report. (Excellence only)
- E. JPA maintains a management information system that includes relevant information about the type, number and cost of claims being reported and adjusted. (Excellence only)

- F. If the JPA provides employee benefit plans for its members, it must have an appeals process for handling claims and/or coverage related disputes (Mandatory)
- G. The JPA has a written policy addressing settlement authority. (Excellence only)

## **IX. Underwriting**

### **Objective**

To determine that the JPA has a clear process for developing and monitoring its underwriting policies and processes.

#### **A. Underwriting Objectives**

This applies to rating individual members and overall program management

1. JPA has established a written underwriting policy. This policy should include the following (Mandatory):
  - a. A definition of the underwriting function /mission
  - b. Address suitability or fit of member
  - c. As applicable considers
    - (1) Claims
    - (2) Exposures
    - (3) Actuarial results
  - d. Defines relevant period or value of data. (For example, last five-years or capped at \$150,000)
2. There is an objective contribution allocation formula (Mandatory)
  - a. It identifies the components in writing as part of the policy
  - b. The policy identifies guidelines for credits or debits, if any
3. There is an approval process for new members by board or who they delegate this approval. (Mandatory)
4. The underwriting policy is formally reviewed periodically or at least once every three years. (a fresh look at the formulas) (Mandatory) This review should consider:
  - a. Is the process adequately measuring the risks?
  - b. Is the process adequately allocating costs?
5. Underwriting considers the target net assets (Excellence only)  
May include a dividend and assessment formula

## **X. OPERATIONS AND ADMINISTRATIVE MANAGEMENT**

### **OBJECTIVE**

To determine that the JPA (A) has a process for developing and implementing a strategic plan setting forth its goals and objectives for the future, (B) regularly and effectively communicates with its members (C) actively involves its governing board members and staff in education and training programs offered by relevant professional associations and (D) maintains procedures and policies relating to information systems.

### **STANDARDS**

- A. JPA conducts an effective strategic planning process and implements and periodically reviews a strategic plan or plans to guide its future efforts. This should include an analysis of the environmental trends and the organizational strengths, weaknesses, opportunities and threats. Such a process may also include the following: (Excellence only)
  - 1. A survey of member expectations and related perceptions;
  - 2. A mission statement, with supporting goals, objectives and tasks.
  - 3. Consideration of the target equity policy.
- B. JPA regularly communicates with its member entities. Such communication may include: (Excellence only)
  - 1. Annual reports, newsletters, or similar media;
  - 2. Notice of major policy issues;
  - 3. Periodic workshops, seminars, or similar educational activities;
  - 4. Surveys of its member agencies, its service providers, and staff.
  - 5. JPA website for communication with members.
- C. JPA governing board and staff are actively involved in education and training programs. Such involvement may be indicated by the following. (Excellence only)
  - 1. Participation in one or more of the following organizations:
    - a. CAJPA (California Association of Joint Powers Authorities)
    - b. PARMA (Public Agency Risk Managers Association)
    - c. PRIMA (Public Risk Management Association)
    - d. CPCU Society (Chartered Property and Casualty Underwriters)
    - e. RIMS (Risk and Insurance Management Society)
    - f. CASBO (California Association of School Business Officials)
    - g. COSIPA (Council of Self-Insured Public Agencies)

- h. CSIA (California Self-Insurers Association)
  - i. PASMA (Public Agency Safety Management Association)
  - j. AGRiP (Association of Governmental Risk Insurance Pools)
  - k. IEA (Insurance Educational Association)
  - l. ASSE (American Society of Safety Engineers)
  - m. SCIC (Society of Certified Insurance Counselors)
- 2. Top management has attended at least two professional conferences or seminars in the preceding 12 months.
  - 3. The governing body members participate in pool management and risk management training.
  - 4. Formal training is provided to all key personnel (as needed).
  - 5. JPA's budget provides for the above participation and training.
- D. JPA has developed and implemented processes and procedures relating to protection of electronic data, including:
- 1. A suitable security and back-up system for all stored data. (Mandatory)
  - 2. A written policy with respect to:
    - a. Disaster recovery (Excellence only)
    - b. Data backup retention and recovery (Excellence only)
    - c. Physical and electronic data security (Excellence only)
    - d. Electronic data retention (Excellence only)
    - e. Protection of electronic data as required by Health Insurance
    - f. Portability and Accountability Act of 1996 (HIPAA), as applicable. (Excellence only)