



AUDIT OF THE  
RISK MANAGEMENT CLAIMS ADMINISTRATION  
AND SELF-INSURANCE ACTIVITIES

Exit Conference Date: April 11, 2003

Release Date: April 25, 2003

Report No. 03-10

CITY OF ORLANDO  
OFFICE OF AUDIT AND EVALUATION

Beryl H. Davis, CPA, CGFM  
Audit and Evaluation Director

Mona S. Mellon, CPA  
Audit Program Manager

Joe Lamendola, CISA  
IS Auditor

Andrea Wilson  
Senior Auditor

Scarlet Gibson  
Auditor II

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# CITY OF ORLANDO

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## MEMORANDUM

To: Stephen J. Valis, Labor Relations Bureau Chief

From: Beryl H. Davis, CPA, CGFM, Audit and Evaluation Director

Date: April 25, 2003

Subject: Audit of the Risk Management Claims Administration and Self-Insurance Activities (Report No. 03-10)

The Office of Audit and Evaluation has performed an audit of the City's Risk Management claims administration and self-insurance activities (Risk Management). The purpose of the audit was to determine whether Risk Management is functioning in accordance with City Policies & Procedures, and that controls over cash receipts and disbursements, workers' compensation, general and automobile liability and property insurance claims are adequate and being followed. We also reviewed whether opportunities exist for possible cost savings, cost controls, efficiency increases and service enhancements. The audit period was calendar year 2002, with reference to prior years when necessary. The scope of this audit did not include an examination of the safety program administered by Risk Management, a review of the reserves provided for payment of claims, or a study of staffing levels.

Our examination was conducted in accordance with generally accepted government auditing standards and included a review of City Policies & Procedures, inquiries of City officials and staff, testing of claim folders, analysis of selected RiskMaster system data, and such other auditing procedures as we considered necessary in the circumstances.

Risk Management coordinates the City's self-insurance function, including hundreds of workers' compensation, vehicle accident and general liability claims annually, whether litigated or not. City executives on the Risk Management Committee made favorable comments about Risk Management's claims handling effectiveness. Risk Management's October 2001 state audit of workers' compensation claims files recommended Risk Management "continue the excellent pattern of claims handling practices." Our audit did not duplicate the state audit of these practices.

Risk Management has a number of procedures to ensure effective case management, promotion of safety, and cash disbursements control. Procedures were generally found to be adequate; however, we noted some opportunities to improve and enhance the effectiveness and efficiency of the current processes. We encourage the implementation of these recommendations as soon as possible.

We would like to express our appreciation to the officials and employees of the Risk Management Administration Program and the members of the Risk Management Committee for their courtesy and cooperation during this audit.

BHD/am

- c: Honorable Buddy Dyer, Mayor
- Richard L. Levey, AICP, Chief Administrative Officer
- Kevin J. Edmonds, Deputy Chief Administrative Officer
- W. Scott Gabrielson, City Attorney
- G. Michael Miller, Chief Financial Officer
- Rebecca A. Ares, Administrative Services/Management and Budget Director
- Robert R. Garner, Comptroller
- Jay R. Goldrick, Risk Manager

## EXECUTIVE SUMMARY

### **Objectives, Scope and Methodology**

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The objectives of the Audit of the Risk Management Claims Administration and Self-Insurance Activities were to review City Policies & Procedures relevant to controls over cash disbursements and claims, and to identify possible cost control, efficiency and service enhancements.

The audit period was calendar year 2002, with reference to prior years when necessary. All electronic data utilized for both open and closed claims included data from the inception of each claim through January 23, 2003. We did not examine the safety program, reserves for payments of claims, or staffing levels.

We tested the accuracy and approval of payments to various claimants and other payees, and performed analyses of information in the RiskMaster database independently of the RiskMaster application.

### **Context**

The Risk Management Administration function performs complex work with a high volume of claims transactions. Much of this work is unscheduled and requires immediate attention. This function deals with many situations in which litigation is threatened or actually commences.

For these reasons, this function operates relatively autonomously through the Risk Manager who reports to the Labor Relations Bureau Chief, with oversight from the Risk Management Committee, composed of 5 high-level City officials.

**Approval of  
Claims  
Settlements by  
City Council**

Page 18

Among our concerns is the need for sufficient reporting of appropriate information to higher levels and for clarification of authority. Our first recommendation is that the Labor Relations Bureau Chief and the Office of Legal Affairs put in place City Policies & Procedures for City Council to approve (a) all settlements of Risk Management's claims exceeding the insurance limits of \$5,000,000 and (b) all settlements of claims that are not under the Risk Management Committee's span of control, to be specifically defined.

**Reporting to  
the Risk  
Management  
Committee**

Page 19

Analysis of the types and trends of claims can lead to more effective prevention measures and result in reduction of losses. Data to target these efforts are not being presented to the Risk Management Committee. We recommend that statistical data about patterns and trends of claims be reported to the Committee to direct appropriate remedies.

**Reporting to  
City Managers**

Page 20

Managers of City programs or departments are not notified of the outcome of claims and may not be aware of the number and costs of claims arising from their areas of responsibility. We recommend that the Risk Manager provide reports to managers of all affected programs, to assist them in asserting prevention measures. We also recommend that the Labor Relations Bureau Chief pursue incentives to accountable managers for loss reduction.

**Specification  
of Reports**

Page 22

City Policies & Procedures do not adequately address reports to the Committee. We recommend they be revised to specify either the most significant reports to go to the Committee, or that the Committee is responsible for designating reports to enhance its

oversight. One example of such a report would reveal whether amounts paid by all the programs to the reserve fund to cover claims for workers' compensation, general liability and vehicle accidents are sufficient to pay for the actual costs of the losses incurred.

**Performance Measures**  
Page 24

Performance measures set up in the past are not adequate. We encourage the completion of these for the upcoming year and the identification of new benchmarks by the Risk Manager, as well as active monitoring by the Risk Management Committee.

**Review of Insurance Certificates and Policies**  
Page 25

Because of the crucial role of the City's insurance policies, we recommend that the Office of Legal Affairs review the annual insurance certificates and policies as a safeguard to ensure timely renewals of appropriate policies.

**Approvals of Payments**  
Pages 26-29

We recommend that the Risk Manager document claim settlement approvals as soon as they are authorized by the Committee, and verify with Legal Affairs that procedures to protect them from the public record are correct.

In practice, the Risk Manager is allowed to approve payment for all invoices of any amount, other than "settlements" of \$25,000 or more. City Policies & Procedures are not clear on that point. We recommend City Policies & Procedures require that a designated Risk Management Committee member approve all checks over \$25,000.

**Citywide Risks**  
Page 29

We recommend that the Risk Manager work with Legal Affairs to systematically identify the risks of programs and contracts

throughout the City. City managers should be advised about how to review their areas for risks and to report these to the Risk Manager. Notification by City officials before a project or program is planned can enable the Risk Manager to work with insurers in advance to ameliorate risks and reduce insurance premiums.

**Internal  
Policies and  
Procedures**  
Pages 31-32

Risk Management does not have written internal policies and procedures to direct its staff and place responsibilities. We recommend that the Risk Manager prepare these for all significant areas, such as for cash disbursements, claims processing, and managing risk.

**Policies &  
Procedures for  
Contracting with  
Vendors**  
Pages 32-37

The Risk Manager, with approval by the Risk Management Committee, negotiates the City's insurance contracts through agents by a complex industry mechanism. However, Risk Management is not explicitly exempted from adhering to City Code Chapter 7 for purchasing. The City Policies & Procedures set up by Risk Management do not appear to authorize deviation from standard Purchasing policies. The Risk Manager should review all vendors, meet with officials from the Office of Purchasing and Materials Management, and document purchasing practices for every vendor category. We also recommend that the Risk Manager work with the Risk Management Committee to revise City Code and Policies & Procedures for any practices that cannot be served by the standard Purchasing procedures.

Internal policies and procedures should be placed in writing to effectively acquire vendors and contracts. Procedures should be

written for: renewing contracts; utilization of various claims support service providers; and ensuring that all medical invoices are reviewed by the medical service provider contracted for this purpose.

To improve internal controls over the establishment of vendors, we recommend that a report of new vendors set up each month be generated for review and approval by the Labor Relations Bureau Chief.

We also recommend that a means of monitoring expiration dates of contracts be established.

**Analyze Cost-Effectiveness of Outside Counsel**

Page 37

During FY '02, approximately \$1,200,000 was paid to the City's outside attorneys. One in-house attorney dedicates most of her time to Risk Management issues, at a cost of approximately \$100,000. This suggests that information about the benefits of using outside counsel should be compared to the benefits of in-house counsel. It may be more cost-effective to increase in-house attorney resources for Risk Management to some degree. A study of this was outside the scope of our audit, and we recommend that the Risk Management Committee contact the Office of Legal Affairs to evaluate this.

**Light-Duty Assignments and Extensions**

Pages 39-41

There is no centralized monitoring of the status of employees assigned to light-duty work under workers' compensation rules. This could reduce the potential for errors or abuse. We recommend that the Risk Manager pursue with the Occupational Health Coordinator the best way to monitor and document these arrangements in a central location. We also recommend addressing whether more than 2 extensions of

workers' compensation benefits may be approved, and that one individual monitor and enforce time limits.

**Accounting  
Controls**  
Pages 41-43

To prevent adjusters from exercising approvals of checks through Risk Management's software, the Risk Manager should contact Technology Management for controls over this.

As an example of good internal control, the staff who compares checks printed by Accounting and Control to Risk Management's internal reports should sign the documents to indicate what reviews he has performed.

To better ensure the proper recording of monies received in the Risk Management office, the staff person who normally receives the checks should log these as soon as they are received, and this log should be compared to deposit receipts from the Revenue Collection section.

**Reconciliation  
of General Ledger  
and of Premiums  
to Actual Charges**  
Pages 43-45

The Accounting and Control Bureau is responsible for printing Risk Management's checks and for posting the checks to the City's general ledger by batches. Risk Management does not have a procedure for periodically checking these postings.

Accounting staff systematically charge each program with applicable workers' compensation and general liability "premiums." For the last 2 years, Accounting has not done "true-up" reports comparing the amounts programs pay for premiums to the reserve for losses. Instead, for FY '02, because of actuarial calculations, it has increased the loss reserve by \$3,000,000, charging \$2,000,000 to retained earnings and \$1,000,000 to general, wastewater and stormwater funds. The

Fleet/Facilities Management Bureau charges programs for vehicle accident “premiums,” but does not report a comparison of premiums charged to losses incurred.

We recommend that Risk Management staff work with staff of these bureaus to periodically verify (a) the City’s general ledger compared to Risk Management’s records, and (b) the premiums charged the various programs compared to the losses incurred.

**Data Quality**  
Pages 45-48

We recommend that the Risk Manager review reports regularly to identify exceptions such as errors or unusual transactions. Several reports are in use, but we noticed some items that indicate a need to reveal errors more methodically and enhance the quality and reliability of data and reports. For example, we noted 17 instances of claims with negative balances.

Investigating some peculiar large balances, we determined that there are some unexplained line items among the vendor records. By printing one of 52 available “Data Validation Logs,” we noted 1236 instances since 1997 of unusable or no claim numbers. The logs, however, are in a language that can be interpreted only by experts in the software. We did not conclude that these are unacceptable errors; however, we recommend that the Risk Manager determine whether new errors arise during the year and whether the vendor should be hired to assist with data validation. The Risk Manager should also document corrections of anomalies if any.

**Claimant  
Information**  
Pages 48-49

To reduce the need to input data about workers’ compensation claims and to increase efficiency, we recommend that the Risk Manager explore selectively downloading employee data from

Infinium.

Also, to permit better analysis, we recommend that the Risk Manager obtain and input the unique taxpayer identification number from all claimants who are not employees.

## **BACKGROUND**

The Risk Management Administration Program (Risk Management) of the Labor Relations Bureau is responsible for maintaining an efficient and cost-effective program that strives to protect the City from liability due to accidents, natural disasters and occupational injury and disease. Additionally, the City maintains insurance coverage in the areas of fine arts, terrorism, property, pollution liability, crime, and accidental death and dismemberment for firefighters and police officers.

The responsibilities are carried out by risk retention and transfer, aggressive claims handling and safety training. The safety function, while not audited for this report, is a significant program supervised by the Risk Manager. Key activities of this function include personnel training, testing, and inspection of facilities to promote safety.

The City is self-insured against losses in the amounts of \$350,000 per occurrence for liability, and \$500,000 for workers' compensation. For greater losses, the City purchases insurance to transfer the risk to outside insurers. Loss reserves in the Risk Management Fund for FY '03 are \$15,240,650, primarily from Intra-City sources, increased from \$12,038,000 in the FY '02 budget because of calculations by the City-retained actuary.

Staffing consists of a Risk Manager, four Claims Adjusters, an Assistant Claims Adjuster, a Human Resources Specialist, and a Staff Assistant, as well as 4 safety personnel who are supervised by the Risk Manager. Two Claims Adjusters focus on liability claims, while the other two, along with the Assistant Claims Adjuster, specialize in workers' compensation claims. The operating costs budgeted for FY '03 are \$893,396. This is a decrease from \$1,508,906 for FY '02, since much of the cost of the City occupational medical clinic is no longer being charged to the Risk Management program.

The following chart shows both the substantial volume of claims managed by Risk Management and the dollar amounts involved. The claims are divided into two groups: claims remaining open as of January 23, 2003, and claims closed during calendar year 2002. These figures do not include amounts paid by the City's independent insurers. As an indicator of workload, we were advised that in-house personnel devote a substantial amount of professional and administrative time to resolve cases that ultimately may not require payments.

CLAIMS REMAINING OPEN AS OF JANUARY 23, 2003				CLAIMS CLOSED DURING CALENDAR YEAR 2002		
<u>Types of Claims</u>	<u>Number of Claims</u>	<u>Largest Single Claim</u>	<u>Total Payments</u>	<u>Number of Claims</u>	<u>Largest Single Claim</u>	<u>Total Payments</u>
Workers' Compensation	371	\$489,914	\$12,100,135	687	\$499,978	\$4,746,577
General	109	2,025,492	4,337,152	285	97,680	924,247
Vehicle Accident	54	120,611	372,560	200	100,894	546,593
All Claim Types	587	No Payments	--0--	651	No Payments	--0--
TOTALS	1,121		\$16,809,847	1,823		\$6,217,417

The Risk Management Committee meets monthly and is comprised of the Deputy Chief Administrative Officer, the Chief Financial Officer, the City Attorney, the Labor Relations Bureau Chief, and the Administrative Services/Management & Budget Director.

The Committee approves any changes to insurance policies, and grants claims settlement authority of \$25,000 or more. The Risk Manager may approve settlements of less than this amount, and the adjusters are permitted to award settlements up to \$5,000. Other than settlements, the Risk Manager authorizes payments in any amount without advance approval. In January 2003, the Risk Management Committee voted to limit its own authority for claim settlements to \$5,000,000. This is the maximum amount that could be paid by the City's insurers on insured claims. If the City experiences any amount greater than this, the settlement would have to be approved by City Council.

City programs are charged "premiums" for workers' compensation, general liability and vehicle accidents. The workers' compensation and general liability premiums are calculated by staff of Management & Budget and the Accounting & Control Bureau and charged ratably to programs according to number of individuals on staff. The vehicle accident premiums are allocated to programs by the Fleet/Facilities Management Bureau based on industry rates rather than actual experiences. Programs are not charged for actual losses incurred by the programs.

Since November 1, 1997, Risk Management has been administering all of the City's liability and workers' compensation claims, payments, and recoveries through the use of a computerized claims management system called RiskMaster.

## **SUMMARY OF RECOMMENDATIONS AND RESPONSES**

<b>RECOMMENDATIONS</b>	<b>RESPONSES</b>
1. The Labor Relations Bureau Chief should work with the Risk Management Committee and the Office of Legal Affairs to establish City Policies & Procedures requiring approval by City Council for (a) all settlements of Risk Management’s claims exceeding the insurance limits of \$5,000,000 and (b) all settlements of claims that are not under the Risk Management Committee’s span of control, to be specifically defined, in any amount.	Partially Concur
2. The Risk Manager should report to the Risk Management Committee statistical data about patterns and trends of claims against the City, and the Committee should use this information to direct appropriate remedies.	Concur
3. The Risk Manager should provide City managers with reports about the consequences of claims arising from their departments to assist them to assess the pattern of claims and to encourage claims prevention.	Concur
4. The Labor Relations Bureau Chief should work with the Risk Management Committee to pursue incentives for managers to focus on loss avoidance, such as making them accountable through annual goals, or charging their programs for payments made for losses.	Partially Concur
5. The Risk Manager should consult with the Risk Management Committee regarding what reports to provide regularly to the Risk Management Committee, such as those suggested in this report, and amend City Policies & Procedures accordingly.	Concur
6. The Risk Manager should complete preparation of quantifiable performance measures and request the Risk Management Committee to approve them and monitor the results.	Concur
7. The Risk Manager should request the Office of Legal Affairs to: (1) annually review all of the City’s insurance certificates and policies to ensure timely renewal, and (2) report the results to the Risk Management Committee.	Partially Concur

<b>RECOMMENDATIONS</b>	<b>RESPONSES</b>
8. The Risk Manager should formalize the approvals of the Risk Management Committee by requiring a Committee representative to sign each case summary approved for settlement, and this signed summary should be used as documentation of the Committee's action to approve such settlement.	Concur with Reservations
9. The Risk Manager should obtain a legal opinion about the most appropriate way to document and protect settlement approvals from receiving public scrutiny.	Concur
10. The Risk Management Committee should require the Risk Manager to obtain advance approval from a designated Risk Management Committee member for all payments of \$25,000 or more to vendors, signified in writing, and City Policies & Procedures should be updated to clearly reflect this change.	Concur with Reservations
11. The Risk Manager should work with Executive Management and the Office of Legal Affairs to develop a systematic means to: (1) apprise him of all projects, operations and events Citywide that may give rise to risks; (2) respond to City Policies & Procedures reporting requirements regarding risks in contracts; and (3) assess and mitigate any newly identified risks.	Concur with Reservations
12. The Risk Manager should prepare internal policies and procedures for cash disbursements, processing of claims, means for managing the City's risk and other significant activities.	Concur
13. The Risk Manager should establish a means to monitor expiration dates of contracts, such as utilizing the diary function in the RiskMaster System.	Concur
14. The Risk Manager, working with the Risk Management Committee, should develop a revision to City Code Chapter 7 and to City Policies & Procedures to set forth any purchasing policies and practices necessary for Risk Management to function outside standard Purchasing procedures.	Concur with Reservations

<b>RECOMMENDATIONS</b>	<b>RESPONSES</b>
15. The Risk Manager should meet with officials of the Office of Purchasing and Materials Management to ensure that any purchases not specifically exempted are made and documented using established City Policies & Procedures for selecting and contracting with vendors.	Concur with Reservations
16. The Risk Manager should include guidance in internal policies and procedures, with approval from the Risk Management Committee, about how to contract with each specific category of vendor, and designate the accountable staff members.	Concur
17. The Labor Relations Bureau Chief should review a monthly list to be generated from the RiskMaster software of all new vendors added by the Risk Manager, indicate his review by signing the report, and place this procedure in writing.	Concur
18. The Risk Manager, through the Risk Management Committee, should contact the Office of Legal Affairs to evaluate whether it would be cost-effective to increase in-house legal staff for Risk Management in order to decrease costs of outside counsel.	Concur with Reservations
19. The Risk Manager should work with the Occupational Health Coordinator to: (1) ensure proper monitoring and documentation of light-duty personnel assignments, (2) devise a reporting system, and (3) update related internal policies and City Policies & Procedures.	Concur
20. The Labor Relations Bureau Chief should work with the Administrative Services/Management & Budget Director to provide in City Policies & Procedures for any acceptable extensions beyond the total of 180 days for workers on light-duty assignments, and for assignment of centralized responsibility to monitor and enforce time limits and approve extensions.	Partially Concur
21. The Risk Manager should discuss with Technology Management technology controls to prevent unauthorized staff members from releasing payments greater than authorized limits.	Concur

<b>RECOMMENDATIONS</b>	<b>RESPONSES</b>
22. The Risk Manager should direct the Human Resources Specialist to indicate by signature and date that he has compared the checks printed by Accounting and Control to the records maintained by Risk Management.	Concur
23. The Risk Manager should establish a procedure to record all checks received in a log, to be compared with the deposit receipt received from Revenue Collection.	Concur
24. The Risk Manager should work with the Accounting and Control Bureau to establish a procedure to periodically reconcile receipts and disbursements recorded in JDE OneWorld to Risk Management’s internal records.	Concur
25. The Risk Manager should work with the Accounting and Control and the Fleet/Facilities bureaus to establish a procedure to periodically reconcile all types of “premium” charges made to programs Citywide with the actual losses incurred, and report this information to the Risk Management Committee for further action.	Do Not Concur
26. The Risk Manager should identify what RiskMaster reports should be produced on a regular basis to disclose exceptions such as errors or unusual transactions, and document the research and resolution of those items.	Concur
27. The Risk Manager should establish written internal procedures to validate data, including any needed assistance from the software vendor, and document correction of any anomalies.	Concur with Reservations
28. The Risk Manager should explore with Technology Management the operational feasibility of selectively downloading Infinium data.	Concur with Reservations
29. The Risk Manager should establish a policy to obtain and utilize the federal tax identification number from all claimants who are not employees.	Partially Concur

## ISSUES AND RECOMMENDATIONS

During our audit, we identified certain procedures and management practices that could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, or transaction. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

**Objectives** The objectives of this audit were to determine if relevant City Policies & Procedures are being followed; if the internal and management controls over cash receipts and disbursements in the Risk Management Administration Program are adequate and being followed; if the internal and management controls over workers' compensation claims, general and automobile liability and property insurance are adequate and being followed; and if there are areas for possible cost savings, cost controls, efficiency increases and service enhancements.

**Scope** The audit period was calendar year 2002, with reference to prior years when necessary. All electronic data utilized for both open and closed claims included data from the inception of each claim through January 23, 2003. The closed claims we examined were closed during the period from January 1, 2002 through January 23, 2003. The open claims we examined were open as of January 23, 2003. We did not examine the safety program administered by Risk Management, review the reserves provided for payment of claims, or study staffing levels. We did not duplicate procedures tested in audits of workers' compensation by the state.

**Methodology** We reviewed relevant City and bureau policies and procedures and interviewed Risk Management staff and members of the Risk Management Committee. We tested the accuracy and approval of payments to various claimants and other payees. We performed analysis of the information in the RiskMaster database independently of the RiskMaster application.

**Establish City Policies  
& Procedures for City  
Council Approval of  
Settlements**

The Risk Management Committee was created in 1993 to serve in an advisory capacity and establish policies and procedures for the Risk Management Administration Program. It is comprised of the Deputy Chief Administrative Officer (Deputy CAO), the Chief Financial Officer (CFO), the Administrative Services/Management & Budget Director, the City Attorney and the Labor Relations Bureau Chief.

Through 2002, there was no limit on the amount of claim settlements the Committee could approve without City Council approval. The Committee's approval authority is set forth in City Policies & Procedures. The types of claims subject to or exempt from Risk Management Committee authority are not explicitly stated in City Policies & Procedures. There is no reference to this authority in City Code.

In January 2003, the Committee voted to limit its own approval authority to claim settlement amounts up to \$5,000,000, which is the maximum liability coverage provided by the City's independent insurance companies. If a larger settlement occurs, the Committee decided to present this to City Council for approval. This action by the Committee has not been formalized in written City Policies & Procedures.

There are some types of claims that are not under the Risk Management Committee's span of control, although Risk Management may perform administrative functions for Legal Affairs on these claims. These claims are generally not insurable. Examples are claims related to zoning, land use and contract litigation. These claims are not paid out of Risk Management's fund reserved for losses. They are infrequent, and the practice has been to obtain City Council approval of all of these settlements, rather than having the Risk Management Committee make this determination.

We believe that there should be written procedures indicating which cases are not under the Risk Management Committee's span of control, and the conditions and procedures for these to be approved by City Council.

**Recommendation 1.**

We recommend that the Labor Relations Bureau Chief work with the Risk Management Committee and the Office of Legal Affairs to establish City Policies & Procedures requiring approval by City Council for (a) all settlements of Risk Management's claims exceeding the insurance limits of \$5,000,000 and (b) all settlements of claims that are not under the Risk Management Committee's span of control, to be specifically defined, in any amount.

**Response**

We partially concur. Will work through Risk Management Committee (RMC) and Office of Legal Affairs (OLA) to establish policies requiring approval by City Council. Implementation to begin within thirty days. Do not recommend mentioning firm \$5,000,000 limit, as that amount could be revised upward or downward. Furthermore, limit does not currently apply to Workers' Compensation claims.

**Report Trends to the Risk Management Committee**

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Because of its high-level members, the Risk Management Committee should be able to strongly influence City management to focus on loss prevention.

However, the Committee's resources are not being adequately leveraged in this way because it does not have the necessary information at its disposal. Committee members need statistical data and analysis of trends and patterns in order to identify the problems and issues facing Risk Management.

The Risk Manager provides the Committee with various reports on a regular basis; however, Committee members told us they would like to receive more detailed reporting,

at least quarterly, about the types of claims being processed by Risk Management. For example, if the Committee had concrete data about the frequencies of certain types of claims, such as slip and falls, traffic accidents or false arrests, it could take steps to address those specific problems.

Loss prevention can be enhanced by analyzing data to target preventive efforts, and this has potential for cost savings for the City. However, data to target these areas are not being extracted for analysis. Both the Deputy CAO and the CFO perceive that the City incurs repeated losses for certain types of claims. Furthermore, they sense that some City departments and job classifications, and perhaps certain employees, have frequent claims that may fall into a pattern.

They believe that if trend analyses were performed, these patterns would emerge, and the Committee could then look at ways to reduce the occurrences of repetitive incidents. The analyses may lead to steps such as establishing or enforcing safety policies and procedures, or increasing the number or type of safety and training programs the City provides.

**Recommendation 2.**

We recommend that the Risk Manager report to the Risk Management Committee statistical data about patterns and trends of claims against the City, and that the Committee use this information to direct appropriate remedies.

**Response**

We concur. Will establish a calendar of reporting data desired by RMC.

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**Provide Reports and  
Claims Mitigation  
Incentives to City  
Managers**

We found that claim payment information is not being adequately communicated to department or other managers. Managers of departments are normally aware of the fact that claims have been made, but after that they rarely hear about the result, or what the City had to pay to

close the claims. Some managers may not realize the frequency or extent of claims arising from their departments.

If Risk Management systematically provided City managers with loss information, the City could encourage efforts aimed at risk reduction and prevention. The Deputy CAO and CFO believe that claims are well managed, but that the City must focus on loss avoidance.

The Deputy CAO and CFO have observed that the City routinely suffers certain types of losses; and some job classifications, departments and bureaus have certain accidents repeatedly. Further, the City managers who are in a position to make the necessary changes to prevent these conditions may not be aware of the pattern of claims arising from their departments. If Risk Management communicated this information and statistics to these managers, they could take steps to possibly curtail similar accidents and claims. These managers would know where to focus efforts to improve safety precautions and arrange for more training classes for employees.

We assert that Risk Management can provide informative claim statistics to department managers while maintaining the necessary confidentiality of medical and other details.

Furthermore, we believe that mitigating claims and accidents should become a goal or objective of each affected City manager each year. The Labor Relations Bureau Chief should discuss with the Administrative Services/Management & Budget Director and the Chief Administrative Officer (CAO) the possibility of directing this to occur and including this factor in evaluations of managers.

Another control tool that the Bureau Chief should discuss is the possibility of reporting to the CAO the impact of losses by department, and of charging those programs that

incur significant losses.

**Recommendation 3.** We recommend that the Risk Manager provide City managers with reports about the consequences of claims arising from their departments to assist them to assess the pattern of claims and to encourage claims prevention.

**Response** We concur. Department Directors will be provided loss data on a quarterly basis.

**Recommendation 4.** We recommend that the Labor Relations Bureau Chief work with the Risk Management Committee to pursue incentives for managers to focus on loss avoidance, such as making them accountable through annual goals, or charging their programs for payments made for losses.

**Response** We partially concur. This requires Citywide budget and remuneration policy changes beyond the control of this Section and Bureau.

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**Specify Regular Reports Be Sent to the Risk Management Committee**

We found that City Policy & Procedure 835.1, Risk Management Committee, states that the Risk Manager shall prepare and forward to the Risk Management Committee a quarterly report of all expenses paid during the period.

This is not being done. The Risk Manager told us he does not believe that the Committee wants such a detailed report, and two members of the Committee confirmed to us that such a report is not necessary for the effective functioning of the Committee. We agree that a report of key expenditures focusing on larger expenditures and on the types and amounts of losses incurred may be of greater benefit than a detailed listing of all expenses paid.

We believe that a monthly report should be provided to the Committee Chair and any interested Committee member that summarizes all of the expenditures either by claim or by vendor, and that includes all the checks paid for the month. Providing the Risk Management

Committee only with information about payments selected by Risk Management staff could allow improper expenditures not to be reported to the Committee.

The Risk Management Committee should require reports at least annually that show whether amounts paid by programs to the reserve fund each year for workers' compensation, vehicle accident, and general liability charges are sufficient to recover the actual costs of the losses incurred. This is important to ensure that Citywide estimates for premiums are providing sufficient returns to cover City costs, that charges are being properly allocated to programs, and to heighten accountability.

Other examples we noted of periodic reports that the Committee may find helpful are: the total amounts paid on each claim, indicating not only the City payments, but also any payments made by insurers; amounts paid according to program and worker classification; an aging of claims based on date of inception; and status of performance measures.

The Policies & Procedures should be revised to direct the Risk Manager to either: (1) provide to the Risk Management Committee such financial and statistical reports as they request, or (2) specify the reports the Committee deems necessary to inform it of significant matters of interest.

**Recommendation 5.** We recommend that the Risk Manager consult with the Risk Management Committee regarding what reports to provide regularly to the Risk Management Committee, such as those suggested in this report, and amend City Policies & Procedures accordingly.

**Response** We concur. Implementation to begin at next RMC meeting.

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**Establish Performance Measures**

We found that the Risk Management function has been operating without effective performance measures. The new Risk Manager has discussed this condition with Management & Budget (M&B) staff in an effort to develop quantifiable performance measurements for next fiscal year.

Performance measures are important tools for identifying goals and verifying their achievement. While statistics and actual measurements for local governmental units broken down by job class codes are not widely available, the National Council of Compensation Insurance has within the last year begun to collect this data for publication. Historical data in RiskMaster, if job class codes are used, can provide valuable benchmarks.

The ratio of claims to total employment, the cost per claim, and the claims by job classification are examples of performance measurements that may have relevance to the City. The actual measures adopted should be proposed by the Risk Manager in consultation with M&B, and approved by the Risk Management Committee.

Lack of effective performance measures may be associated with not holding management accountable in the past. However, Citywide efforts during the past year to establish meaningful performance measures have become more concerted, and the Risk Management Committee should monitor their achievement.

**Recommendation 6.**

We recommend that the Risk Manager complete preparation of quantifiable performance measures and request the Risk Management Committee to approve them and monitor the results.

**Response**

We concur. These measures are currently under development with the City's Performance Management plan.

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**Independently Review Insurance Certificates and Policies for Timely Renewal**

We found that at the present time no staff independent of Risk Management inspects insurance certificates or the actual policies to ensure that all of the City’s coverages are current.

Most of the City’s insurance policies expire at the end of each fiscal year, and must be renewed on an annual basis. With all of these policies coming up for renewal at the same time, it is possible that Risk Management could inadvertently overlook one or more renewals. If this were to occur, the City could be without coverage and vulnerable to losses.

The Assistant City Attorney who works closely with Risk Management told us that this concern has not been voiced in the past; however, she acknowledged that requiring an objective examination of policy renewals would offer additional protection.

“Risk Management is responsible for protecting the City from liability due to accidents, natural disasters and occupational injury and disease. For those losses which would adversely affect the City’s financial base, risk transfer occurs through the purchase of insurance,” according to its Intranet Welcome Page.

We believe that it would be prudent for Legal Affairs annually to independently verify that each of the City’s insurance certificates and policies are renewed on a timely basis and in full force and effect, preferably by the start of the new fiscal year.

We also suggest that Legal Affairs report the outcome of its review of the insurance certificates and policies to the Risk Management Committee.

**Recommendation 7.**

We recommend that the Risk Manager request the Office of Legal Affairs to: (1) annually review all of the City’s insurance certificates and policies to ensure timely renewal, and (2) report the results to the Risk

Management Committee.

**Response**

We partially concur. We do not believe it is OLA's responsibility to monitor the timeliness of any operation's contract renewal. Some annual review of policy content is appropriate. Procedures are already in place to initiate renewals through the RiskMaster diary function.

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**Secure and Document  
Risk Management  
Committee Approvals**

We found that the City's Risk Management Committee is responsible for approving the payment of any settlement of \$25,000 or more, but that this approval is presently given in verbal form.

In addition, while Risk Management has certain practices regarding keeping its settlement decisions confidential, it has been several years since these practices were reviewed with the Office of Legal Affairs (Legal Affairs) to verify which Risk Management records are subject to public disclosure and which are not. These practices may need revision and the Risk Manager should consult with Legal Affairs regarding the most appropriate means for protecting this sensitive information.

Risk adjusters present to the Committee summaries of cases for which they are requesting settlement authority of at least \$25,000. The adjuster explains the background and the basis for his or her conclusions and asks for the authority to settle the claim for a certain maximum dollar amount.

The Committee may ask additional questions of the adjuster, and then may approve a settlement amount. Each Risk Management Committee meeting is audio tape recorded, so the approvals to settle are preserved on audio tape. The adjuster notes the approval amount on the case summary brought into the meeting by the adjuster, and then also records the final actual settlement made. We were told by the Risk Manager that these summaries are not placed in the claim files because these become public

record when they are closed, and also that the audio tapes are not public records.

The Risk Manager does not presently document approved amounts by obtaining the Committee members' signatures because of a concern that this document might be released publicly. The media and the public closely monitor some of these cases, and some are settled for large dollar figures. Risk Management does not believe it would be in the public interest to encourage people to make even larger claims in the future by having amounts approved by the Committee become public knowledge.

We believe that there is not a strong argument against signing off on the amounts approved, since the case summaries are not kept in the corresponding claim files and are secured in a separate location. We suggest that the approval of authorized settlement amounts by the Committee be documented by the signature of a designated Committee representative and retained in this separate location. If this is not done, we assert that the audio tapes could become lost or otherwise corrupted, which would result in the only evidence of approval being the adjuster's notations.

**Recommendation 8.**

We recommend that the Risk Manager formalize the approvals of the Risk Management Committee by requiring a Committee representative to sign each case summary approved for settlement, and that this signed summary be used as documentation of the Committee's action to approve such settlement.

**Response**

We concur with reservations. This initialed summary should be designated to someone other than the Administrative Services/Management & Budget Director or the Labor Relations Bureau Chief, as they are in the Risk Manager's direct chain-of-command.

Implementation will be contingent upon the opinion of the Office of Legal Affairs as referenced in

recommendation number nine.

**Recommendation 9.** We recommend that the Risk Manager obtain a legal opinion about the most appropriate way to document and protect settlement approvals from receiving public scrutiny.

**Response** We concur. A written legal opinion will be requested within the next two weeks.

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**Approve in Advance All Payments of \$25,000 or More**

We found that City Policies & Procedures do not make it clear that the Risk Manager currently makes payments of \$25,000 or more to payees other than claimants.

City Policy gives the Risk Manager “...final internal authority regarding all claim settlements up to \$24,999...” It does not state that he may make payments such as for legal, medical, repair and other vendor invoices, in the amount of \$25,000 or more, which is the practice. The Risk Manager and Committee believe that this practice is necessary, citing the urgency of many large payments. However, these expenditures do not have budgetary controls, given the unpredictable nature of events that give rise to these payments.

We suggest that all checks of \$25,000 or more have approval from a designated member of the Risk Management Committee in advance of their payment. The Risk Manager suggests that there may be perhaps 25 such checks per year exceeding \$25,000. We believe that rarely would a designated Committee member not be available for this approval.

City Policies & Procedures provide essential support to City government and should provide clear guidance. City Policies & Procedures about what payments the Risk Manager may approve should be clarified and what process is required for approval of the larger amounts.

**Recommendation 10.** We recommend that the Risk Management Committee require the Risk Manager to obtain advance approval from a designated Risk Management Committee member for all payments of \$25,000 or more to vendors, signified in writing, and that City Policies & Procedures be updated to clearly reflect this change.

**Response** We concur with reservations. This initialed summary should be designated to someone other than the Administrative Services/Management & Budget Director or the Labor Relations Bureau Chief, as they are in the Risk Manager's direct chain-of-command. Implementation is contingent upon the legal opinion required by recommendation number nine and RMC's agreement.

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**Assess Citywide Risks** We learned that the Risk Manager is not confident that all City bureaus or offices notify him of activities that may have risks associated with them. He surmises that some managers may not be aware of all types of risks that should be brought to his attention. Examples of this include the building of a skate boarding facility, and an agreement to cover a contracted party as an additional insured.

If the Risk Manager is unaware of activities that may involve risks, the City could be subject to unexpected or uninsured losses. On the other hand, if the Risk Manager is notified during the planning of structures or the establishment of contracts, he can work with insurers to build in features to ameliorate risks and reduce insurance premiums. Otherwise, the City could incur costs that might have been avoidable.

This exposure results from the lack of a system for encouraging communications and evaluating comprehensive information about Citywide risks.

The Risk Manager should require management to notify

him about projects, activities and events that may entail risks that should be evaluated. This can be accomplished by establishing appropriate City Policies & Procedures. We suggest further that the Risk Manager engage in a systematic outreach effort that could include contacts with Department and Office Directors and operations managers.

City Policies & Procedures (161.3) from Legal Affairs requires that, in connection with contracts, departments initiate Certificates of Insurance and use an Insurance Requirements for Specifications form. It also requires departments to update the Contracts and Insurance System database. Risk Management is required to issue unspecified periodic reports, relative to this database. Because of the great number and complexity of City contracts, analysis and reporting of these could be a labor-intensive task.

The Risk Manager should contact Legal Affairs and the Office of Purchasing and Materials Management (Purchasing) about means to identify risk and insurance responsibilities in City contracts, and to clarify what is meant by this City policy. For example, the staff attorney who works with Risk Management issues could request a list of all new contracts under negotiation by Legal Affairs, to be provided her on a frequent basis, and review them for potential risks. The Risk Manager also should request the Risk Management Committee to assist in obtaining cooperation from departments if it is found lacking. All significant information obtained should be used to develop a comprehensive assessment of the City's risks for the purpose of mitigating them.

**Recommendation 11.** We recommend that the Risk Manager work with Executive Management and the Office of Legal Affairs to develop a systematic means to: (1) apprise him of all projects, operations and events Citywide that may give rise to risks; (2) respond to City Policies & Procedures

reporting requirements regarding risks in contracts; and (3) assess and mitigate any newly identified risks.

**Response** We concur with reservations. Results are beyond the control of the Risk Manager.

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**Establish Written Internal Policies and Procedures**

Risk Management does not have written internal policies and procedures. These should be prepared to set forth how to perform such tasks as disbursements of cash, the processing of claims, the methods for managing the City's risk, insurance policy renewals, settlement approvals, standard reporting to the Risk Management Committee and other City departments, and the handling of confidential medical records.

For example, Risk Management has no internal policies and procedures instructing personnel what steps to follow to make disbursements or to fulfill the State's laws and regulations governing workers' compensation.

We were told that these have not been prepared because most of the staff responsible for these functions have been in place for several years and feel familiar with the necessary procedures.

Internal policies and procedures serve as guidance to the individuals charged with performing daily tasks and provide a framework for key activities and processes. Additionally, they establish accountability for essential tasks.

We believe that documenting internal policies and procedures would provide each staff member with clear directives about assigned duties, and establish measures for increased internal quality assurance to Risk Management.

**Recommendation 12.** We recommend that the Risk Manager prepare internal policies and procedures for cash disbursements, processing of claims, means for managing the City's risk,

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and other significant activities.

**Response** We concur. An internal policy and procedure guide will be written and implemented within the next three to six months.

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**Monitor Contracts** During our review of Risk Management’s vendor selection process and the subsequent monitoring of these contracts, we found that Risk Management currently has no procedure in place to track the expiration of contracts.

The RiskMaster system includes a feature where contract expirations could be entered into a “diary” section. RiskMaster could then alert the user when a contract is close to expiration.

Risk Management should have a method for summarizing the basic terms of contracts, including the expiration dates. Monitoring these dates would prevent contracts from unexpectedly ending and, therefore, would reduce the likelihood of misunderstandings about terms. Serving under expired contracts could give contractors and other vendors an opportunity to change fees and terms resulting in possibly higher costs to the City.

**Recommendation 13.** We recommend that the Risk Manager establish a means to monitor expiration dates of contracts, such as utilizing the diary function in the RiskMaster System.

**Response** We concur. Partial implementation has already been initiated, with full implementation expected within 120 days.

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**Clarify City Code and Policies & Procedures for Contracting with Vendors**

Some of Risk Management’s vendors are not selected through the standards outlined in the City Code, Chapter 7, Purchasing. Risk Management is not explicitly exempted from adhering to this Code or to the City Policies & Procedures established by Purchasing.

Instead, City Policies & Procedures (835.1) directs the Risk Management Committee to engage vendors unique to the Risk Management function in accordance with the City's Purchasing Policy. It directs the Risk Manager to authorize payment of invoices for professional and other services submitted and to develop contracts for these services if they will be in excess of \$25,000 per year. This does not, however, appear to specifically authorize deviation from normal Purchasing policies for selecting these service providers.

As a result, it is not clear whether Risk Management is making all its purchases through the proper channels.

An example of this situation is the purchase of insurance coverage of various types, which is very specialized. Several insurance companies must be secured that, in combination, provide the appropriate types and levels of insurance to protect City government from undue risk. The Risk Manager uses insurance consultants and agents to acquire insurance coverage, with consultation and approval by the Risk Management Committee. The insurance is acquired through a negotiated purchase process and is approved by City Council.

We believe that the Risk Manager, with Legal Affairs and the Risk Management Committee, should develop an amendment to City Code Chapter 7 and to City Policies & Procedures for any vendors that cannot be acquired in accordance with established Purchasing procedures. For any services or items that are not clearly exempted under new provisions in City Code or City Policies & Procedures, the Risk Manager should ensure that normal City Purchasing policies and procedures are followed.

We have prepared Appendix 1, a schedule of *Payments to Vendors Greater Than \$9,000 During FY '02*, to present the largest vendors paid by Risk Management, other than medical providers, claimants and claimants' attorneys,

and insurance premiums.

Whether or not Risk Management engages vendors through Purchasing, it is important that prudent controls be exercised. In October 1999 a complaint was investigated that Risk Management was utilizing an outside adjuster not under contract to the City. This resulted because of the relative autonomy of Risk Management operations. Subsequently, outside adjusters were selected using an RFP process.

Examples of claims-associated vendors that in FY '02 were possibly not selected in accordance with the City's established purchasing policies are those for: investigators totaling over \$25,000 thus requiring a written "Request for Quote"; vehicle rentals paid to one vendor totaling over \$10,000 thus requiring 3 verbal quotes; and repairs to claimants' properties paid to one vendor totaling over \$10,000 thus requiring 3 verbal quotes. We suggest that the Risk Manager review all payees individually and by major category of expenditure, and document whether they are properly hired.

Purchasing officials indicate that whether certain bids or quotes are required may depend upon the circumstances, and that it is important for Risk Management to consult with them about acquiring services, not only for internal control but also to facilitate cost reduction. We suggest that the Risk Manager work closely with Purchasing officials to accomplish these recommendations.

**Recommendation 14.**

We recommend that the Risk Manager, working with the Risk Management Committee, develop a revision to City Code Chapter 7 and to City Policies & Procedures to set forth any purchasing policies and practices necessary for Risk Management to function outside standard Purchasing procedures.

**Response**

We concur with reservations. RMC will have to approve this request and the Office of Legal Affairs will have to

draft the language to revise the City Code. This suggestion has already been made and requires additional dialogue with RMC and OLA.

**Recommendation 15.**

We recommend that the Risk Manager meet with officials of the Office of Purchasing and Materials Management to ensure that any purchases not specifically exempted are made and documented using established City Policies & Procedures for selecting and contracting with vendors.

**Response**

We concur with reservations. Autonomy of the Risk Management program was a key element in its formation as identified in the specific language of City Policies & Procedures (835.1). In order to provide immediate relief to citizens for damages incurred by the City or provide unusual medical services/devices that cannot be delayed due to statutory limitations, it is not always feasible to follow the City's Purchasing policy. In some cases, the cost for services exceeds the limits under P&P 191.7, but because of the circumstances beyond the control of the Risk Manager and in many cases the time sensitive required response, immediate procurement is required and a complete written quote is unattainable.

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**Provide Internal Policies and Procedures about Contracting**

Internal policies and procedures about selection and renewal of the numerous vendors Risk Management pays during the course of a year, whether or not obtained with assistance from Purchasing, should be placed in writing. This would ensure that Risk Management staff are clear about their responsibilities, separate from those of Legal Affairs and Purchasing staff members, and ensure fair and proper selection, evaluation and renewal processes for vendors. Some examples are noted below:

- The City has contracts with 3 law firms in each of the 3 specialties needed for managing and litigating claims, enabling the City to choose among attorneys according to workload, hourly rate, specific resources, or other criteria. These firms

were engaged in 1993 using a prescribed City RFP, but we found that the agreements do not have an expiration date. Understandably, the business relationship with attorneys generally should be more than one year, as litigation is often protracted, but there should be a stated policy about when these contracts should be renewed. Language about transition methods and rate adjustments should be considered in future agreements.

- In 2001, claims support service providers, such as outside adjusters, were contracted through an RFP process. We also were informed that investigative services are not under contract and that appraisal services are under contract. Risk Management should establish a written policy setting forth its rationale and system for approving investigative and other service providers that are not under contract.
- Risk Management has a 3-year contract that combines the services of 4 medical service providers and, through Purchasing, requested from the City Council in March 2003 two more one-year extensions for consistency and minimal disruption in service. The procedures for utilizing these providers should be outlined in internal policies and procedures. Also, numerous healthcare professionals are listed in the City's Managed Care network required by state regulations. Invoices from these professionals are reviewed by one of the medical service providers for appropriateness of services and reasonableness of amounts charged. Procedures should be placed in writing to ensure that all necessary medical invoices are submitted to the medical service provider contracted for this purpose.

At present, the RiskMaster software allows entry of any new vendors by 2 individuals. The Human Resources Specialist who performs many accounting functions enters most of them, upon approval by the in-house adjusters and subject to review by the Risk Manager. The Risk Manager also may enter new vendors into RiskMaster, but no one reviews vendors he adds. We believe that permitting anyone to enter vendors without review by a higher level is not good internal control. This is especially true in this setting since the claims expenditures cannot practically be budgeted, which would enable reviews of variances. We believe that any new vendors set up by the Risk Manager should be reported monthly to the Labor Relations Bureau Chief. To avoid delays in obtaining vendors, this approval may be made in retrospect. This procedure should be placed in writing.

**Recommendation 16.** We recommend that the Risk Manager include guidance in internal policies and procedures, with approval from the Risk Management Committee, about how to contract with each specific category of vendor, and designate the accountable staff members.

**Response** We concur. The suggestion is under development and will be implemented as soon as possible.

**Recommendation 17.** We recommend that the Labor Relations Bureau Chief review a monthly list to be generated from the RiskMaster software of all new vendors added by the Risk Manager, indicate his review by signing the report, and place this procedure in writing.

**Response** We concur. This will be implemented immediately.

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**Analyze Use of Outside Counsel**

A study of the utilization of outside counsel compared to inside counsel was not within the scope of this audit. However, information we obtained suggests that Risk Management, through the Risk Management Committee, should contact Legal Affairs to analyze whether it would

be possible to reduce outside counsel expenses by increasing in-house City attorney resources for Risk Management.

We noted that the payments made to law firms that received over \$9,000 each to represent the City in Risk Management issues totaled over \$1,200,000 during FY '02. These firms are listed on the Payments to Vendors schedule in Appendix 1 at the end of this report. In contrast, one attorney employed by the City spends most of her time annually on Risk Management matters, and her compensation for this work, including benefits, is approximately \$100,000. Other City-employed attorneys also serve Risk Management at times.

Included in the above-stated \$1,200,000 are approximately \$750,000 in payments made to the 9 law firms engaged in 1993 under contracts pursuant to bid. There was a special contract with a law firm totaling \$458,174 for the defense of a firefighter lawsuit. Another law firm was engaged as an expert to review the utilization of medical services by claimants and was paid \$11,165.

Legal Affairs should perform this analysis primarily, with support from the Risk Manager as needed. Legal Affairs should contrast the historical costs for outside counsel with the costs for City attorneys to do comparable work. Whereas recent trends in government operations are toward increased outsourcing of employees' functions, it may possibly be more cost-effective to hire legal staff to perform some work presently being contracted out. A comparison of costs should include an assessment of what expertise and volume of work is expected in the foreseeable future and whether a stable in-house workflow could be maintained. Law firms with which the City works should be consulted about means to cost-effectively use more in-house counsel.

**Recommendation 18.** We recommend that the Risk Manager, through the Risk Management Committee, contact the Office of Legal

Affairs to evaluate whether it would be cost-effective to increase in-house legal staff for Risk Management in order to decrease costs of outside counsel.

**Response**

We concur with reservations. The Risk Manager will present reports and recommendations to the RMC for evaluation, but ultimately the decision is not made at this level.

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**Track Light-Duty Assignments**

There is no centralized method for monitoring the status of injured employees assigned to light-duty work. Departments have not regularly reported data such as light-duty attendance to the Occupational Health Coordinator (OHC), who does not report to Risk Management, and she has not felt it necessary to receive any reports from these supervisors. The OHC recently changed a City Policy & Procedure, and delegated the responsibility for tracking employees on light-duty to the supervisors in City departments. However, it is important that Risk Management staff have one central contact person in order to ensure proper follow-up of personnel on light-duty assignments.

We believe that one individual should maintain in a central location all light-duty data about the employees on these assignments. Further, City departments could more efficiently report information about the employees on light-duty by using a standard form to be submitted to the OHC quarterly or more frequently.

If centrally reviewed, these reports could identify compliance issues, such as unapproved extensions, light-duty employees exceeding the statutory time limits, or other noncompliance with the workers' compensation rules. Developing statistics possibly could help with forecasting the need for light-duty positions, discovering the most effective means of utilizing light-duty employees, and other cost-saving measures.

**Recommendation 19.** We recommend that the Risk Manager work with the Occupational Health Coordinator to: (1) ensure proper monitoring and documentation of light-duty personnel assignments, (2) devise a reporting system, and (3) update related internal policies and City Policies & Procedures.

**Response** We concur. Related revisions to Policy and Procedures have already commenced and this item can be added.

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**Monitor Extensions of  
Light-Duty  
Assignments**

We noted that 11 employees other than civil service employees were on light-duty assignments for over 180 days, according to a listing of light-duty cases. This listing of 434 light-duty cases had been compiled by the Occupational Medical Clinic operated by the City prior to the outside contracting of employee medical services. The Occupational Health Coordinator indicated to us that the schedule is not completely accurate and it is not up-to-date.

City Policies & Procedures indicate that an employee may be placed on light-duty assignments within the City for up to 60 days, with 2 additional 60-day extensions, totaling 180 days. Thirty days before the end of the 180-day period, an employee's department director is to provide the employee with a notice that the employee will be terminated if he or she cannot return to full duty before the end of the 180-day period. Sworn civil service employees in the Police and Fire departments are allowed 12 of 18 months in light-duty assignments before an employment decision has to be made.

We were informed that the department directors, sometimes in consultation with Legal Affairs, grant further extensions of light-duty service beyond 180 days. However, there are no provisions in City Policies & Procedures for exceptions to the general 180-day rule, no matter what the justification is. We believe that the Risk Manager should consult with Legal Affairs to delineate permissible exceptions and individuals responsible for

granting exceptions.

Allowing employees more than 180 days in which to return to full duty may cause an economic loss to the City. On the other hand, there may be administrative, cost-saving or litigation-related reasons for extending the period beyond 180 days, which should be written into City Policies & Procedures. In addition, we believe that one central official, perhaps the Administrative Services/Management & Budget Director, should approve all such extensions.

**Recommendation 20.**

We recommend that the Labor Relations Bureau Chief work with the Administrative Services/Management & Budget Director to provide in City Policies & Procedures for any acceptable extensions beyond the total of 180 days for workers on light-duty assignments, and for assignment of centralized responsibility to monitor and enforce time limits and approve extensions.

**Response**

We partially concur. Policy already provides for extensions and the Occupational Health Coordinator no longer reports directly to the Labor Relations Bureau Chief or Risk Manager. Centralized responsibility could rest with the Occupational Health Coordinator, under the direction of the Administrative Services/Management & Budget Director, to amend City policy accordingly.

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**Create Controls to Restrict Approvals of Payments in RiskMaster**

During our review of Risk Management’s disbursement process, we found that all staff members are able to “release” any payment at any level in RiskMaster.

However, only certain personnel have authorization to release payments. Adjusters who process payments are supposed to be able only to place payments on a “hold” status in the RiskMaster system. The adjuster is then to forward the documentation to the Human Resources Specialist who reviews it for any errors and releases it if the amount is under \$5,000. If the check amount is over

\$5,000, then the payment is to be forwarded to the Risk Manager to be checked and released. We found, however, that the RiskMaster software would permit all Risk Management personnel, whether authorized or not, to release payments.

Review procedures are in place and we did not find checks released by staff above their authorized limits. However, having no technology restrictions in place to prevent such release of payments is a control weakness. This could lead to payments being made without proper approval because a high volume of disbursements is made through RiskMaster every day. Whenever possible, access such as this should be limited to properly authorized individuals.

**Recommendation 21.**

We recommend that the Risk Manager discuss with Technology Management technology controls to prevent unauthorized staff members from releasing payments greater than authorized limits.

**Response**

We concur. Coordination to begin within thirty days and immediate implementation when possible. To our knowledge no unauthorized payments have been reported.

**Document the Comparison of Checks Printed by Accounting to Internal Records**

During our review, we found that the Human Resources Specialist does not document by signature and date his comparison of Risk Management's checks printed by the Accounting and Control Bureau to his daily check register.

The Human Resources Specialist stated that he reviews check copies, ensuring that the checks printed match Risk Management's internal copy of the check register. We believe this reconciliation is a good control feature that helps ensure that the proper checks were printed. However, the Human Resources Specialist does not indicate his review in writing.

**Recommendation 22.**

We recommend that the Risk Manager direct the Human Resources Specialist to indicate by signature and date that

he has compared the checks printed by Accounting and Control to the records maintained by Risk Management.

**Response** We concur. Implementation to begin immediately.

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**Log and Compare Checks Received to Deposits Made**

During our review of checks received by Risk Management due to refunds or subrogations, we found that a log of checks received is not maintained.

Risk Management receives checks directly as refunds from vendors or subrogation payments from third parties. Checks are forwarded to the appropriate adjuster to record the amount received in the associated claim file. Then the Human Resources Specialist completes a deposit slip and sends it and the checks to Revenue Collection for deposit.

Instructing the Staff Assistant who receives the checks to log all checks when received would aid Risk Management in preventing any loss or misappropriation of funds.

**Recommendation 23.**

We recommend that the Risk Manager establish a procedure to record all checks received in a log, to be compared with the deposit receipt received from Revenue Collection.

**Response** We concur. Already implemented.

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**Reconcile the General Ledger to RiskMaster and the Charges for Premiums to the Actual Costs for Losses**

Risk Management has no process for periodically reconciling the general ledger entries to its internal records.

The Accounting and Control Bureau (Accounting) is responsible for actually printing Risk Management's checks and making its deposits. Accounting also posts the payments in summary form by batches to the City's general ledger. No Risk Management personnel examine the general ledger to ensure the postings are correct.

A process has been established to electronically transfer disbursement data from RiskMaster to JDE OneWorld beginning in May 2003. Nevertheless, procedures should be adopted to ensure that the payment amounts posted to the general ledger reconcile with RiskMaster records.

Also, Accounting is responsible for allocating charges for workers' compensation and general liability "premiums" to each program that has employees. At the end of the year, Accounting performs a reconciliation comparing the amounts programs pay for premiums with the actual losses incurred, on a Citywide basis. For the last 2 years, staff have not prepared "true-up" reports because the City has had to add substantial amounts to the reserve for losses, based on calculations by the actuary. At the end of FY'02, the City increased the risk reserve by \$3,000,000; of this, Accounting charged \$2,000,000 to retained earnings and \$1,000,000 among three principal City funds—general, wastewater and stormwater.

The Fleet/Facilities Management Bureau allocates the annual "premium," charged to it during the annual budget process, to the programs with vehicles according to the type and use of the vehicles, using industry standards. The charges to these programs should be compared to the actual costs for the programs to ensure that allocations are reasonable and that the charges to programs compensate for the actual losses Citywide.

We believe that the Risk Manager should work with Accounting and Fleet/Facilities Management Bureau staff to establish procedures to report the charges to programs for the amounts of workers' compensation, general liability, and vehicle accident premiums charged to programs in comparison to actual losses. This comparison is not currently being made, and should help determine if there is a proper allocation of charges among programs, and recovery of costs of actual losses. This information would be of value in the setting of annual premiums

charged to programs and the recovery of costs, and should be reported to the Risk Management Committee to initiate policies and procedures about these far-reaching charges.

**Recommendation 24.**

We recommend that the Risk Manager work with the Accounting and Control Bureau to establish a procedure to periodically reconcile receipts and disbursements recorded in JDE OneWorld to Risk Management’s internal records.

**Response**

We concur. Reconciliation of receipts and disbursements recorded in JDE OneWorld can be implemented immediately.

**Recommendation 25.**

We recommend that the Risk Manager work with the Accounting and Control and the Fleet/Facilities bureaus to establish a procedure to periodically reconcile all types of “premium” charges made to programs Citywide with the actual losses incurred, and report this information to the Risk Management Committee for further action.

**Response**

We do not concur. Unless the Citywide budgeting process changes there is no reconciliation. The program charges are independent of the Risk Management function, but reports can be provided to the RMC. It would be at the RMC’s discretion to propose to the CAO how to charge individual programs for losses related to Workers’ Compensation, general liability, and auto liability.

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**Identify and Research  
Exceptions**

During our audit, we inquired about procedures to detect errors in the RiskMaster software data. We observed that the Risk Manager uses many RiskMaster reports, either standard or customized by his office, on a regular basis. Some reports and analyses are prepared on a regular basis and many are viewed on screen or printed on an “as needed” basis. There are no written procedures about what internal reporting and analyses should be done.

We believe the Risk Manager should evaluate and

document the types of reports to prepare on a regular basis that would disclose exceptions such as errors or unusual transactions or balances. RiskMaster has extensive capabilities for customizing reports, although we requested a few reports from RiskMaster that were not easily obtainable or could not be developed for purposes of our analyses.

For example, we noted 17 claims with negative balances (4 open claims and 13 closed claims) among the population we examined using audit software. The Risk Manager informed us that claims would not normally have a negative balance. We requested him to research 3 of these negative claims during the course of our audit.

In one claim, when the total of actual payments made under prior Risk Management software was transferred in 1997 to RiskMaster, the amount had been coded as a “void.” This caused the recoveries from third parties on this claim to appear to exceed the payments by \$250,337.27. The other claims researched with negative balances were \$8,635.21 and \$40.38. The remaining 14 claims to be researched are negative amounts ranging from \$334 to \$10,000. Of the total of 17 claims with negative balances, 13 of them are closed claims.

Noting exceptions in claims and claims balances is an important quality control effort. The above exceptions became apparent because of special reports prepared by the auditors, and we suggest that the Risk Manager may develop reports to identify such exceptions by using the capabilities of the RiskMaster software.

**Recommendation 26.** We recommend that the Risk Manager identify what RiskMaster reports should be produced on a regular basis to disclose exceptions such as errors or unusual transactions, and document the research and resolution of those items.

**Response** We concur. A list of validation reports that should identify data anomalies will be compiled within thirty days. Validation Sortmaster reports should be written and tested within sixty days. Full implementation of data validation reports should occur within ninety days, with recurring report generation on an as needed basis, but not to exceed sixty-day intervals.

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**Establish Procedures to Validate Data**

In determining whether internal controls over disbursements are adequate, we examined vendor payees by running the Desktop Command Center related to RiskMaster. This executive reporting feature allowed us to produce a report that lists the top 10 payees by total dollars paid from the adoption of the RiskMaster system in 1997 to January 2003. The results showed that \$913,222,467 was paid to one law firm, \$15,129,843 was paid to 'conversion of old data' and another \$3,791,408 was paid to '(NULL)'.

The Risk Manager concluded that the report was incorrect since the amount assigned to the law firm was vastly overstated. The dollar amount for 'conversion of old data' was explained as being the summation of all claims identified as converted from the Lexis system. The dollar amount for '(NULL)' could not be explained.

We saw that a line item for \$913 million was in the database, but it was not associated with any claim number. The Risk Manager was of the opinion that, since this figure was entered near the installation date of the RiskMaster software, it would have been associated with "dummy entries" entered while learning the capabilities of the system. He indicated they cannot remove the dummy entries from the RiskMaster database.

We believe errors of this type should be corrected. The software vendor suggested we print a Data Validation Log. Many types of data can be tested by means of 52 validation logs. As an example, "Payments with invalid 'Claim IDs' "

reported 1,236 instances with an unusable or no claim number. We could not conclude that these are unacceptable errors, and we do not propose that this finding indicates that the RiskMaster data is not reliable. Errors of this type may have occurred from older versions of the RiskMaster software that subsequently were corrected. The vendor advises submitting the data to it for validation, but this may be costly.

The Risk Manager should adopt written policies to ensure the integrity of data. He should identify the types of data that is of critical importance and document his procedures to verify its integrity. For example, if the Risk Manager runs all the Data Validation tests every three months and compares the errors in one period with another, he can conclude whether any significant errors are being caused in the current year. If so, the Risk Manager should explore available options with the vendor. If not, the historical errors might then be attributable to the implementation period.

**Recommendation 27.** We recommend that the Risk Manager establish written internal procedures to validate data, including any needed assistance from the software vendor, and document correction of any anomalies.

**Response** We concur with reservation. Baseline data validation has already been accomplished and will be retested in ninety days. Software vendor assistance may be cost prohibitive and provide no useful resolutions.

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**Explore the Transfer of Employee Data from Infinium**

During our testing, we became aware that the social security numbers in RiskMaster for 2 employees differed from those in the Infinium payroll and personnel system.

It may be practical to transfer data from Infinium to RiskMaster when the First Report Of Injury report is received or when the claim is first opened. Data such as employee number, program number, social security

number and hourly wage rates are critical and their quality assurance would be enhanced through an automated data transfer to RiskMaster.

**Recommendation 28.** We recommend that the Risk Manager explore with Technology Management the operational feasibility of selectively downloading Infinium data.

**Response** We concur with reservations. It may not be possible to download the data into RiskMaster. This may ultimately be time consuming, costly and adversely affect data already entered in the RiskMaster software. This has been discussed with TMD in the past and will be brought forth again to determine the feasibility of downloading the data.

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**Identification of Claimants Who Are Not Employees**

We found that identification numbers are not entered for claimants who are not employees. The social security numbers of employee claimants are used as identification numbers, and the federal tax identification numbers are used for vendors and for claimants' attorneys.

We suggest that Risk Management begin to obtain the federal tax identification number from all claimants who are not employees. This would permit sorting data for these payees for analysis such as determining whether such payees are making claims on a repeated basis. Sorting by name is not effective, since claimant names that are not an exact match would not be grouped together in the sorting process.

**Recommendation 29.** We recommend that the Risk Manager establish a policy to obtain and utilize the federal tax identification number from all claimants who are not employees.

**Response** We partially concur. This identification may not be legally allowable and, if implemented, will be done through the Accounting Bureau's process. Implementation, if allowed, will occur within thirty days.

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**RISK MANAGEMENT**

**PAYMENTS TO VENDORS GREATER THAN \$9,000  
DURING FY '02**

<b>Payee Name</b>	<b>Type of Vendor</b>	<b>Amount Paid</b>
Lowndes, Drosdick, Doster, Kantor & Reed, PA	Attorneys	\$458,174.36
Meier, Lengauer, Bonner, Muszynski & Doyle, PA	Attorneys	168,563.22
Hilyard, Bogan & Palmer, PA	Attorneys	152,447.42
Broussard, Cullen and DeGailler, PA	Attorneys	143,848.00
Grower, Ketcham, Rutherford, Bronson, Eide & Telan, PA	Attorneys	129,564.29
Rissman, Weisberg, Barrett, Hurt, Donahue & McLain, PA	Attorneys	54,327.47
Ford & Harrison, LLP	Attorneys	48,387.21
Joynt, Joseph	Adjuster	36,365.33
MullerMintz, LLP	Attorneys	32,076.40
Flamingo Investigations, Inc.	Investigators	19,937.00
Stump, Webster & Craig, PA	Attorneys	16,356.09
Enterprise Rent-A-Car	Car Rentals	14,108.09
Sun State Ford, Inc.	Appraisals	11,288.07
Trovillion Restorations	Repairs	11,252.53
The Law Offices of Mark S. Spangler, PA	Attorneys	11,165.06
Woodall & Broome, Inc.	Investigators	10,950.00
CT Transit	Transportation	9,811.00
MJM Investigations, Inc.	Investigators	9,215.15

Excludes Medical Providers, Claimants and Claimants' Attorneys