

Office of the City Auditor  
City of San Diego

**Performance Audit of Risk  
Management's Public Liability  
and Loss Recovery Division**

**Audit Committee Meeting, September 13, 2010**



# Background

- Managing risk exposures for the City, mitigating liabilities, and processing claims and disbursements are ongoing **activities that impact the City's financial stability and** require continuous attention from management.
- Claims against the City cost taxpayers approximately \$29 million annually—\$86.6 million over the last three years.
- The California Government Code defines the general roles, responsibilities, and functions of Public Liability and the handling of claims against the City.

# Objectives

1. Intake, assessment, and resolution of claims.
2. Communications between Risk Management and the **City Attorney's Office and related reporting.**
3. Identification, processing, and recovery of financial losses.
4. **Estimation of liabilities for the City's CAFR.**
5. Reporting to City Council, City management, and other parties.
6. **The City's insurance coverage, self-insurance retention limits, and funding methodology.**

# Scope & Methodology

- The scope of our review covered fiscal years 2008 through 2010, unless otherwise noted.
- We reviewed pertinent laws, policies and regulations, management reports, and existing processes; analyzed claims and financial data; interviewed management, key staff, and risk professionals; surveyed best practices.
- Our audit is conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).

# Finding I

- ◆ City has not developed a **comprehensive approach** to identify and manage risks;
- ◆ Internal controls over public liability and loss recovery processes can be improved to maximize opportunities to recover on City losses and reduce **the City's risk from future losses; and**
- ◆ Opportunities exist for improved management of staff workloads.

# Summary of Findings

- Limited analysis and reporting of claims, insurance, and other risk-related information;
- No formalized or documented claim reserving approach;
- Informal and undocumented review and analysis of the cost and adequacy of insurance coverages and limits;
- A lack of documented quality internal controls;
- An opportunity to enhance the loss recovery function;
- An opportunity to manage staffing workloads more effectively and efficiently.

# Recommendations

- We made 23 recommendations, categorized into the following general areas:
  - ♦ Develop, formalize and implement City-wide risk mitigation processes, communication, coordination, and reporting;
  - ♦ Improve the quality of information used in the review, purchase and cost-effectiveness of City general liability insurance coverage;
  - ♦ Enhance the loss recovery function;
  - ♦ Improve the effectiveness and efficiency of claims-related internal controls;
  - ♦ Improve the management of available staffing resources.
- Management agreed or partially agreed with 17 recommendations and disagreed with six recommendations.

# Recommendations - Disagreed

- ♦ **# 5: Recommendation:** Establish a risk management working group charged with coordinating Risk Management efforts with membership representation from all the major City departments and the **City Attorney's Office**.
- ♦ **# 8: Recommendation:** Develop additional Risk Management policy and departmental guidance to detail the steps for the proper reporting of claims compliant with Council Policy 000-09.
- ✦ **Audit Response:** Such committees elevate discussions of risk in an organization, and are particularly important at a time when the City has no alternative structure for coordinating and sharing risk information.
- ✦ **Audit Response:** The design, implementation, and maintenance of formalized and documented specific control-related policies and procedures are an essential element of any comprehensive internal control structure.



# Recommendations - Disagreed

- ♦ **# 15: *Recommendation:*** Risk Management should develop, document and implement policy, procedure and departmental guidance to detail the actuarial analysis process.
- ♦ **# 18: *Recommendation:*** Risk Management staff should document, formalize and implement detailed policies, procedures and departmental instructions for the current process and documentation requirements for public liability claims.
- ✦ ***Audit Response:*** Upon the eventual implementation of risk control, cost allocation, and formalized claims review practices, departmental guidance documentation for those processes would be an essential internal control.
- ✦ ***Audit Response:*** The California Government Code establishes general requirements for filing claims against public entities and sets various deadlines for filing and processing claims. It does not, however, provide detailed guidance on claims administration or other internal procedural concerns with no formal guidelines.

# Recommendations - Disagreed

- ♦ **# 20: Recommendation:** Risk Management should develop and implement documentation standards for claimants that would permit the rapid evaluation and/or rejection of claims lacking sufficient evidence.

- ♦ **# 22: Recommendation:** Risk Management should deny or reject all tow and impound related claims that have not been reviewed and substantiated by the San Diego Police Department's Internal Affairs.

- ✦ **Audit Response:** While the City's claim form requests the inclusion of bills, invoices, and estimates, Risk Management does not adequately communicate to claimants the specific information needed to form an appropriate judgment as to the **City's liability. Obtaining such** information at the onset of a claim filing will provide better customer service to claimants and streamline claims adjusters work.

- ✦ **Audit Response:** The SDPD is in a much better position to determine whether or not a tow was legitimate than a claims adjuster. The process for adjusting tow claims should be reconfigured so that the responsibility for evaluating their merit is shifted to the SDPD, after which they can be forwarded to Public Liability with a recommendation to pay or not pay.

# Questions