



**CITY OF PORTLAND,
OREGON**

**REVIEW OF
RISK MANAGEMENT
PROGRAM SERVICES**

May 1, 2003



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City of Portland
Bureau of General Services
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Director

REVIEW OF RISK MANAGEMENT PROGRAM SERVICES

This report presents the results of our Review of Risk Management Program Services for the City of Portland. Issues analyzed are those set forth in our proposal dated November 11, 2002.

Activities conducted during the course of this project include:

1. Interviews with many City employees.
2. Audit of a sample of liability and workers compensation claims.
3. Survey of a sample of workers compensation and liability claimants.
4. Review of organizational charts, job descriptions, cost allocation plans, loss control programs and substantial additional material regarding the City's risk management program.

We appreciate the opportunity to complete this project for the City. We would be pleased to answer any questions.

Respectfully submitted,

ARM TECH

By _____
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Managing Director

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I. EXECUTIVE SUMMARY

This section of our report presents the most important findings and recommendations from our review of the City of Portland’s risk management program. Topics are covered in the order presented in the report.

Cost Allocation

The City now allocates risk management costs to each of 35 bureaus. The premiums are designed to cover all risk management costs the City expects to incur in the year for which costs are being allocated.

We believe the City has a well-designed cost allocation plan. Our only recommendation is that the “credibility factor” used to determine the weight given to a bureau’s own loss experience be revised. A recommended formula is in Chapter II.

We calculated the commercial premium we believe three bureaus would pay for general liability, automobile liability and workers compensation insurance. Our estimates, and current Risk Management Division charges, are in Table I-1.

**Table I-1
Estimated Commercial Insurance Premiums, FY03**

Bureau	Estimated Commercial Insurance Premium	Risk Management Division Premium
Environmental Services	\$2,025,000	\$553,985
Water	1,980,000	1,070,232
Parks	1,300,000	693,460

Note: Parks excludes automobile liability.

Chapter II discusses our approach to estimating commercial insurance premiums.

Loss Prevention

We evaluated the City’s loss prevention program, including organizational structure, vendor contract acquisition process, loss prevention roles and responsibilities, program evaluation, communication of OR OSHA requirements, motor vehicle records program, and the safety incentive program. The bureaus involved in the evaluation include Risk

Management, Human Resources, Fire and Rescue, Police, Water Works, Maintenance, Environmental Services, and Parks and Recreation.

We conclude that maintaining a decentralized approach to the loss prevention organization structure is most advantageous to the bureaus. We recommend a Citywide policy be implemented for loss prevention measures, by having the Risk Management Division direct the implementation and manage the ongoing support. We also recommend several bureaus concentrate additional efforts in areas of safety management to allow for more effective loss prevention efforts and greater achievable results.

We evaluated the City's contract acquisition process for loss prevention services and recommend a more concentrated effort (driven by the SafetyNet group) be made to identify opportunities and to subsequently negotiate Citywide loss prevention vendor contracts.

Loss prevention results are measured within the bureaus through the annual action plans and incentive program. We recommend a formal supervisor evaluation program be considered, to include a loss prevention element. Currently, supervisor evaluations do not contain an element of safety and health measurements.

We reviewed City policies on Motor Vehicle Record Evaluations and recommend the City evaluate a drivers "whole" record rather than just "on the job" records. We also recommend the use of three risk matrixes to be utilized by the Risk Management Division and the bureaus to evaluate the need for additional driver training, or to discipline an employee for frequent on the job accidents.

We evaluated the City's safety incentive program for fairness and effectiveness in reducing losses. We found the program to be very well conceived.

Liability Claims

Overall, the Liability Claims Section is well run. Opportunities for improvement include:

- The policy and procedures manual would be improved by adding references from the draft Risk Management Manual, and sections regarding excess coverage information, the "Schedule of Insurance," job descriptions, City organization and bureau interface procedures, new employee orientation schedule, a cross training schedule, a cost-benefit analysis for bureau discussions and negotiations, diary, investigations (fraud procedures).

- Staffing accountability would be improved by more clearly defining training responsibilities for Senior Liability Risk Analysts in the “Other Duties, 3” section of the job description.
- Training, experience and application would be improved by cross training to improve productivity to an average of 100% (as measured by the ratio of claims closed less claims re-opened divided by claims received).
- Prior claims and claims data trends show an increase in claims pending and an abnormally high expense ratio of 44% (i.e., incurred expenses as a percent of incurred losses), compared to a normal range of 20% to 30%.
- The claims audit evaluated the claims service quality as *commendable* with an overall average grade of 3.78, on a scale of 1.00 to 4.00, with 4.00 being the highest grade possible. Performance could be improved by:
 - i) Making claims information available to bureaus by Internet.
 - ii) Recording claim notes into the risk management (RM) System diary.
 - iii) Consistently enhancing RM System to include a separate prefix for claims related to ordinance enforcement.
 - iv) Budgeting for litigation.
 - v) Structuring Quarterly Risk Claims Reviews to include cost benefit analysis for determining whether to pursue negotiated resolution vs. continued litigation.
 - vi) Recording service dates on payments.
 - vii) Completing supervisory review of claims for overall handling.
 - viii) Enhancing RM System for tracking appeal and arbitration results.
- Our claimant survey determined most respondents were satisfied or very satisfied with the claims service. There was one respondent who noted the negative perception of claims handling would affect their vote in bond elections. The topic given the least satisfactory response is the “explanation of denials.”

Detailed results and recommendations are provided in Chapter IV, “Liability Claims.”

Workers Compensation Claims

Overall, the workers compensation claims section is well run. Opportunities for improvement include:

- The policy and procedure manual would be improved by adding:
 - i) References from the draft Risk Management Manual.
 - ii) Excess coverage information.
 - iii) City organization and interface procedures with bureaus, loss control and Human Resources.
 - iv) New employee orientation and cross-training schedules.
 - v) Cost-benefit analysis for discussions with bureaus about negotiations vs. litigation.
 - vi) Instructions for claim notes input to diary system.
- Staffing accountability would be improved by more clearly defining training responsibilities of Senior Workers Compensation/Disability Analysts for new employee orientation and cross training in the “Other Duties” section of the job description.
- Training, experience and application would be improved by cross training to achieve capacity for handling greater claims volume and reducing average per claim administration costs. A sample cross training schedule is shown in Exhibit V-1.
- Quality of claim services is given an overall grade of 3.68 on a scale of 1.00 to 4.00, with 4.00 being the highest grade possible. This is a **commendable** result. Performance would be improved by:
 - i) Making claims information available to bureaus by Internet.
 - ii) Recording claim notes into the RM System diary consistently.
 - iii) Considering cost benefit analysis for determining whether to pursue negotiated resolution vs. continued litigation when litigation budget exceeds \$5,000.
 - iv) Enhancing RM System for tracking restricted days worked, restricted days not worked, appeals and arbitration results.

- The claimant survey determined most respondents were satisfied or very satisfied with the claims service.
- The Workers Compensation Claims Section should be kept in Risk Management as it is a self-insured casualty claim program. Human Resources and Workers Compensation Claims Section interface is needed for coordination of employee benefits with workers compensation benefits. A task force to resolve issues related to coordination of benefits is recommended to include the stakeholders in the benefit programs.

Detailed results and recommendations are provided in Chapter V, “Workers Compensation Claims.”

Selling Claims Services to Others

Selling claims services to others is feasible. This would expand the role of the Risk Manager and Claim Sections to include responsibility for the claims of clients. State law authorizes the City to enter into intergovernmental agreements, which can be used to provide claims service to other governmental entities. The Risk Manager will have greater efficiency in this expanded role with:

- Updates to the information system to track claims handling performance and maintain data separately for the City and new clients.
- Reorganization of the Workers Compensation Claims Section and Liability Claims Section from having a Workers Compensation Risk Supervisor and Liability Risk Supervisor into one Claims Section with a Claims Manager reporting to the Risk Manager. (As discussed in Chapter VII, “Risk Management Organization,” this reorganization is recommended independent of selling claim services to others.)

Detailed recommendations are provided in Chapter VI.

Risk Management Organization

We reviewed the current risk management organization structure, City Charter, job descriptions and related material. Our major recommendations are:

1. The Risk Manager reports to the Director of General Services. We recommend this be continued.

2. The Risk Operations Risk Supervisor now reports to the Business Operations Manager, Office of Management and Finance, Business Operations. We recommend the Risk Operation Supervisor report to the Risk Manager.

Additional analysis is in Chapter VII.

Information Technology

We met with relevant City personnel to discuss the use of information technology within the Risk Management Division. We evaluated the City's approach against our best-practice models and, in this regard, our principal conclusions are:

1. The City should define and communicate a formal risk information strategy to aid the alignment of the Risk Management Division with the City's key services bureaus and to enhance the process by which information is shared and valued.
2. We have evaluated the current system against a definition of " an industrial-strength application." *This is an application:*
 - *To which significant financial commitment is made on an annual, recurring basis.*
 - *For which full documentation of a system, user and architecture nature exists.*
 - *For which a multi-person, broad skill set support structure with formal escalation and fixed procedures is deployed.*
 - *For which functionality is reviewed on a frequent and recurring basis to ensure current and future needs are met.*
 - *For which data protocols, integrity and audits are undertaken.*
 - *For which supply contracts are available and valid.*
 - *For which comprehensive contingency plans have been developed and tested.*
 - *For which a three- to five-year product management development and enhancement plan is produced.*

Our observations are:

- a. The current claims administration system is capable of continuing to meet the City’s internal requirements, is well developed and provides an adequate platform for incremental enhancement. As such, the current system is a suitable platform for the City for the next three to five years, assuming the City remains involved solely in the administration of its own claims.
 - b. The current system is not an “industrial-strength” application and may become cost-ineffective and obsolete as technology evolves. We envisage this situation arising over the next three to five years. Externally developed, commercial solutions exist and could offer significant enhancement in functionality, while meeting all current requirements.
 - c. The lack of “industrial-strength” characteristics within the current system is a significant barrier to the concept of the City providing claims management services to external entities. If the City wishes to pursue this business stream, it is appropriate to plan to replace the system with an externally developed commercial solution.
3. The Risk Management Division is exposed to three key dependencies at the present time, and plans to eliminate these dependencies should be formalized and accelerated.
 4. The City’s Information Technology strategy presents opportunities and threats for the Risk Management Division, and the management of the relationship between the two Bureaus will become a critical item.
 5. The City will need to consider and address a series of issues that will be critical to the future success of any efforts to generate revenue through the provision of claims administration services. At this stage, the City does not have an appropriate technological platform or strategy in this regard and, as such, will not be competitive in the market.

Our detailed commentary is in Chapter VIII.

Owner Controlled Insurance Program

The City operates an owner controlled insurance program (OCIP). One project has been completed (referred to herein as Phase 1) and a second project is underway (Phase 2). Our primary findings and recommendations are:

1. The City reports a savings or Capital Improvement Project (CIP) credit from Phase 1 (\$2.2 million). We believe a fairer analysis indicates an OCIP loss of about \$323,000 and that other credits the City calculates result from improvements to insurance requirements and claim procedures that can be obtained without an OCIP.
2. It is too early in the life of Phase 2 to evaluate financial results.
3. We believe an OCIP can yield a cost savings and additional projects should be placed in an OCIP, as follows:
 - a. Start a new “Phase 3” OCIP with about \$100 million to \$125 million in projects.
 - b. Carefully compare in-house to contract OCIP administration services and seriously consider contracting for service.
 - c. Track reductions in contract costs obtained by using an OCIP.

Our analysis of OCIP costs, savings and alternatives is in Chapter IX.

II. COST ALLOCATION

A. CURRENT PLAN

The City allocates risk management costs to bureaus. The method currently used to allocate workers compensation, general liability, fleet liability and property insurance costs is described below.

Workers Compensation

Steps used in the workers compensation cost allocation plan are:

1. Average incurred losses are determined for each bureau, for the four-year period ending one year prior to the year for which costs are being allocated. For the FY03 allocation, this is the four years FY98 through FY01. For this calculation, bureaus are grouped as general fund bureaus or special fund bureaus. For FY03, costs were allocated to 35 bureaus.
2. Each bureau's payroll is obtained for the year ended one year prior to the year for which costs are being allocated.
3. Each bureau's prior-year experience modification factor is obtained.
4. An "adjusted exposure" is calculated. This is the payroll (step 2) multiplied by the prior-year experience modification factor (step 3).
5. Each bureau's share of the adjusted exposure is calculated and expressed as a percentage.
6. Each bureau's share of four-year average incurred losses is determined and expressed as a percentage. This is each bureau's share of losses determined in step 1 above.
7. A "credibility factor" is determined for each bureau utilizing an established formula. The purpose is to give greater consideration to the loss experience of larger (as measured by payroll) bureaus and less consideration to the loss experience of smaller bureaus. This is reasonable because the loss experience of a larger bureau is a better indicator of long-term trends than is the loss experience of a smaller bureau.

8. An experience modification factor is calculated. Generally, bureaus with better-than-average loss experience have an experience modification factor less than 1.00. Bureaus with worse-than-average loss experience have an experience modification factor greater than 1.00.
9. Each bureau's adjusted exposure is determined. This is its payroll (step 2) multiplied by its experience modification factor (step 8).
10. Each bureau's share of costs is determined and expressed as a percentage. This is each bureau's share of exposure determined in step 9.
11. The premium for each bureau is its percentage of costs (step 10) multiplied by the total amount needed to fund claims, overhead and taxes.

General Liability

The method used to calculate general liability premiums is the same as the method used to calculate workers compensation premiums with one difference. The credibility weight is calculated slightly differently.

Fleet Liability

The method used to calculate the fleet liability premiums is the same as the method used to calculate workers compensation premiums with two differences:

1. The credibility weight is based on miles driven rather than payroll.
2. Instead of payroll, the exposure measure is average miles driven for the two-year period ending one year prior to the year for which costs are being allocated.

Property

The method used to calculate each bureau's property premium is:

1. The amount needed to fund the commercial property premium is estimated by the Risk Management Division.
2. The amount in step 1 is prorated among bureaus based on each bureau's share of assigned property values.

The amount collected from the bureaus is designed to pay the commercial property premium. It does not include funding for Risk Management administration costs or losses between individual bureau deductibles (\$5,000) and the deductible in the commercial insurance policy (i.e., retained losses). However, if a bureau incurs a property loss, the Risk Management Division bills the bureau the retained loss in four equal annual installments.

B. PLAN EVALUATION

We believe the current method of allocating workers compensation, general liability and fleet liability costs is fair and objective, and uses reasonable exposure measures. Our only two concerns are:

1. **Ease of understanding.** The current plan is somewhat complicated. Bureau representatives seem to understand the calculations when they receive an explanation, but do not retain their understanding for long. We recommend the Risk Management Division:
 - a. Develop a written explanation, including sample calculations.
 - b. Post the written explanation on a Risk Management Division Web site. We understand the Web site is under development, but that it should be possible to post the plan in the fourth quarter of 2003.
 - c. Present an annual seminar to explain the calculation. Each bureau should be encouraged to send a representative to this seminar.

We have found this approach to be effective with other governmental entities. If bureaus have a better understanding of the cost allocation plan and how they can reduce their charges, they are more likely to take steps to reduce losses.

2. **Credibility factor.** The credibility factor determines the weight given to a bureau's own the loss experience. We are advised the current credibility factor was established at least 13 years ago and has not been updated.

The credibility factor has remained constant, while payroll (the exposure measure used for workers compensation and general liability) has grown. The result is more weight given to a bureau's own loss experience. This allows somewhat greater changes in the experience modification factor now than was true 10 years ago, due to payroll growth. For example, in the general liability calculation, the credibility given to the Bureau of Police was 82.8% in FY98 and 87.6% in FY03.

We recommend:

- a. The weight given to the loss experience of the largest bureau be 75%. In our opinion, this provides fair treatment to each bureau and is reasonably responsive to losses.
- b. Use of the following formula to calculate bureau weights:

$$P1 \div (P2 \div 0.75)$$

Where:

P1 = Adjusted payroll of each individual bureau

P2 = Adjusted payroll of largest bureau

This formula will automatically adjust weights each year, so the largest bureau is given 75% weight. We believe 75% weight is a reasonable maximum weight for the City.

Some bureaus want greater weight given to their own the loss experience and some want the opposite. If a bureau selected a greater weight, its premium would depend more on its own loss experience and less on the loss experience of other bureaus. The result would be less sharing (or pooling) of losses. We believe the formula presented above provides an appropriate balance.

We understand the Risk Management Division advises bureaus of their premiums in January. This allows bureaus sufficient time to use the premiums in their budgeting process. Thus, timing of the cost allocation process is reasonable.

C. PREMIUMS FOR THREE BUREAUS

We estimated the general liability (GL), fleet liability (FL) and workers compensation (WC) premium a commercial insurer would charge three bureaus:

1. Bureau of Environmental Services (BES).
2. Water Bureau (Water).
3. Parks Bureau (Parks).

To make our estimates, we:

1. Obtained “exposure measures” insurers would use to calculate premiums. These measures are:
 - a. Payroll by workers compensation rating code for WC.
 - b. List of vehicles for FL.
 - c. Total payroll for GL.

Each of the three bureaus provided this data to us, with one exception. We did not receive a vehicle list from Parks.

2. Contacted insurance sources for the rates insurers would charge.
3. Reviewed the loss history for the three bureaus.

Tables II-1, II-2 and II-3 contain our commercial premium estimates and the premiums Risk Management charged for the July 1, 2002/03 year.

**Table II-1
Bureau of Environmental Services**

Coverage (1)	Premium Charged by Risk Management (2)	Estimated Commercial Insurance Premium at Manual Rates (3)	Estimated Commercial Insurance Premium (4)
General liability	\$200,327	\$476,532	\$450,000
Fleet liability	41,177	94,437	75,000
Workers compensation	312,481	1,975,785	1,500,000
Total	\$553,985	\$2,546,754	\$2,025,000

**Table II-2
Water Bureau**

Coverage (1)	Premium Charged by Risk Management (2)	Estimated Commercial Insurance Premium at Manual Rates (3)	Estimated Commercial Insurance Premium (4)
General liability	\$493,476	\$450,450	\$550,000
Fleet liability	117,300	229,342	230,000
Workers compensation	459,456	1,391,923	1,200,000
Total	\$1,070,232	\$2,071,715	\$1,980,000

**Table II-3
Parks Bureau**

Coverage (1)	Premium Charged by Risk Management (2)	Estimated Commercial Insurance Premium at Manual Rates (3)	Estimated Commercial Insurance Premium (4)
General liability	\$160,075	\$518,573	\$300,000
Fleet liability	68,310	N/A	N/A
Workers compensation	533,385	1,466,634	1,000,000
Total	\$693,460	\$1,985,207	\$1,300,000

Note: Column (2) excludes FL from total for comparison purposes.

As shown, we believe commercial insurers would charge premiums significantly higher than those charged by Risk Management. Important points to note are:

1. It would likely be quite difficult for a single bureau to obtain commercial insurance. Insurers usually insure an entire governmental entity.
2. Commercial insurance rates are quite high at this time. Many insurers have at least doubled rates over the last two years. Commercial premiums would likely have been much lower, for example, in FY98.

3. We used rates obtained from insurers to estimate “manual premiums” in Column (3). Manual premiums are rates multiplied by the appropriate exposure measure.
4. We estimated actual commercial insurance premiums (Column [4]) based on each bureau’s loss history and loss exposure, as we believe an insurer would do.
5. To calculate FY03 premiums, we used FY03 exposure measures. The Risk Management Division used FY01 exposure measures for GL and WC and average FY00 and FY01 exposure measures for FL to calculate FY03 premiums. This difference in exposure measures tends to yield higher commercial premiums. For example, the FY01 Parks payroll used by Risk Management was \$18.7 million. Parks reported an FY03 payroll of \$25.4 million, which we used to estimate FY03 commercial insurance premiums.
6. In most cases, losses for the three bureaus were low in relation to manual premiums.

We conclude that current charges are significantly less than premiums commercial insurers would charge.

III. LOSS PREVENTION

A. LOSS PREVENTION ORGANIZATIONAL STRUCTURE

1. Centralization vs. Decentralization

The City's existing loss prevention organizational structure is consistent with the City's approach to other organizational issues. In general, each bureau's loss prevention group operates independently of the Risk Management Division. This decentralized approach and general operational autonomy appears to work well. Benefits of this decentralized structure include:

- Loss prevention operational budget consistent with exposure.
- Enhanced transparency and accountability.
- Fiscal autonomy.
- Flexibility and adjustments to loss prevention needs and demands.
- Local aggregation of loss prevention policy for better synergy.
- Loss prevention decisions made at bureau level.

This decentralized approach to loss prevention poses several challenges that should be addressed:

- Limits economies of scale.
- Loss prevention roles are often blended with other non-loss prevention functions.
- Risk Management Division's ability to regulate is diminished.
- Potential for blending loss prevention initiatives across bureaus is limited.
- Duplication of loss prevention efforts.

The Risk Management Division provides loss prevention services that augment each bureau's loss prevention initiatives. A service agreement is established with each bureau that indicates which services will be provided and who will be responsible for providing them. In addition, quarterly risk management reviews are conducted to discuss claims data and loss prevention initiatives.

The Risk Management Division provides motor vehicle record (MVR) tracking through a DMV “Flag” system that provides bureaus information on suspended drivers. Basic ergonomic evaluations and office equipment adjustments are provided as well.

Several safety seminars are provided throughout the year that address management commitment to safety and health. These seminars include:

- START training
- Safety recognition day
- Safety committee conference
- Ergonomics fair

Employee designed training courses are provided through Risk Management that help reduce exposure at each bureau. These training courses include:

- Smart driver program
- Safety committee training
- Van driver
- CRASH
- NSC – DDC 4
- Fleet safety for roll call
- Safety talks

Additional services provided by Risk Management fall into one or more of the following categories:

- Hazard assessment
- Accident investigation
- Personal Protective Equipment
- Policy evaluation services
- Property protection

The Risk Management Division’s loss prevention organizational structure is comprised of a Risk Manager, two Senior Risk Specialists, one Risk Specialist, and one Occupational Health Nurse. Currently, each of these staff members reports to the Risk Manager, which is a vacant position at the time of this report.

The Risk Management Division provides the majority of its services to six major bureaus that incur the majority of City losses. Concentration on these six bureaus, enables the Risk Management Division to effectively target resources where the need is greatest.

Careful consideration has been given to the relationship between the Risk Management Division and other City bureaus. As previously stated, the current decentralized management structure works. Moving to a more centralized structure does not appear to offer enough benefits to make such a large change in management reporting structure.

We also evaluated the need for the Risk Management Division to set citywide loss prevention policies and to enforce implementation of such policies. Currently, each bureau is responsible for development and implementation of its own loss prevention policies.

In the future, as citywide policies are evaluated and potentially implemented, there is a need for the Risk Management Division to have oversight responsibilities to ensure implementation and ongoing policy evaluation. An example is driver evaluation policies. As consideration is given to potential changes in the evaluation criteria for City drivers, the area of policy management and implementation coordination must be addressed to ensure the desired results are achieved. Having the Risk Management Division provide management oversight and have responsibility for implementation would be beneficial to deliver a consistent message to all bureaus and to ensure desired results Citywide.

Recommendation

Continue the practice of the Risk Management Division providing loss prevention services to bureaus based on need and loss history and continue the current management organizational structure.

Recommendation

Utilize the Risk Management Division to manage and implement Citywide policies where appropriate.

2. Bureau Organizational Structure

The effectiveness of the loss prevention organizational structure was evaluated for seven bureaus:

- Risk Management Division
- Bureau of Environmental Services
- Bureau of Maintenance
- Bureau of Water Works
- Bureau of Police

- Bureau of Fire & Rescue
- Bureau of Parks and Recreation

Recommendation

Concentrate additional effort on implementing programs and policy enforcement in the following areas:

- *Construction project management (safety oversight)*
- *Trenching and shoring operations*
- *Fleet safety and MVR program*
- *Employee training*

The Bureau of Water Works Safety Manager dedicates his talent and time to managing the bureaus safety and health initiatives but, with limited resources, he is not able to dedicate enough time to impact the above-mentioned areas. Allocation of resources should be evaluated to determine if additional resources are needed to achieve effective loss prevention results.

Recommendation

Concentrate additional effort on the implementation and ongoing management of the following areas:

- *Fleet safety and MVR program*
- *Use of force*
- *Back safety*
- *Muscular skeletal disorders*
- *Losses related to stress/mental*

The current Manager of the Management Services Division spends 15 to 20 percent of his time on loss prevention issues. Additional efforts concentrating on the above loss prevention initiatives would help reduce claims frequency.

Recommendation

Concentrate additional effort on the implementation and ongoing management of the following areas:

- *Fleet Safety and MVR program*
- *Back safety*

- *Ergonomics*
- *Material handling*
- *Employee training*
- *Hazard identification*

The Parks and Recreation Bureau loss control department is considerably understaffed. Safety management practices are considered top priority. However, sufficient time is not being spent on the implementation of such practices. Staffing considerations should be evaluated to ensure appropriate allocation of these limited resources.

Recommendation

Provide hazard identification training to Construction Inspectors in the Bureau of Parks and Recreation.

This group of employees is close to potential safety hazards and could be a resource to identify and abate potentially hazardous conditions. A formal safety inspection checklist would help with the implementation of a hazard identification program.

Risk Management Division loss prevention staff currently report individually to the Risk Manager. We considered creating a Loss Prevention Risk Supervisor (Manager) position to direct loss prevention initiatives for the Risk Management Division and report to the Risk Manager. We do not recommend this position at this time. The current organizational structure and reporting hierarchy should be retained. We do not believe creating this position would generate sufficient savings to offset the costs.

B. VENDOR CONTRACT NEGOTIATION AND ACQUISITION

1. Duplicate Efforts

Most vendor contracts are negotiated and approved on an individual-bureau basis. This practice is consistent for all bureaus and for most vendor agreements. Most bureaus utilize the same or similar vendors for ergonomics (body mechanics), defensive driving and back safety.

Recommendation

Make the SafetyNet group a vehicle for collaboration on vendor qualification and contract acquisitions. This group should advise the Risk Manager.

There are several benefits to group participation for vendor qualification and contract acquisition:

- Bureaus will utilize fewer resources during the vendor selection process.
- Rate negotiations should be more favorable when utilizing the buying power of all bureaus combined.
- Vendor contract renewal process can be based partly on each bureaus historical experience with the vendor.
- Group evaluation may indicate that a vendor is not needed because an individual bureau expert or experts may provide the requested service. This could potentially be a cost savings for the City and all bureaus.

2. Enhanced Buying Power

Bureaus individually negotiating vendor contracts greatly diminishes the City's buying power. Under the current structure, potential savings may not be obtained. Many bureaus duplicate time spent on the evaluation and acquisition process.

Recommendation

Consider having one of the roles of the SafetyNet Group be to advise the Risk Manager of the Divisions efforts to solicit vendors and conduct contract evaluations to obtain single-point vendor agreements.

C. LOSS PREVENTION ROLES AND RESPONSIBILITIES

1. Measurable Result

Each bureau was evaluated on its effectiveness in identifying and reporting the results of its loss prevention initiatives. The most widely used reporting mechanism is each bureaus five-year loss prevention plan and individual bureau loss runs. In each five-year loss prevention plan, there are specific action plans with goals for reducing losses.

In the five-year plans evaluated, some did not provide consistent measurable actions. Without specific measurable actions, bureaus do not have data to benchmark loss prevention progress other than frequency and severity rates.

Recommendation

Establish action plans with outcomes that are measurable.

Example:	
Goal	Increase awareness of potential hazards and exposures.
Existing action plan	Group/division managers, with the assistance of risk services, identify employees/teams to perform routine area inspections and provide them with specific hazard assessment training.
Modified action plan	Group/division managers, with the assistance of risk services, identify employees/teams to perform one area inspection per week. Train 100% of all teams within the bureau on specific hazard assessment procedures.

BES benchmarks loss prevention results against other cities with similar bureaus. This evaluation process assists in loss forecasting and fosters communication with other cities' bureaus to discuss loss prevention challenges and potential solutions.

Recommendation

Have the six major bureaus benchmark loss trends and loss prevention practices against other government organizations with similar exposures and operations.

2. Policy Enforcement Procedures

Policy enforcement is an important aspect of each bureau's loss prevention efforts. All bureaus evaluated possessed good-to-adequate loss prevention policies. However having a good policy does not guarantee good loss prevention results. All bureaus rely heavily on supervisor involvement for policy enforcement. With limited loss prevention staff at each bureau, supervisor involvement is critical. Through information gathered at each bureau and the Bureau of Human Resources, it was observed that supervisor evaluations for represented employees and non-represented employees do not contain a loss prevention element. The evaluation process should contain an element of safety policy enforcement, safety leadership and continued process improvement.

Recommendation

Develop a formal supervisor evaluation process that includes loss prevention measurements. Key factors should include policy enforcement, safety leadership and continued process improvement.

3. Professional Development

The professional development within each bureau's loss prevention group was evaluated for balance and expertise.

Recommendation

Provide additional training for the Risk Management Division Risk Specialist position in industrial ergonomic practices.

Several bureaus utilize outside vendors for ergonomic evaluations and training. Having this resource within the City could reduce the need for outside vendors.

D. LOSS PREVENTION PROGRAM EVALUATION

Loss prevention programs were evaluated from the Bureau of Water Works and the Bureau of Environmental Services. The following recommendations are based on OSHA requirements and best practices.

Recommendations

Add a section requiring employees to be trained on the proper selection and care of PPE to the employee training and information section of the Hazard Communication Written Procedures for the Bureau of Water Works.

Add a section requiring contractors that work on a jobsite controlled by the Bureau of Water Works to state what chemicals they have or use that may affect bureau employees interacting with the contractor.

Indicate where equipment specific lockout tagout procedures are kept in the Policy section of the lockout tagout program for the Bureau of Water Works.

Clearly state the different requirements for affected and authorized employees under the lockout tagout regulatory standards. Authorized employees should be trained and the documentation of such training should be addressed.

Consider adding emergency contact information on the confined space entry permit. Often, the permit is the only documentation a crew will have at the jobsite and can reference it quickly if needed.

E. COMMUNICATION OF OR OSHA REQUIREMENTS

1. Risk Management Training

We evaluated the methods the Risk Management Division uses to communicate changes in OR OSHA requirements to bureaus. The primary communication method is training seminars conducted by the Risk Management Division.

The Risk Management Division hosts 11 training seminars that cover regulatory items like Safety Committees, Ergonomics and Fleet Safety. While these training seminars provide information on OSHA regulatory requirements, they are not provided to fulfill the need of staying abreast of all regulatory changes.

Discussions with Risk Management Division Senior Loss Prevention Specialists and Loss Prevention Specialists have indicated they often send specific data on regulatory changes to individual bureaus if they feel it is or will impact their operations or loss prevention programs.

The major six bureaus have loss prevention staff that have many years' experience in safety and health management. Most are members of the American Society of Safety Engineers or other professional organization where updates are provided in periodicals or journals that are distributed to members.

With the information provided by Risk Management, and regulatory updates obtained through other professional organizations, it seems all bureaus are kept well abreast of OR OSHA requirements.

2. E-risk Control Tools

There are a number of inexpensive Internet programs that are invaluable to most safety and health professionals. These sites can provide instant access to regulatory information. In addition to changes in regulations, many Internet services provide e-risk control solutions that can help automate an existing cumbersome process. For the investment, these sites are a great value. For reference, a few have been listed.

- Business & Legal Reports www.blr.com
- JJ Keller www.jjkeller.com
- Safetylogic.com www.safetylogic.com
- Safetyinfo.com www.safetyinfo.com

These are just a few companies that provide up-to-the-minute regulatory information for a minimal fee.

Recommendation

Utilize e-risk control tools or web applications to update the bureaus on OR OSHA regulatory requirements. The use of loss prevention staff to provide additional regulatory updates is not directing attention to areas of need or targeting resources at loss leaders.

F. MOTOR VEHICLE RECORD EVALUATION PROGRAM

1. New-Hire Practices

The City conducts MVR checks for all prospective employees and volunteers during the hiring process. Guidelines are clearly established through the Bureau of Human Resources for determining driver qualifications (see Exhibit III-1). A defensive driving course is required for all employees who operate a City vehicle within three months of employment. MVRs are checked and criteria are clearly set for qualification or disqualification of drivers.

**CITY OF PORTLAND, OREGON
DMV Record Evaluation Form**

___ New Hire
 ___ Current Employee Last Defensive driving course _____
 ___ Volunteer

Name _____

Driver's License Number _____ Date of DMV Record _____

Type A 36 months _____ (none) 60 months _____ (no more than one)	Date	Make an "X" if applicable
1. Driving while intoxicated		
2. Reckless driving		
3. Driving while suspended		
4. Speed contest		
5. Hit-and-run driving		
6. Grand theft auto		
7. Driving under the influence of drugs/alcohol		
8. Aggravated assault with a motor vehicle		
9. Driving while in the possession of an opened container of an alcoholic beverage		
10. Negligent homicide arising out of the use of a motor vehicle (gross negligence)		
11. Using a motor vehicle for the commission of a felony		
12. Permitting an non-licensed person to drive		
Total		
Type B 12 months _____ (no more than one) 36 months _____ (no more than two)		
All moving traffic violations that are not listed as type "A" violations (list below)		
Total		

Completed by _____ Date completed _____

Requirements of a Good Driving Record

No type "A" convictions during the past 36 months and no more that one type "A" conviction during the past 60 months.

No more than one type "B" conviction during the past 12 months and no more than two type "B" convictions during the past 36 months.

This evaluation form is based on the Recruitment standard developed by Bureau of Human Resources.

Recommendation

Continue the existing procedures for checking MVRs of new employees and volunteers.

2. Existing Drivers

Considerable evaluation has been done on the City's Driver Evaluation Program. Guidelines for disciplinary action against City employees for the loss of driving licenses are established in the Labor Agreement between the City and the District Council of Trade Unions. These guidelines are set forth in Section 21.14 of the labor agreement.

Section 21.14 requires that the City provide alternate job duties to an employee that has lost his/her license for a period of 30 calendar days. Upon obtaining a license, the employee is automatically reinstated to full driving privileges. Should the employee not receive a valid driving license back within 30 days, the City can take several disciplinary actions up to laying off the employee.

Upon the second occurrence within a three-year period, the employee can be laid off with provisions to be recalled under Article 13.

The City HR policy about employee MVR evaluations is basically the same policy the Department of Motor Vehicles uses for the suspension of civilian drivers licenses. If an employee loses their license under the guidelines set by the DMV, that employee is subject to disciplinary action under Section 21.14 of the labor agreement.

Section 21.14.3 of the labor agreement indicates the City Risk Manager has the authority to evaluate drivers that have received a "hardship" license from the DMV and to determine if that driver shall be allowed to operate a City vehicle.

Recommendation

Have the City Risk Manager utilize the same risk matrix for determining driving privileges for employees with "hardship" licenses, as used in new hire evaluations (see Exhibit III-1).

The City reviews fleet incidents, through a Fleet Accident Review Board (FARB), that meet criteria to warrant additional investigation. The FARB is chartered with determining fault in the incident as well as prevention measures needed to mitigate future exposures. The FARB only evaluates job-related incidents. Individual bureaus are responsible for follow-up on recommendations as well as determining employee disciplinary actions, if needed. The development and use of a risk matrix would be beneficial to all bureaus for evaluating "at fault" incidents during FARB proceedings.

Recommendation

Utilize a risk matrix (Exhibit III-2) to determine continued driving privileges and possible employee disciplinary action for “at fault” fleet incidents during the FARB proceedings.

On-the-job vs. off-the-job driving record evaluations were discussed at length with the Risk Management Division and the Bureau of Human Resources. As stated above, only on the job driving records are considered when evaluating employee driving performance. The Risk Management Division as well as other bureaus would like to consider an employees “whole” driving record when determining risk exposures for employees who operate City vehicles.

The Bureau of Human Resources considers an employees “personal” driving record to be of personal nature, not to be considered when determining disciplinary action. The Bureau of Human Resources does, however, favor evaluating drivers “personal” DMV records to for the potential need for refresher training or other loss prevention measures should an employee develop a “poor” personal driving record while employed by the City.

Evaluating an employees “whole” driving record vs. only “on the job” driving performance provides the City a more complete picture of an employees driving habits and the City’s overall risk exposure. Disciplining an employee with a “poor” personal driving record is an accepted risk management practice. However, considering the difference of opinion within the City, the labor agreement and the process for a language change in the labor agreement, we recommend other methods of reducing fleet risk be evaluated.

The City should consider utilizing DMV records to evaluate employees that drive City vehicles for the purpose of implementing loss prevention measures when necessary. It should be noted that the evaluation process should not be utilized for disciplinary action but for determining if additional driving instruction or other loss prevention measures should be instituted.

Recommendation

Develop a Citywide policy that includes evaluation of “personal” driving records for the purpose of providing additional training or other loss prevention measures. A risk matrix should be utilized as a guide in determining when and what measures should be taken to reduce fleet exposures within each bureau (see Exhibit III-3).

It is important that each bureau take an active roll in implementing a policy for driver evaluations. Without bureau support, a program such as this would be almost impossible to implement. The utilization of a risk matrix to determine when and what measures to take is critical to delivering a consistent message to all City employees.

**CITY OF PORTLAND, OREGON
Fleet Accident Review Board Evaluation Risk Matrix**

_____ At Fault
_____ Not At Fault

Name _____

Drivers License Number _____

Offense	X if Yes	Comments
Driving while intoxicated		
Driving while suspended		
Hit and run		
Driving under the influence of drugs/alcohol		
Aggravated assault with a motor vehicle		
Driving with an open container of an alcoholic beverage		
Negligent homicide arising out of the use of a motor vehicle		

If any of the above offenses are indicated. Then grounds for immediate dismissal

Frequency in past 24 months	X if Yes	Required Action
1 st incident		Refresher vehicle operation training and documentation in employee file
2 nd incident		Refresher vehicle operation training, refresher defensive drivers training and written reprimand in employee file
3 rd incident		Written reprimand in employee file and laid off for 1 week
4 th incident		Permanent lay off

Amount of property damage must be equal to or above \$500. Includes all damages to vehicles (city and civilian) and other types of property.

Completed by _____ Date _____

**CITY OF PORTLAND, OREGON
Motor Vehicle Record Risk Matrix (On and Off the Job Incidents)**

The following risk matrix shall be used to evaluate employees driving records utilizing DMV form D43.

Note: This form shall be used to determine required loss prevention measures only, not for disciplinary measures.

Name _____ Drivers License Number _____

Date of DMV record _____

Offense	# of Points	Required Action
Driving while intoxicated	6	Drug and alcohol training
Driving under the influence of drugs/alcohol	6	Drug and alcohol training
Driving with an open container of an alcoholic beverage	6	Drug and alcohol training

Accumulation of 6 or more points indicates a required action.

Offense	# of Points	Required Action
All moving violations (unless otherwise indicated)	2	Defensive drivers training
Vehicle accidents not involving the use of drugs or alcohol	3	Defensive drivers training
Speed contest	4	Defensive drivers training

The accumulation of six (6) or more points in a 24-month period requires action noted in right column.

Points are not cumulative for incidents happening on the same day, take the highest individual point option as the total.

List offenses requiring action and the state the date action will be taken

Offense	# of Points	Date action will be taken

Recommendation

Assemble a subcommittee of members from the SafetyNet group to participate in the development, rollout and ongoing evaluation of the drivers evaluation program. Areas to evaluate and consider include:

- *Bureau’s participation incentives or non-participation disincentive.*
- *How do all bureaus track employee involvement in the program*
- *Should this be a Risk Management Bureau managed program?*
- *Potential changes to the Union Labor Agreement*
- *Interaction with the Human Resources Bureau for guidance where needed.*
- *Financial impact of time commitment and desired loss reduction results.*
- *Ongoing program evaluation.*

Recommendation

Consider staffing requirements for the Risk Management Division should a formal drivers evaluation program be implemented. Currently the Risk Management Division is managing the process for adding City employees into an MVR “flagging” database and providing suspended driver information to individual bureaus. This process is somewhat time-consuming. Time requirements could potentially double or triple should the Risk Management Division review DMV form D73 as well as DMV form D43, which are a detailed list of all driving violations and citations.

In addition to DMV record evaluations, we recommend the Risk Management Division provide consultation to all bureaus on identifying “at risk” drivers and managing the process for tracking recommended actions that are to be taken.

The Risk Management Division should work in conjunction with other bureaus to establish responsibilities of bureau participation in a formal driver evaluation program. The Risk Management Division is best equipped with resources and expertise to take the lead in establishing the requirements of the drivers safety program.

3. MVR Database Transaction Procedures

Currently, the Risk Management Division manages all MVR records for each bureau. An MVR “flag” database is utilized to ensure required employees receive MVR evaluations as well as to “flag” drivers that lose their driving license through the Oregon Department of Motor Vehicles. The Risk Management Division enters all City employees into the database. Reports that are generated from the database are DMV forms D73 and D43. At the time of this report, only the D73s were being evaluated for suspended drivers. The D43s, which are a record of other driving citations, are not evaluated.

Once a DMV form D73 is forwarded to a bureau, it is the responsibility of that bureau to follow up to ensure the suspended driver is removed from driving status in accordance with section 21.14 of the labor agreement.

Recently, the Risk Management Division switched from tracking only employees that were identified as driving being a major part of their job function to tracking all City employees. This change was due to concerns that incomplete data on drivers was being received from participating bureaus. Rather than not knowing who was being included and who was not, it was decided to include all employees.

The process of tracking all employees in the MVR “flag” system, is time-consuming and costs more than only tracking employees who are identified with driving as an essential job function.

A process of categorizing drivers at the bureau level and then providing the information to the Human Resources Bureau through the e-pan process may be a time saver and a process that could simplify getting only needed drivers into the MVR “flag” system. We have spoken to the Human Resources Database Manger who indicated that the process of adding a field to the existing HR Database would be an “easy-to-medium” project to accomplish, with an estimated cost of \$5,000.

Once a criteria has been established and bureaus are maintaining the driver information through the e-pan process, the Risk Management Division could rely on this data and save money by only running D73s and D43s on “at risk” employees.

Recommendation

Develop a system that identifies employees within the bureaus as needing to be entered or not entered into the MVR “flag” system.

Utilize the e-pan process for updating driver information as changes to their driving status changes.

Make HR Database changes that would allow for a field to be included that would identify an employee's driving status and provide Risk Management Division access to the information for input into the MVR "flag" system.

G. RISK MANAGEMENT INCENTIVE PROGRAM

1. Program Structure

In 1997 the Risk Management Division established an incentive program that is available to six major bureaus with the highest premium being paid into the self-insured fund. The incentive program had major revisions in 2002. The incentive program is monetarily based on each bureau's ability to reduce frequency rates for workers compensation, general liability and fleet liability.

The incentive program is also based on the participating bureaus development and completion of action plans that are identified as top-severity loss leaders.

A monetary award is based on funds available, which is determined by each participating bureau's share of three-year average incurred costs in relation to the sum of the three-year average costs for all participating bureaus.

Payment of an award is calculated by a 15% reduction in claims count, by line of coverage. The amount of the award will be reduced or prorated for reductions below 15%. The minimum amount of the potential award is \$5,000 per line of coverage. Bureaus obtaining or maintaining SHARP status will be awarded a sum of \$10,000.

Recommendation

Continue the incentive program under its current structure. The tie between reduction in frequency rates and action plan completion is a strong evaluation tool and brings together traditional frequency rate evaluation and structured management practices.

2. Annual Action Plan

Under the incentive program requirements, each bureau is required to develop and present an annual action plan that identifies the top five preventable or controllable claims resulting in the most incurred costs (severity) within their bureaus. The practice of identifying and reporting these action plans is an excellent measurement protocol for determining incentive awards. Action plans that are truly measurable are important for determining successful implementation.

Recommendation

Make all bureau action plans measurable. Review of the bureaus' action plans revealed that some action plan initiatives could not be measured as stated and would require judgment calls as to successful action plan implementation.

IV. LIABILITY CLAIMS

Our analysis of liability claims handling included review of City job descriptions, claims-related data, personnel interviews (to gain an understanding of issues and workflow), and an onsite claims audit. We also completed a claimant survey to determine the claimant's evaluation of claims service.

A. POLICIES AND PROCEDURES

Liability claims procedures currently consist of photocopied instructions and information to support claims investigation, evaluation, and disposition. These include:

- First contact/notice
- First notice documentation and routing
- File setup
- 1099 Internal Revenue Service (IRS) payments compliance
- Current clerical tasks
- Index System Bureau
- Investigations
- Data entry and computer coding list
- First call settlements
- Reserves
- Diary (follow up calendar)
- Evidence evaluation
- Photographs
- Statements
- Appraisals
- Liability evaluation
- Memorandum: Committee on Claims "Fair and Moral Claims"
- Authority
- Sample Civil Rights Complaint filed with Bureau of Labor and Industries (BOLI)
- Healthcare provider liens settlements
- City Driver Report
- Medical authorization
- Wage authorization
- Compliance with the *Oregon Tort Act*
- Oregon Statutes
- Police liability
- Release Preparation
- Structured Settlements
- Claim Forms
- Bureau claim payment sharing

The Liability Claims Section's documentation of policies and procedures would be improved by consolidating the loose-leaf notebook instructions into a manual.

Recommendation

We recommend the following topics be added to the liability claim policies and procedures manual.

1. *Risk Management Manual pertinent references to claims handled in the Liability Claims Section, such as:*

- *Oregon Statutory limits on money damages against the City in the amounts of \$200/500/50.*
 - *Excess coverage for an employee’s vehicle involved in an incident when driven in the course of employment.*
 - *Coverage for negligent acts of employees only while acting during the course of employment.*
2. *Schedule 33, “Schedule of Insurance,” from the “Risk Management Manual (Draft),” which includes self-insured retentions, coverage and deductibles.*
 3. *Excess reporting instructions.*
 4. *Job descriptions.*
 5. *City organization and bureau interface procedures.*
 6. *City Attorney Office interface procedures.*
 7. *Reserves (to add Most Probable Ultimate Outcome evaluation).*
 8. *New employee orientation schedule (varied by job classification).*
 9. *Cross Training Schedule.*
 10. *Cost-benefit analysis (for bureau discussions and negotiations).*
 11. *Diary (to add requirements for claim notes)*
 12. *Investigations (to add fraud procedures)*

The manual should also include a table of contents, workflow charts, glossary and index.

B. STAFF ACCOUNTABILITY

The job descriptions for individuals included in Table IV-1, “Liability Staffing,” generally meet best practices. An exception is that the delegation of training activity by the Section Supervisor to the Senior Claim Analysts should be more clearly defined. “Job Code: 7179, *Senior Claims Analyst*, Other Duties, Sections 2 and 3” currently addresses assigning tasks, reviewing completed work and being a technical resource to bureaus, but does not include training responsibilities for employees within the Claims Section.

Recommendation

Amend “Job Code 7179” to more clearly define training responsibilities to include participation in cross training and new employee orientation.

The “Performance Assessment and Development Program, Management Packet” meets best practices.

C. TRAINING, EXPERIENCE AND APPLICATION

New employee orientation has been focused on gathering information for Human Resources, providing information about claims workflow, Citywide procedures, and computer usage.

Recommendation

Develop a schedule for training new employees and cross training current employees in the Liability Claims Section. (A sample schedule is shown in Exhibit V-I using work assignments from the “Workers Compensation Program Policies and Procedures Manual”).

As shown in Table IV-1, “Liability Staffing,” two Senior Claim Analysts have caseloads over 175 and the Subrogation Claims Technician has a caseload exceeding 250. These staff members have prior experience and can be utilized for cross training purposes. Excessive caseloads limit ability to provide cross training, but the remaining Senior Claims Analyst will be able to assist in the reduction of pending with cross-training.

**Table IV-1
Liability Staffing**

Personnel	Role	Experience
Mark Stairiker, CPCU	Liability Risk Supervisor Supervises the Liability Section. Also claims handler #02 for pending claims count of 112	Municipal liability claims background since 1976 and with City since 1979.
Randy Stenquist	Senior Claims Analyst Torts/liability/property Claims handler #33 for pending claims count of 307	Municipal claims and risk management background with City of Tucson, AZ for 10 years. Liability claims at City 2 years.
Mark Wilsdon, MBA, CPCU	Senior Claims Analyst Torts/liability/property Claims handler #32 for pending claims count of 245	Liability claims at for City 2 years. Multi-line field claims adjustor for Farmers and Grange 8 years. Transportation insurance broker and claims handler.
Sarah Keefe	Senior Claims Analyst EEOC Claims handler #10 for claims pending of 110 (33 BOLI / 77 tort)	Human resources background 6 years. City Benefits Administration in Risk Bureau 2 years. Current position 7½ years.
Jean Paye	Claims Technician Pursues recovery of damages to City property caused by citizens (fleet, property damage, personal property of employees), contractors (infrastructure) and restitution (crime) Claims handler #05 for claims pending of 230 (200 subrogation / 30 tort)	Workers compensation and property claims experience. Less than one year handling subrogation and salvage claims with the City.

Personnel	Role	Experience
Delores Myers	Assistant Claims Technicians Liability section Clerical tasks include: telephone backup for claims handlers, open, date stamp, photocopy and route mail, file setup, system claims data entry, Index Bureau reporting, typing, claims closure, maintenance of dictation records, filing, accounts payable and receivable, copy file documents for City Attorney's Office, purge incident and apron files annually, purge tape files, data entry for subrogation claims.	City liability claims.

The claims mix is shown in Table IV-2.

**Table IV-2
Five-Year Claims Mix History**

Case Incurred Cost	Open Claims as of 11/30/02		Closed Claims 1998 through 11/27/02		Totals
	General Liability	Fleet Liability	General Liability	Fleet Liability	
\$0	26	12	2,040	271	2,349
\$1 to \$5,000	415	47	1,230	750	2,442
\$5,000 to \$15,000	57	24	87	74	242
\$15,000 to \$50,000	40	8	46	26	120
\$50,000 to \$100,000	12	5	16	6	39
> \$100,000	10	0	11	2	23
All	560	96	3,430	1,129	5,215

Recommendation

Adjust the pending claim counts in the Liability Claims Section through use of cross-training and disposition activities.

Our experience indicates the most effective claims handling of municipal liability claims results when pending counts are at or below:

- 75 Claims for a risk supervisor with responsibility to supervise four direct claims handling staff members. Pending claims count reductions of 25 claims per additional staff member supervised are needed, reaching zero for staff of seven.
- 175 Claims for liability claims handling staff (BOLI claims count given twice the weight of tort claims).
- 250 Claims for subrogation claims handling staff.

Symptoms of unmanageable caseloads noted in the following sections include:

- Ratio of expense-to-loss costs exceeding normal.
- Supervision performance falling just below the acceptable performance level.
- Claims productivity under 100%.
- Reporting to excess carriers needing improvement.

We expect caseload reductions and cross training to achieve an even distribution of work. A more even work distribution will allow application of Liability Claims Section resources to resolve and prevent adverse claim trends by focusing on resolving the factors contributing to these trends. Current adverse trends and contributing factors are noted in the next section.

D. PRIOR CLAIM AUDITS AND CLAIMS DATA TRENDS

Liability claims have been monitored by the City's bi-annual internal financial audits to verify:

- Investigation timeliness
- Financial activity and proper coding to bureaus
- Reserve adequacy and communication with bureaus

- Interaction with City Attorney
- Staff adequacy, supervision and training.

Overall, prior audits and our audit find the Liability Claims Section to be well run. However, our analysis of claims data from the past five years notes the following two adverse trends:

1. Increasing claims pending.
2. Abnormally high expense ratio.

We attribute these trends to two factors:

1. Claims productivity significantly below 100%. This ratio is calculated as follows:

$$\frac{\text{Claims Closed Less Claims Reopened}}{\text{Claims Received}} = \text{Claims Productivity Ratio}$$

2. Inadequate cost-benefit analysis when evaluating claims for maintaining denials and proceeding to trial versus actively pursuing a claim resolution through negotiations.

The claims productivity ratio for years 1998 through 2002 is provided in Table IV-3, “Liability Claims Productivity History.” Two reasons for declining productivity are:

- The requirement to keep denied claims open for 26 months. This procedure was implemented as a result of the Demming Total Quality Management recommendation of the 1990’s. The purpose of the procedure is to ensure claims are available to risk management in the event suit is filed.
- Lack of clerical support.

**Table IV-3
Liability Claims Productivity Five-Year History**

Period (1)	Number of Claims Received (2)	Number of Claims Reopened (3)	Number of Claims Closed (4)	Productivity [(4) – (3)] ÷ (2) (5)
2002	918	13	825	88%
2001	1,002	31	1,093	106%
2000	1,010	61	986	92%
1999	1,033	34	853	79%
1998	1,008	9	456	44%
1998 to 2002	4,971	148	4,213	82%

The general and automobile liability claims expense ratio is normally between 20% and 30%, according to the experience of our actuaries. The five-year claims history, valued 11/30/02, shows the City’s five-year expense ratio is:

$$\frac{\$7,502,402 \text{ Incurred Expenses}}{\$16,973,966 \text{ Incurred Loss}} = 44\% \text{ Expense ratio}$$

A litigation rate measures the percent of claims litigated. It is number of litigated cases divided by the total number of cases. For the period 1998 through 2002, the City’s litigation rate was 8% (429 litigated claims ÷ 5,218 total claims). We normally see litigation rates of 8%. This makes the 44% expense ratio appear very high.

Recommendation

Update procedures to include monitoring claims productivity on a monthly basis to ensure an annual liability claims productivity ratio equal to or greater than 100%.

Specific steps we recommend are:

- *Reduce pending claims and conduct cross-training, as discussed in Section C above.*
- *Structure the Quarterly Risk Claim Reviews as noted in Section E (3) to include cost-benefit analysis.*
- *Budget litigation more carefully on the high-exposure cases per Section E (10).*

- *Close denied claims when no protest is received within 90 days and keep these claims with potential for reopening in the open claims storage area for 26 months (time period allowed for statute of limitations to toll).*

E. CLAIMS AUDIT

Appendix A, “Liability Claims Grading Summary and City of Portland Liability Claims Review” provides the details of our claims audit. We provided the audit summary to the Liability Risk Supervisor.

Claims review grading is based upon a 4-point scale:

- Grade 4 — best practices are met
- Grade 3 — minor deficiencies are present
- Grade 2 — deficiencies likely relate to an increase in claims cost
- Grade 1 — deficiency is noted to have increased claim costs

The grading summary in Appendix A notes the average grade for each claims component considering all claims reviewed. Each claim is reviewed for each claims component, but not all claims contain every component. Claims are graded only for components present.

Our audit findings are summarized below. We present findings, recommendations and a grade. The City should interpret our grades as follows:

<i>Superior</i>	<i>Average Grade 3.80 or above</i>
<i>Commendable</i>	<i>Average Grade 3.60 to 3.80</i>
<i>Acceptable</i>	<i>Average Grade 3.40 to 3.60</i>
<i>Needs improvement</i>	<i>Average Grade below 3.40</i>

Overall, we rate the City’s liability claims handling as *commendable*. The commendable audit result represents the average grade for all components graded divided by the number of files graded for the component.

1. Hiring and Retaining Staff

The City’s hiring procedures meet best practices. There has been no turnover of key employees in the last two years.

2. Quality Data With Internet Access

The City has a project in progress to make claims information available to bureaus on the Internet, but this is not currently available.

Chapter VIII, "Information Technology," provides our risk management information system evaluation and recommendations. Current system usage and recommendations for enhancements are discussed here.

Performance for the following claim components is assessed as:

- Claims Data System (CDS)/
Loss Experience Reports Average Grade 3.65 Commendable
- Documentation/File organization Average Grade 3.85 Superior

Documentation in the claim files matches the data in the RM System and file material is braided into the claims file jackets with few exceptions.

Recommendation

Update system to improve litigation tracking, by adding data fields for:

- *Verdict, appeal decision and result of appeal.*
- *Arbitrator and arbitration result.*

Improved supervision to monitor data entry for the following data fields:

- *Plaintiff and defense attorney names.*
- *Litigation results.*
- *Settlement prayers.*

3. Communication With Client (Bureaus)

Performance for the following claims component is assessed as:

- Prompt contacts Average Grade 3.76 Commendable

Recommendation

Use a buddy system for Liability Claims Section staff members to ensure prompt contacts when absences occur.

The bureaus are currently to be provided with claims status information, including:

- Prompt advice of claims received.
- Investigative information as developed.
- Claim evaluations at Quarterly Risk Claim Reviews.
- Reserve increases of \$25,000 or more.
- Monthly loss experience reports.
- Claims resolution facts when claims are closed.
- Claim updates as requested by bureaus.

Attendees at the March 26, 2003 City's Safety Net Meeting indicated they did not consistently receive claims resolution facts for claims being closed or advice of significant reserve increases before they occur.

Recommendation

Communicate with bureau contacts in advance of the Quarterly Risk Claim Reviews to ensure claim reviews address claims matching the following criteria:

- *Report dates during the quarter.*
- *Claims open for more than 90 days.*
- *Reserve in excess of the claims handler's job classification authorization limit.*
- *Reserve increases planned at or exceeding \$25,000.*
- *Claims closed during the quarter requiring discussion of claims resolution facts.*

Advance communications will eliminate claims from the discussion, which already have disposition plans the bureau contacts are satisfied with based upon routine prior teleconferences and E-mails.

Recommendation

Use the “Damages” report with current “Reserve Worksheet” to prepare cases scheduled for discussion during these meetings. Incorporate a cost benefit analysis as illustrated in Table IV-4.

Add to the file the decisions made during the quarterly meetings, based on the cost benefit analysis along with the resulting disposition plan, including target dates for follow-up activities, discussions with the bureau and case closure.

**Table IV-4
Cost Benefit Analysis**

Case Facts	Disposition Plan	Cost to Bureau/City	Benefit to Bureau/City
<p>Claimant seeks relief from taxes. City attempted to resolve tax dispute but claimant shut down negotiations by filing suit.</p> <p>City Attorney has prepared case well and wins Federal Court Order for claimant to pay back taxes estimated at \$2,000,000 with interest.</p> <p>Claimant files appeal. Other taxpayers file amicus briefs.</p> <p>Legal fees to date \$445,083 and \$154,917 estimated to defend appeal.</p> <p>Meanwhile tax not being paid.</p>	<p>Communication with bureau determines:</p> <p>1. Tax negotiations prior to suit offered claimant tax relief of 1%.</p> <p>2. Mayor notes withheld taxes have meant delaying projects, which would benefit the City in terms of jobs and services.</p> <p>Consider reinitiating tax relief negotiations with settlement range: ½% to 1%. Consider waiving portion of interest or a more favorable payment plan for back taxes than the lump sum ordered, as long as current agreed tax payments are kept up-to-date.</p>	<p>Reduce ongoing tax by up to 1%.</p> <p>Possibly give up portion of accrued interest.</p> <p>Possibly give up lump-sum back tax payment.</p>	<p>Eliminate risk of court reversing order to pay back taxes.</p> <p>Obtain agreed upon tax payments retroactively.</p> <p>Proceed with projects to benefit other taxpayers.</p> <p>Reduce expense reserve.</p> <p>Restore relationship with taxpayer.</p>
		Cost to Claimant	Benefit to Claimant
		<p>Reinitiate payment of taxes.</p> <p>Pay all or portion of interest on back taxes.</p> <p>Pay back taxes.</p>	<p>Opportunity to revisit tax relief negotiations after losing case.</p> <p>Receive up to 1% tax relief.</p> <p>Receive portion of interest waiver or more favorable back tax payment schedule.</p> <p>Restore relationship with City.</p>

The objective is to ensure stakeholders are included in disposition planning with Risk Management to consider negotiation options compared to an adverse outcome in court.

4. Evaluating/Obtaining Settlement Authority

The City Charter Section 1-107, “Fair and Moral Claims” provides discretionary authority for claim payments up to \$5,000 for claims:

- Barred by Charter exemption.
- Barred by Governmental immunity.
- Asserted by employees for the replacement of personal property damaged in the course of employment.

Approximately 60% of all claims are denied as falling into the three categories above. When the claim handler determines resolving a claim by payment in excess of \$5,000 is in the City’s best interest, an authorization request is submitted to the City Council for approval by ordinance. Claims are interpreted as each payee requiring payment as a result of the claimed incident. For instance, claims payments will be made in amounts up to \$5,000 for:

- Rental car reimbursement
- Personal Injury Protection carrier reimbursement
- Property damage carrier reimbursement
- Bodily injury settlement

An ordinance requesting payment and a memorandum to the City Council is submitted when such a payment exceeds \$5,000. Then all payments related to the incident are included in the memorandum explaining the purpose of the authorization request and are subject to City Council approval by ordinance. Judgments and arbitration awards do not require City Council approval.

We note no difficulty in risk management’s coordination of the requests to the City Council for approval by ordinance. The requests have been approved promptly. We recommend this procedure be continued with the flexibility described above.

Performance for the following claim components is assessed as:

- | | | |
|---------------------------------|--------------------|----------|
| • Liability/Damage Assessment | Average Grade 3.97 | Superior |
| • Case finalization/settlements | Average Grade 3.89 | Superior |

5. Disposition Management Program

Written procedures encourage “First Call Settlements” and require documentation with a handwritten memo to the claim file to support the evaluation. Instructions for obtaining a “Standard Release of All Claims” are provided in the current procedures, with the specific format to be used.

When claims are not resolved on the first call, it is important to have consistent follow up to ensure investigation, evaluation and other disposition activities are completed timely.

Performance for the following claims component is assessed as:

- Diary Average Grade 3.71 Commendable
(system claim notes and follow-up calendar)

Up-to-date claim notes in the system will be important when the bureaus are provided Internet access to claims data.

Recommendation

Update procedures to require claims note entry to the system record, including:

- *Pertinent documents and telephone calls received.*
- *Planned claims activity with target for completion.*
- *Completed claims activity.*
- *Target closure date.*

6. Management of Claims Funding and Payments

Management of claims funding meets best practices. The City’s funding management includes:

- Bureaus are provided with loss information monthly.
- Liability claim audits are completed biannually.
- Actuarial studies are completed annually.

Performance for the following claims component is assessed as:

- Payments Average Grade 3.69 Commendable

An electronic interface between risk management and City accounts payable is used once the Liability Claims Section enters payments. A summary of payments is distributed to the bureaus every fourth week.

The payment approval process is clearly documented in the claim files. No exceptions to ordinance approval requirements were found.

Recommendation

Supervise for consistent service dates entry when processing payments.

7. Internal Quality Control Standards

Per staff interviews, the Liability Risk Supervisor performs quality control by:

- Participating in the Quarterly Risk Claim Reviews.
- Performing periodic quarterly claim reviews to ensure written procedures are followed.

Supervisory memos to the claim analysts were found in the files during the audit. These memos tended to address single issues rather than overall claims handling.

The Liability Risk Supervisor has been completing the reports to the excess carriers.

Performance for the following claim components is assessed as:

- Excess Reporting Average Grade 3.33 Needs improvement
- Supervision Average Grade 3.39 Needs improvement
- Overall Claims Average Grade 3.78 Commendable

The commendable result for overall claims performance represents a very favorable result in view of the high pending claim assignments.

Recommendation

Improve reporting to excess carriers by delegating the reports due semi-annually to the Senior Risk Analysts. Supervise timely completion through a list of excess reports due run monthly. Use the claim report date rather than the triggering event date to establish the semi-annual reporting schedule.

Improve supervision for internal quality control by updating procedures to require the Liability Risk Supervisor to review three to five claims per claims handler monthly. Use a claims evaluation form to evaluate claims handling performance consistent with the criteria stated in the Liability Claims Procedures.

8. Prompt/Focused Claim Investigations

The Risk Management Manual provides instructions to bureaus for:

- **Reporting claims.** Each City vehicle is equipped with a packet containing vehicle accident reporting instructions.
- **Reporting service of lawsuits.** Bureaus participate in investigations with the liability claims handler and in litigation preparation with the liability claims handler and the Office of the City Attorney.
- **Reporting service of BOLI and EEOC complaints.** Bureaus participate in investigations of complaints filed by employees seeking investigation of civil rights violations or unlawful employment practices by the Oregon Bureau of Labor and Industries (BOLI) and Equal Employment Opportunity Commission (EEOC).

Written liability claim procedures require:

- Date-stamping all new claims.
- Review by supervisor and assignment to the claims handler with instructions.
- Telephone contact with bodily injury claimants within 48 hours of claim receipt. Plaintiff attorney waives claimant telephone contact when the notice of claim is a lawsuit or letter of representation.
- Mailing letter of acknowledgement within 72 hours for all claims.
- Index Bureau reporting for all claims, which are questionable or involve bodily injury.
- Obtaining claimant's report of loss and authorization to obtain wage and medical information as applicable.

- Obtaining police reports, photographs, witness and claimant statements, damage appraisals, PIP records and medical records. Statement guidelines are provided.
- Completing field investigations as necessary with staff members utilizing City vehicles for transportation when workflow allows for this activity outside the office. (If activity outside the office is not feasible, an independent investigator is used).

Procedures for prompt/focused claims investigation are effective. Performance for the following claim components is assessed as:

• Investigation	Grade 3.98	Superior
• Subrogation/Salvage	Grade 4.00	Superior
• Fraud	Grade 3.50	Acceptable

Written procedures clearly outline steps to be taken to verify and pursue subrogation/salvage. When it is reasonable, the salvage item is provided to the claimant. The claim is then resolved for a value, which contemplates this approach. The claimants appreciate keeping their property, and the City saves storage costs.

Fraud warnings are provided on all requests for claim loss reports. Fraud indicators were only present in two cases and require further activity in case number: 2001003501.

Recommendation

Add fraud “red flag” evaluation and reporting information to the liability procedures. Require communication with the City Attorney’s Office regarding “red flags,” to develop a joint disposition plan to investigate and report fraudulent claims to the City Attorney.

9. Claims Exposure Identification

In February 1996, the City Council adopted a revised draft of the City of Portland Loss Prevention Policy under Ordinance No. 169959. The Ordinance addresses the importance of protecting the City’s assets, and directs individual bureaus to develop five-year loss prevention plans.

Recommendation

Request the City Attorney and outside counsel to roundtable the joint disposition plan, budget and cost-benefit analysis with the bureau incurring the claim during the Quarterly Risk Claim Review Meetings, when possible. Annotate the claim file for follow up. See Appendix D, "Sample Litigation Joint Disposition Plan and Budget."

11. Evaluating, Setting and Communicating Reserves

Reserve worksheets are actively used, with one exception noted (claim number G-1998026501). Our recommendations for reserve changes total \$100,798. This is a 4% variance from the outstanding reserves of \$2,491,575 as of the valuation date used for the 67 claims included in the audit.

Performance for the following claims component is assessed as:

- Reserves Grade 3.82 Superior

Recommendation

Update written procedures to require review of claims for closure or reserve reevaluation with calculations documented in the claim file. Conduct the reviews quarterly or when notified of a significant change in claim facts.

Reserve claims based upon Most Probable Ultimate Outcome (MPUO). MPUO analysis includes:

- a. Evaluation of case facts in terms of the damages the claimant is seeking along with evidence the claimant is likely to present and defenses available to the City.*
- b. Evaluation of probability for claims handling activity to reduce damage allegations and bring case to resolution, with a target date for completion.*
- c. Analysis of how additional claims activity will affect the MPUO should any disputed issues be resolved in claimant's favor. Such an analysis requires considering:
 - i) Potential adverse verdict expected from trial.**

- ii) *Probability of prevailing on the defenses supported by factual evidence.*

Apply the following formula to the MPUO analysis:

- *If there is a 75% or greater probability of a favorable outcome, reserve for the favorable outcome plus 25% of the probable adverse outcome amount.*
- *If there is a 51% to 75% probability of a favorable outcome, reserve for the favorable outcome plus 50% of the probable adverse outcome amount.*
- *If there is a 50% or less probability of a favorable outcome, reserve for 100% of the probable adverse outcome amount.*

This reserving rationale stimulates adequate reserving and puts the City on notice of potential adverse outcomes. The Risk Manager and bureau are given an opportunity to provide input for the disposition plan. Exhibit IV-1, "Liability Reserve Analysis," shows reserve criticisms, recommended changes and rationale.

**CITY OF PORTLAND, OREGON
Liability Reserve Analysis**

Exhibit IV-1

Claimant: AK MEDIA GROUP INC Claim Number: 1998026401 Bureau of Planning
Adjustor: Mark Stairiker Date of Loss: 11/17/1997

Recommendation: Reserve would be improved by documentation in file with calculation and rational. The City enforces the ordinance passed by representatives voted into office. It limits Claimant's livelihood. The amount of economic damages is not clear.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$219,487	\$1,235,513	\$1,455,000	\$1,235,513

Claimant: BUNCH/POLLOCK Claim Number: 1999038801 Police Bureau
Adjustor: Mark Stairiker Date of Loss: 03/22/1999

Recommendation: Negative expense reserve requires adjustment.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$5,975	\$4,025	\$10,975	\$5,000

Claimant: HICKORY SPRINGS Claim Number: 2001009602 Bureau Environmental Services
Adjustor: Mark Stairiker Date of Loss: 10/01/2000

Recommendation: Adjustor is working with plaintiff attorney to resolve prior to complaint, did not receive requested support for alleged damages or service of complaint timely. Statute ran 10/1/02. Recommend closure. Updating system for no claim filed would improve system usage.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$0	\$50,000	\$50,000	\$0

Claimant: MR. CAR WASH

Claim Number: 2002023101

**Bureau
Environmental
Services**

Adjustor: Mark Stairiker

Date of Loss: 01/01/2002

Recommendation: Reserves would be improved by showing reserve calculation in file. Plaintiff Attorney alleged entitlement to refund of sewer fees 1/13/1994 to 7/1/2001. Estimate of potentially owed refund: (14 days was reimbursed \$827.19, thus 2,725 days demanded x \$59.085 per day) \$161,007. Mr. Santana in his 11/23/2001 letter does note defense given the requirement for inspection prior to any sub-meter discount per City Charter, Chapter 17.36. Refund was credited to Plaintiff's account 10/16/2001 post 7/13/2001 inspection. Estimate 75% chance of prevailing. Recommend reserve of 25% (\$161,007 potentially owed) or \$40,252. Also adjust expense reserve to eliminate negative outstanding in amount of \$236. Reevaluate chance of prevailing and potential for multiple award once witness interviews and hearing results are in.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$236	\$9,764	\$10,236	\$40,016

Claimant: ANDERSON MARIVIC **Claim Number: 2002501702** **Police Bureau
Central Precinct**

Adjustor: Mark Wilsdon **Date of Loss: 08/09/2001**

Recommendation: As City Attorney recommends summary judgment of \$36,500; reserve should be raised from \$31,500 to this amount.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$881	\$55,119	\$56,000	\$60,119

Claimant: BRYANT DENNIS/VICKIE **Claim Number: 2001003501** **Bureau
Environmental
Services**

Adjustor: Randy Stenquist **Date of Loss: 08/20/2000**

Recommendation: Reserve outstanding increase for homeowner prayer of \$20,000 from \$10,000 and defense costs to move case toward trial to \$8,000 from \$1,923.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$6,968	\$11,923	\$20,000	\$28,000

Claimant: Dressler Suzanne **Claim Number: 2002035302** **Water Bureau**

Adjustor: Randy Stenquist **Date of Loss: 03/19/2002**

Recommendation: Recommend closure. Settled by adjustor.

Financials:

Paid	Reserves	Incurred	Recommended Reserves
\$2,398	\$2,852	\$5,250	\$0

Claimant: MUDGE CHRIS

Claim Number: 2000068902

PDOT Trans Eng

Adjustor: Randy Stenquist

Date of Loss: 02/28/2000

Recommendation: Mark R. Moline City Attorney assisted in obtaining dismissal. Home Port paid Claimants. Claim is set for closure.

Financials:

Paid
\$0

Reserves
\$20,000

Incurred
\$20,000

**Recommended
Reserves**
\$0

Claimant: RATLIFF DONALD/TERESA

Claim Number: 2000068901

PDOT Trans Eng

Adjustor: Randy Stenquist

Date of Loss: 02/28/2000

Recommendation: Mark R. Moline City Attorney assisted in obtaining dismissal. Home Port paid Claimants. Claim is set for closure.

Financials:

Paid
\$7,419

Reserves
\$20,000

Incurred
\$20,000

**Recommended
Reserves**
\$0

Claimant: VILLEBRUN NICKI

Claim Number: 2002035301

Water Bureau

Adjustor: Randy Stenquist

Date of Loss: 03/19/2002

Recommendation: Recommend closure.

Financials:

Paid
\$7,556

Reserves
\$7,500

Incurred
\$15,056

**Recommended
Reserves**
\$0

Claimant: Wallace John

Claim Number: 2002035303

Water Bureau

Adjustor: Randy Stenquist

D/Loss

03/19/2002

Recommendation: Recommend closure. Settled by adjustor.

Financials:

Paid
\$2,500

Reserves
\$2,750

Incurred
\$5,250

**Recommended
Reserves**
\$0

Claimant: QWEST

Claim Number: 2001054501

Business License

Adjustor: Sarah Keele

Date of Loss: 01/01/2001

Recommendation: Recommend closing property damage reserve of \$50,000. Expense reserve appears adequate. If Decision is reversed on appeal, City will loose right to rents, but there is no allegation seeking property damage payment.

Financials:

Paid
\$445,083

Reserves
\$204,917

Incurred
\$650,000

**Recommended
Reserves**
\$154,917

Totals: \$698,503

\$1,624,363

\$2,317,767

\$1,523,565

Net Change + or (-):

(\$100,798)

12. Cost Containment Services

Cost containment services are evaluated as:

- Medical/Damage Verification Grade 3.96 Superior

Procedures meet best practices for obtaining necessary information to verify medical expenses, medical disability and property damage. Most information is solicited directly by the Senior Risk Analyst, even when fieldwork is required.

Appraisals and independent adjustor expenses are closely monitored. A favorable rate for field appraisals has been negotiated at \$95 per claim. The preferred independent adjustor is Crawford & Company.

F. CLAIMANT SURVEY RESULTS

A claimant survey was designed to obtain information about claims handling performance and whether claims handling performance affects City bond election voting. The survey was sent to 50 claimants. Claimants were selected from claims closed in the past six months. Results are shown in Table IV-6.

**Table IV-6
Liability Claimant Survey Results**

Topic	Not Applicable	Very Satisfied	Satisfied	Somewhat Satisfied	Not Satisfactory	No Response	Total
Reporting Ease	0	4	11	2	0	33	50
Prompt Contact	0	6	9	0	2	33	50
Investigation Communication	0	6	8	1	2	33	50
Pay or Deny Explanation	1	5	5	2	4	33	50
Cultural Sensitivity in Communication	3	3	8	2	1	33	50
Payment Timeliness	2	7	6	1	2	33	50
Telephone Inquiry Response	3	5	7	0	2	33	50
Dispute Resolution	5	2	6	2	1	33	50
Safety Issue Explanation	11	1	3	0	2	33	50
Comfortable Without Attorney	7	1	5	2	2	33	50
Response Choices	Not Applicable	Very Satisfied	Satisfied	Somewhat Satisfied	Not Satisfactory	No Response	Total
Effect on Bond Voting	10	1	4	0	1	34	50

Only 17 responses were received from liability claimants. The responses included 5 fleet claims and 12 general liability claims.

1. Reporting Ease

There were no negative responses regarding reporting. Several of the very satisfied respondents commented the City employee who received their telephonic claim information was very helpful.

2. Prompt Contact

Two respondents were not satisfied with how quickly they were first contacted. We have recommended claim handlers develop a buddy system to ensure timely contacts are completed.

Late contact was an isolated finding in both the survey and the audit.

3. Investigation Communication

Two respondents were not satisfied with how quickly their claims were investigated.

Recommendation

Actively follow up with claimants to keep them posted on investigation progress.

4. Pay or Deny Explanation

Three respondents were dissatisfied with the denial of their claim. See Topic 8 above, “Dispute Resolution,” for our recommendation.

5. Cultural Sensitivity in Communication

Two respondents checked the not satisfied response, but did not give details.

6. Payment Timeliness

Two respondents were dissatisfied with the overall time it took to get their claim paid. We recommend current payment procedures be continued.

7. Telephone Inquiry Response

Two respondents were dissatisfied with how quickly their telephone inquiries received a response. These appear to be isolated responses. Fifteen respondents were satisfied.

Recommendation

Establish a standard for returning phone calls within a maximum of four business hours.

8. Dispute Resolution

Three respondents were dissatisfied with dispute resolution. One is discussed in Topic 11 above. The others reported the investigation was lengthy and the denial was not understood. Both retained an attorney and received payment.

One respondent noted his/her claim was denied and understood the reasons. Appreciation for the explanation was expressed. The respondent admitted to having inaccurate assumptions when making the claim.

Recommendation

Explain the reasons for a denial graciously and wait to see whether or not the claimant pursues the claim. If the claimant pursues the claim, reevaluation is needed.

9. Safety Issue Explanation

Three respondents were dissatisfied with the City's attention to safety. Details were not provided.

10. Comfortable Without Attorney

Two respondents retained an attorney and noted their claim was paid once the attorney became involved. One response was from the attorney who commented the denial was unjustified. This respondent reported calling the Risk Supervisor and obtaining quick resolution.

Recommendation

Discuss the issues with the analyst involved and allow the analyst to resolve the issues directly.

11. Effect on Bond Voting

Two respondents advised their negative voting intentions. One related the intent to how their claim was handled. The other just feels government should leave projects to private enterprise. Most respondents commented their voting followed their political beliefs not how their claim was handled. Two felt the claims handling positively affected their voting intentions.

The one respondent who expressed intent not to vote to raise taxes as a result of being talked into a lower infrastructure claims settlement than he thought was fair may be significant. This respondent did not understand why the analyst thought the plumbing replacement contributed to improving his property rather than putting him back to the position he was in prior to the City crew cutting his waterline. He noted the crewmember had left a message advising him to go ahead and call a plumber and the City would reimburse the cost.

It appears the plumber did not replace with like, kind and quality. Thus, an improvement was made even though this may not have been at the respondent's request. Unfortunately the respondent is upset with the City rather than the plumber.

In the dispute resolution category, risk analysts receive favorable comments about the reasons given when it is not prudent to pay a claim or some portion of the claim is disputed.

Recommendation

Use a preferred contractor network. Preferred contractor networks can be instructed to avoid unnecessary improvements and provide a volume discount. Claimants do not have to select a preferred contractor, but many do.

V. WORKERS COMPENSATION CLAIMS

Our analysis included review of City job descriptions, claims-related data, personnel interviews (to gain an understanding of issues and workflow), an onsite claims audit and a review of responses to the claimant survey.

A. POLICIES AND PROCEDURES

The Workers Compensation Program Policies and Procedure Manual contains detailed information about handling workers compensation claims in compliance with Oregon laws and City Human Resources Administrative Rules. The manual includes:

- Workers Compensation Division Section:
 - Contact information
 - Planning calendars
 - WCD claims processing flowcharts
- Confidentiality procedures
- Conflict of interest claims
- Incoming mail procedure
- Claims processing procedures:
 - Initial claims processing
 - Three-point contact
 - Compensability determination flowchart
 - Claims processing procedures
- Fatality Procedures
- Medical Care Organization election process
- Claims file organization
- Claims file out card procedure
- Investigation procedures
 - Common red flags
 - Basic statement
- Claims withdrawal procedure
- Claims file review procedures
- Aggravation vs. new injury procedure
- Own-motion authority reopening
- Inactive claims processing
- Archiving WC files
- Miscellaneous legal memorandum
- Coverage and Course and Scope Considerations
 - Reserve Officers and POEM volunteers
 - Memo on Volunteers
 - Take-home Care Question
- Time loss procedures
- Indemnity check processing procedures
- Reserving and settlement authority levels
- Medical Section
 - Medical abbreviations
 - Medical work elements
 - Repetitive motion/overuse syndrome claims procedures
 - Chemical/toxic claims
 - Hearing loss claims
- Independent medical exam procedures
- Claims file review procedures
- Third-party subrogation procedures
- Bill processing procedures
- Disability management section
- Requesting quarterly reimbursement from the WCD
- Claims closure procedures
- Reconsideration requests
- Calculating interest on benefits withheld while claim on appeal
- Claims denial procedure
- Litigation management
- Multi-forum claims
- Processing settlement agreements

Recommendation

Add the following topics to the Workers Compensation Program Policies and Procedures Manual.

- *Reference to Risk Management Manual, Chapter VII, “Workers Compensation Claims Policies and Procedures” (describing program and bureau responsibilities).*
- *Excess coverage and reporting instructions.*
- *Interface procedures with Loss Control.*
- *Interface procedures with Human Resources.*
- *Job descriptions.*
- *City organization and bureau interface procedures.*
- *Reserves (to add Most Probable Ultimate Outcome evaluation).*
- *Cross Training Schedule (sample shown in Exhibit V-1).*
- *Cost-benefit analysis (for bureau discussions and negotiations).*
- *Diary (to add requirements for claim notes).*

B. STAFF ACCOUNTABILITY

The job descriptions for personnel included in Table V-1, “Workers Compensation Staffing,” generally meet best practices. An exception is that delegation of training activity by the Workers Compensation Risk Supervisor to the Senior Workers Compensation/Disability Analysts should be more clearly defined.

Currently, training responsibilities discussed in “Job Code: 7182, Essential Duties & Responsibilities, Section 3” focus on the needs of bureau representatives, rather than the needs of personnel in the Claims Section.

The “Performance Assessment and Development Program, Management Packet” meets best practices.

Recommendation

Add training responsibilities focused on new employee orientation and cross training to “Job Code: 7182, Senior Workers Compensation/Disability Analyst, Other Duties.”

CITY OF PORTLAND, OREGON
Sample Workers Compensation Cross-Training Schedule

Team Members to be Cross-Trained	Workers Compensation (WC) Work Assignments	Target Completion Dates
<ul style="list-style-type: none"> • Senior WC/Disability Analysts • Claims Examiner(s) 	CLAIMS MANAGEMENT <ul style="list-style-type: none"> • Determine compensability • Medical and disability management • Coordinate external case management activities • Litigation management 	May 5, 2003
	CLAIMS PROCESSING <ul style="list-style-type: none"> • Claims processing/compliance issues • Excess carrier reimbursements 	May 15, 2003
	GENERAL PROGRAM ADMINISTRATION <ul style="list-style-type: none"> • Bureau liaison • Participate in policy development • Integration/coordination of benefits, including benefits counseling • Review work compensation legislation 	May 20, 2003
	DISABILITY MANAGEMENT <ul style="list-style-type: none"> • Process LTD claims • Coordinate job analyses, jobsite modifications and ergo evaluations • Time loss authorization • 7/1 increases • Team consultant on TL issues • Manage Occupational ERTW program • Coordinate job analyses, jobsite modifications and ergo evaluations, as needed • 415/420 Notices, documentation and tracking 	May 23, 2003
	VOC REHAB MANAGEMENT <ul style="list-style-type: none"> • Vocational rehabilitation evaluations • Authorized training programs 	May 27, 2003
	CLAIMS CLOSURE PROCESSING <ul style="list-style-type: none"> • Document preparation • PPD review/evaluations 	May 30, 2003
	CONTRACT MANAGEMENT <ul style="list-style-type: none"> • Request for Proposals • Service Agreement Processing • Evaluate performance • Liaison with vendors 	June 4, 2003

Team Members to be Cross-Trained	Workers Compensation (WC) Work Assignments	Target Completion Dates
<ul style="list-style-type: none"> • Senior WC/Disability Analysts • Claims Examiner(s) • Claims Technician(s) 	CLAIMS SPECIALIST ACTIVITIES <ul style="list-style-type: none"> • 3-point contact • Initial claims processing • Request medicals • Request authorizations to release meds • MCO enrollments, non-compliance and credentialing issues • Legislative and Smothers' decision review and notation 	May 5, 2003
	INVESTIGATIONS <ul style="list-style-type: none"> • Recorded statements 	May 15, 2003
	SUBROGATION <ul style="list-style-type: none"> • Investigation • Election letters • Lien notices • Settlement negotiations 	May 20, 2003
	EAIP <ul style="list-style-type: none"> • Program coordination • Eligibility determinations • Case tracking and documentation • Reimbursement requests • Data collection and evaluation • Program audit 	June 11, 2003
	PERMANENT DISABILITY AND LIFE PAYMENTS <ul style="list-style-type: none"> • PPD installments • PTD and fatal installments • 10/1 retro increases and dependency checks 	June 16, 2003
	QUARTERLY REIMBURSEMENTS <ul style="list-style-type: none"> • Preferred worker program • HWR • Retro/PPD, PTD, fatal survivor benefits • Supplemental disability 	June 19, 2003
	INVESTIGATIONS <ul style="list-style-type: none"> • Assist with recorded statements on routine claims 	June 23, 2003
	GENERAL ADMINISTRATION <ul style="list-style-type: none"> • NOC & recon audits • WCD compliance reports and activities • Special projects • Administrative support 	June 26, 2003

Team Members to be Cross-Trained	Workers Compensation (WC) Work Assignments	Target Completion Dates
<ul style="list-style-type: none"> • Senior WC/Disability Analysts • WC Assistant Claims Technician(s) • Liability Assistant Claims Technician(s) 	NEW CLAIMS SETUP <ul style="list-style-type: none"> • Setup in data system • Create claim file • Generic reserving • Deferral letters • WCD indexing 	May 5, 2003
	CHECK PROCESSING <ul style="list-style-type: none"> • Time-loss check generation 	May 15, 2003
	FINANCIAL TRANSACTIONS AND RECONCILIATION	May 20, 2003
	GENERAL ADMINISTRATION <ul style="list-style-type: none"> • WCD reporting forms • Claims closure letters and form processing • Inactive claims audit • Form letters • Bill inquires • Attorney copies • 415/420 letters • IME scheduling • IME letters and copy work • Copy service billings • Transcription • Archiving • Provide team support • Provide administrative support to team leader 	June 19, 2003

C. TRAINING, EXPERIENCE AND APPLICATION

New employees hired into the Workers Compensation Claims Section are provided with training on how the work is done within the section along with Citywide information, computer training and interface with human resources. New employee orientation meets best practices. We recommend cross training current employees in the Workers Compensation Claims Section.

As shown in Table V-1, “Workers Compensation Staffing,” responsibilities are distributed in accordance with experience.

**Table V-1
Workers Compensation Staffing**

Personnel	Role	Experience
Linda Jefferson, CPDM, CAPP	Workers Compensation Risk Supervisor Supervises the Workers Compensation claims section. Responsible for five employees	City — 15 years Liberty Northwest — 3+ years managing 20+ employees Boise Cascade — 4 years
Chloe Monaghan, CPDM, WC Certified State of OR	Senior Workers Compensation/Disability Analyst Claims handler #20 for pending claims count of 107, compliance issues, Bureau liaison, process long term disability claims, vocational rehabilitation management, PPD documentation for closure with state of OR, contract management	City — 14½ years Lageman Vocational Assessment and Rehabilitation Organization – 3 years
Suzanne Bates, CPDM, WC Certified State of OR	Senior Workers Compensation/Disability Analyst Claims handler #18 for pending claims count of 108, compliance issues, excess carrier reimbursement requests, Bureau liaison, process long term disability claims, vocational rehabilitation management evaluations and authorizations.	City — 14½ years Alexis TPA – 5 years EBI – 10 years Kemper Insurance – 3 years

Personnel	Role	Experience
Viki Bisby, WC Certified State of OR	Workers Compensation Disability Analyst Claims handler #19 for subrogation, inactive claims, prompt contacts, statements, soliciting medical records and wages for Chloe and Suzanne, coordinate job analyses for early return to work program, Employer at Injury Program (EAIP) coordination.	City — 3 years Prior experience Aetna and Travelers
Carolyne Mc Allister, WC Certified State of OR	Claims Technicians Time loss authorizations, 7/1 increases, EAIP reimbursement requests, data collection and program audit, PPD, PTD and Fatal installments, 10/1 retro increases, quarterly reimbursements, investigations, notice of claim and reconsideration audits, WCD compliance reports, ordinance preparation and distribution, special projects, administrative support.	City — 30 years, WC — 10 years
Carol Timper, WC Certified State of OR	Assistant Claims Technician New claim setups, check processing, financial transactions and reconciliation, WCD forms, closure letters, inactive claims audit, form letters, bill inquiries, attorney copies, IME scheduling, letters and copy work, transcription, archiving, ordinance preparation.	City — 2½ years Multnomah County — 3 years

The claims mix is shown in Table V-2.

**Table V-2
Five-Year Claims Mix History**

Case Incurred Cost	Open Claims as of 11/30/02		Closed Claims Injury Dates 1998 through 11/27/02		Totals
	Medical Only	Indemnity	Medical Only	Indemnity	
\$1 to \$5,000	59	64	1,155	331	1,609
\$5,000 to \$10,000	10	27	9	51	97
\$10,000 to \$25,000	2	24	1	37	64
\$25,000 to \$50,000	0	20	0	15	35
> \$50,000	0	9	0	3	12
All	71	144	1,165	437	1,817

Our experience indicates the most effective handling of municipal workers compensation claims results when pending counts are at or below:

- 50 Claims for a risk supervisor with responsibility to supervise five direct claims handling staff members. Pending claim count reductions of 25 claims per additional staff member are needed, reaching zero for staff of seven.
- 135 Claims per Workers Compensation/Disability Analyst (WCDA).
- 100 Claims per subrogation/medical only claims handling staff with responsibility to provide support for WCDA.

Long-term disability claims are not included in Table V-2. The Workers Compensation Claims Section has not been tracking the numbers of long-term disability cases received. Claims activity is completed from a monthly report received from Standard Insurance. Both Senior Analysts make telephone calls to verify disability and process the long-term disability claims. It is estimated to require 20% of their time.

D. PRIOR CLAIM AUDITS AND CLAIMS DATA TRENDS

Bi-annual City internal financial audits, State of Oregon Workers Compensation Division (WCD) Quarterly Claims Processing Performance (QCPP) audits and WCD Employer at Injury Program (EAIP) audits monitor workers compensation claims. These audits, and the quality control activities discussed below, have focused on:

- Investigation timeliness.
- Financial activity and proper coding to bureaus.

- Reserve adequacy and communication with bureaus.
- Interaction with the City Attorney.
- Staff adequacy, supervision and training.
- State of Oregon verifying documentation for Quarterly EAIP Reimbursement requests.
- Statutory compliance.

Overall, prior audits and our audit find the Workers Compensation Claims Section to be well run. Our analysis of claims data finds no adverse trends. The expense ratio (incurred expense ÷ incurred cost) and the litigation ratio (litigated claims ÷ total claims) are favorable compared to the national average, per the National Council on Compensation Insurance (NCCI).

Expense Ratio

Based on the five-year claims data history provided as of 11/30/02, the City's five-year expense ratio for workers compensation claims is:

$$\frac{\$1,665,486 \text{ Incurred Expenses}}{\$9,602,753 \text{ Incurred Loss}} = 17\% \text{ Expense Ratio}$$

The City's expense ratio is below the 20% national average expense ratio per NCCI.

Litigation Ratio

Based on the five-year claims data history provided as of 11/30/02, the City's five-year litigation ratio for workers compensation claims is:

$$\frac{124 \text{ Litigated Claims}}{1,756 \text{ Total Claims}} = 7\% \text{ Litigation Ratio}$$

This is also below the average 10% national litigation ratio per NCCI.

Claims Productivity Ratio

The claims productivity ratio is calculated as:

$$\frac{\text{Claims Closed Less Claims Reopened}}{\text{Claims Received}} = \text{Claims Productivity Ratio}$$

The productivity ratio shown in Table V-3 shows recent years have more claims being closed than received.

**Table V-3
Workers Compensation Claims Productivity Five-Year History**

Period (1)	Number of Claims Received (2)	Number of Claims Reopened (3)	Number of Claims Closed (4)	Productivity [(4) – (3)] ÷ (2) (5)
2002	282	21	448	200%
2001	308	17	337	104%
2000	304	14	272	85%
1999	360	2	329	91%
1998	322	0	75	23%
1998 to 2002	1,576	54	1,461	89%

Recommendation

Update procedures to include monitoring claims productivity on a monthly basis to ensure annual workers compensation claims productivity ratio equal to or greater than 100% continues, as achieved in 2001 and 2002.

E. CLAIMS AUDIT

Appendix B, “Workers Compensation Claims Grading Summary and City of Portland Workers Compensation Claims Review,” provides the details of our claims audit. We provided the audit summary to the Workers Compensation Risk Supervisor. We note findings for the graded claim components in our discussion of claims administration services below.

Claims review grading is based upon a 4-point scale:

- Grade 4 — best practices are met
- Grade 3 — minor deficiencies are present
- Grade 2 — deficiencies likely relate to an increase in claim costs
- Grade 1 — deficiency is noted to have increased claim costs

The grading summary in Appendix B notes the average grade for each claims component, considering all claims reviewed. Each claim is reviewed for each claims component, but not all claims contain every component. Claims are graded only for components present.

Recommendation

Our audit findings are summarized below. We present findings, recommendations and a grade. The City should interpret our grades as follows:

Superior	Average Grade 3.80 or above
Commendable	Average Grade 3.60 to 3.80
Acceptable	Average Grade 3.40 to 3.60
Needs improvement	Average Grade below 3.40

Overall, we rate the City’s workers compensation claims handling as *commendable*. The commendable audit result represents the average grade for all components graded divided by the number of files graded for the component.

1. Hiring and Retaining Staff

The City’s hiring procedures meet best practices. There has been no turnover of key employees in the last two years.

2. Quality Data With Internet Access

The City has a project in progress to make claims information available to bureaus on the Internet, but this is not currently available.

Chapter VIII, “Information Technology,” provides a risk management information system evaluation and recommendations. Current system usage and recommendations for enhancements are discussed here.

Performance for the following claim components is assessed as:

- Claims Data System (CDS)/ Loss Experience Reports Average Grade 3.22 Commendable
- Documentation/File Organization Average Grade 3.50 Acceptable

Documentation in the claim files matches data in the system. File material is braided into claim file jackets, with few exceptions.

Table V-4 provides a summary of RM System issues identified in the claims audit. Usage issues are identified where system capability is present and behavior change is needed. Configuration programming issues are identified where a system enhancement is required.

**Table V-4
Workers Compensation Summary of System Issues**

Issue Identified During Audit	Responses From WC Section (Auditor Comments)
1. Supervision of diary maintenance would improve case status. Diary in system should show contacts, receipts and plan of action as case develops. Diary should show the initiation of the EAIP reimbursement request process.	(Usage issue)
2. Days restricted did not calculate in RM System, Part 2. Correct calculation of restricted days would improve system.	The Days Restricted field is an automatic field that is generated by payments of TPD benefits only. It does not include the number of days of modified work if there was no reduction in wages resulting in a time loss benefit. (Configuration/programming issue, see item 3 below).
3. Consolidation of the Access and RM System would improve the EAIP reimbursement process.	(Configuration/programming issue requires fields added to RM System, Part 2 to record TL start date, TL end date and modified RTW date. Also add fields to record beginning and ending dates for eligibility for wage loss benefit and EAIP reimbursement).
4. RM system would be improved with enhancement to produce hearing calendar and litigation log for management review and tracking of litigation expense with results.	(Configuration/programming issue)
5. Posting City Attorney, Claimant Attorney, investigator, dismissal in legal action, WCB# and legal action date in Part 3 would improve documentation.	(Usage issue)
6. Recommend RM System, Part 1 updates: Status, add "closed by dismissal." Type, use NCCI codes to identify type of disability and add 'NCCI Loss Coverage Code.'	(Configuration/programming issue)

Issue Identified During Audit	Responses From WC Section (Auditor Comments)
7. Documentation of subrogation status in system other than diary would improve documentation. (Consider updating Part 3 for subrogation recovery status and use of NCCI Loss Coverage Codes.)	Currently track subrogation cases in Excel report. (Configuration/programming issue, recommend system update so duplication of entry and maintenance efforts to track in a separate system can be avoided. Should be able to enter in claims system and pull reports from system for management tracking.)
8. Excess reporting schedule should be documented. Documentation would be improved by posting reinsurance information to system record. System would be improved with method of differentiating recoveries: subrogation, state reimbursements, reinsurance or other. Field to enter reinsurer coverage information is needed.	(Configuration/programming issue)
9. MCO selection is recorded in Part 2, Rehab Counselor field. There is room for an MCO selection field in RM System, Part 1, to left of Adjustor Assign field.	(Configuration/programming issue)
10. System would be improved with ability to sort payments by provider, payment code, and date. Current sort is by date. Screen does show totals for each payment category and reserve.	(Configuration / Programming issue)
11. System would be improved by the ability to scroll back to claimant name search from individual claim screens	(Configuration / Programming issue)

Recommendations

Improved supervision to monitor data entry to resolve system usage issues identified in Table V-4.

Work with the City’s Bureau of Information Technology or the external programmer to resolve the configuration/programming issues.

3. Communication With Client (Bureaus)

Performance for the following claims component is assessed as:

- Prompt Contacts Average Grade 4.00 Superior

The bureaus are currently provided claims status information, including:

- Prompt advice of claims received.
- Investigative information as developed.
- Claim evaluations at Quarterly Risk Claim Reviews, as requested.
- Reserve increases of \$25,000 or more.
- Monthly loss experience reports.
- Quarterly reimbursements from the State of Oregon (EAIP) are forwarded to the Bureau for deposit into their budget funds.
- Claim updates, as requested by bureaus.

These procedures provide the bureaus with necessary information to return injured employees back to work and to resolve their claims.

4. Evaluating/Obtaining Settlement Authority

City Charter §1-107, “Fair and Moral Claims,” provides discretionary authority for claim payments up to \$5,000 for claims:

- Barred by Charter exemption.
- Barred by governmental immunity.
- Asserted by employees for the replacement of personal property damaged in the course of performing their employment.

Performance for the following claim components is assessed as:

- | | | |
|---------------------------------|--------------------|----------|
| • Compensability Assessment | Average Grade 4.00 | Superior |
| • Case Finalization/Settlements | Average Grade 3.89 | Superior |

The statutory benefits are paid without ordinance. An ordinance is occasionally used to resolve a disputed claim. However, most claims are paid in accordance with statute and closed.

Recommendation

Continue the ordinance procedure for settlement authority over \$5,000.

5. Disposition Management Program

Performance for the following claims component is assessed as:

- Diary Average Grade 3.06 Needs improvement
(system claim notes and follow-up calendar)

Up-to-date claim notes in the system will be important when the bureaus are provided Internet access to claims data.

Recommendation

Update procedures to require claim notes entry to the system record, including:

- *Pertinent documents and telephone calls received.*
- *Planned claims activity with target completion date(s).*
- *Completed claims activity.*
- *Target closure date.*

6. Management of Claims Funding And Payments

Management of claims funding meets best practices. The City's funding management includes:

- Bureaus are provided with loss information monthly.
- Workers compensation claim audits are completed annually.
- Actuarial studies are completed annually.

Performance for the following claims component is assessed as:

- Payments Average Grade 3.98 Superior

An electronic interface between risk management and City accounts payable is used once the Workers Compensation Section enters the payments. Summary of payments is distributed to the Bureaus every fourth week.

The payment approval process is clearly documented in the claim files. No exceptions to ordinance approval requirements were found.

7. Internal Quality Control Standards

Per staff interviews, the Workers Compensation Risk Supervisor performs quality control by:

- Participating in the Quarterly Risk Claim Reviews.
- Completing a case analysis worksheet on every claim once the compensability determination is made. Follow-up reviews are completed as needed.

Supervisory case analysis provides the analysts with feedback and instruction on claims handling.

Performance for the following claim components is assessed as:

- Excess Reporting Average Grade 3.50 Acceptable
- Supervision Average Grade 3.06 Needs improvement
- Overall Claims Average Grade 3.68 Commendable

Recommendation

Use supervisor reviews to stress the importance of:

- *Entering claim notes into the system diary.*
- *Reporting to excess carriers*
- *Joint litigation planning with cost benefit analysis*

8. Prompt/Focused Claim Investigations

The Risk Management Manual provides instructions to bureaus for:

- **Reporting claims.** Each bureau is to maintain a supply of workers compensation reporting forms.
- **Reporting lost time from work.** Bureaus participate in investigations with the workers compensation claims handler and in litigation preparation with the workers compensation claims handler and the City Attorney Office.

Written workers compensation procedures require:

- Date-stamping all new claims.
- Review by supervisor and assigning to the claims handler with instructions.
- Telephone contact with claimants losing time from work within 48 hours of claims receipt. Attorney representation waives claimant telephone contact when the notice of claim is a lawsuit or letter of representation.
- Mailing letter of acknowledgement within 48 hours for all claims.
- Index Bureau reporting for all claims, which are questionable or involve subrogation or lost time from work.
- Obtaining claimant's authorization to obtain wage and medical information along with medical history of at least five years.
- Obtaining police reports, photographs, witness and claimant statements, medical records and wage information. Statement guidelines are provided.
- Assigning field investigation for investigation of questionable claims, especially when unspecified work stress is claimed.

Procedures for prompt/focused claims investigation are effective. Performance for the following claim components is assessed as:

- | | | |
|-----------------------|------------|----------------|
| • Investigation | Grade 3.96 | Superior |
| • Subrogation/Salvage | Grade 4.00 | Superior |
| • Fraud | Grade | Not applicable |

Written procedures clearly outline steps to be taken to verify and pursue subrogation.

Fraud red flag indicators are covered in the procedures, but no indicators were found in this audit.

9. Claims Exposure Identification

In February 1996, the City Council adopted a revised draft of the City of Portland Loss Prevention Policy under Ordinance No. 169959. The Ordinance addresses the importance of protecting City assets, and directs individual bureaus to develop five-year loss prevention plans.

The Plans include management systems to build an accountability structure, empower employee involvement and continually measures performance.

The Workers Compensation Claims Section contributes to loss control objectives by:

- Providing loss control and bureau personnel with prompt notice of serious claims.
- Coding claimant, location and description detail, claim payment and litigation activity in the claims data system (CDS).
- Providing loss trend reports.

Claims exposure identification meets best practices.

10. Litigation Management Program

Litigation management procedures meet best practices. Performance for the following claims component is assessed as:

- Litigation Management Grade 3.65 Superior

The City Attorney's Office generally reports timely and provides cost-effective services. City Attorney Office fees have increased from \$82 per hour to \$111 per hour in the period 1997 through the current fiscal year. The current hourly rate is less than we normally see.

Recommendation

Request that the City Attorney provide a cost benefit analysis on cases involving litigation budgets in excess of \$5,000. If an issue can be resolved and the denial of the issue maintained through a compromise settlement agreement, the bureau will have an opportunity to consider an alternative approach to litigation.

Discuss the cost-benefit analysis with the bureau during the Quarterly Risk Claims Review, when possible. See Appendix D, "Sample Litigation Joint Disposition Plan and Budget."

11. Evaluating, Setting and Communicating Reserves

Reserve worksheets are actively in use. Performance for the following claims component is assessed as:

- Reserves Grade 3.92 Superior

Exhibit V-2, “Workers Compensation Reserve Analysis,” shows reserve criticisms, recommended changes and rationale.

Recommendation

Review claims quarterly or when notified of significant changes in claim facts and document reserve calculations in the claim file. Close claims timely.

Update written procedures to include guidance for reserving claims based upon Most Probable Ultimate Outcome (MPUO). MPUO analysis includes:

- a. Evaluation of case facts in terms of the benefits the claimant is seeking, along with evidence the claimant is likely to present and defenses available to the City.*
- b. Evaluation of probability for claims handling activity to reduce benefits and bring the case to resolution, with a target date for completion.*
- c. Analysis of how additional claims activity will affect the MPUO should any disputed issues be resolved in the claimant’s favor. Such an analysis requires considering:
 - i) Potential adverse order expected from trial.*
 - ii) Probability of prevailing on the defenses supported by factual evidence.**

Once the MPUO is analyzed, reserve based on the following formula:

- If there is a 75% or greater probability of a favorable outcome, reserve for the favorable outcome plus 25% of the probable adverse outcome amount.*
- If there is a 51% to 75% probability of a favorable outcome, reserve for the favorable outcome plus 50% of the probable adverse outcome amount.*
- If there is a 50% or less probability of a favorable outcome, reserve for 100% of the probable adverse outcome amount.*

This reserving rationale stimulates adequate reserving and puts the City on notice of potential adverse outcomes. The Risk Manager and bureau are given an opportunity provide input for the disposition plan.

**CITY OF PORTLAND, OREGON
Workers Compensation Reserve Analysis**

Claimant: **Gaylord**
 Gerald L **D/Loss: 10/29/2001** **Claim No: 2002012900** **Fleet Services**

Recommendations:

Recommend increasing indemnity reserve to \$35,000. Re-evaluate once SDCA completes cost benefit analysis. Retired 2001. Cost benefit analysis with consideration of full exposure should be completed.

Reserve		Paid	Reserves	Incurred	Recommended Reserves
Analysis:		\$4,805	\$32,525	\$32,525	\$59,139
Claimant:	Jones	D/Loss: 06/26/2002	Claim No: 2002030500		OPDR BLDGS
	James R				

Recommendations:

Claimant attorney rescinded request for hearing and Bureau has Ordered Dismissal 12/5/02.Diary in system should show contacts, receipts and plan of action as case develops. Documentation would be improved by logging attorneys and legal action. System would be improved by hearing calendar capacity and ability to scroll back to claimant name search from individual claim screens. Supervision for diary maintenance would improve case status.

Reserve		Paid	Reserves	Incurred	Recommended Reserves
Analysis:		\$5,595	\$3,569	\$10,501	\$4,906
Claimant:	Weeks Jerry	D/Loss: 11/29/2001	Claim No: 2002015000		Golf Operations

Recommendations:

Recommend reducing expense reserve to \$2,500.

Reserve		Paid	Reserves	Incurred	Recommended Reserves
Analysis:		\$22,289	\$28,874	\$51,163	\$18,111
Totals:		\$0	\$0	\$74,657	\$32,689
Net Change + or (-):					\$10,913

12. Cost Containment Services

Performance for the following claims component is assessed as:

- Medical/Disability Management Grade 3.95 Superior

Procedures meet best practices for obtaining necessary information to verify medical expenses, to verify medical disability and to pay benefits in accordance with statutes. Corvel/Medcheck, Kaiser Permanente and Managed Healthcare Northwest provide contract services.

The City has contracted for cost containment services and services are consistently used.

F. CLAIMANT SURVEY RESULTS

A claims survey was designed to obtain information about claims handling performance and whether voting on City bond initiatives. The survey was sent to 50 claimants. Claimants were selected from claims closed in the past six months. Results are shown in Table V-6.

**Table V-6
Workers Compensation Claimant Survey Results**

Topic	Not Applicable	Very Satisfied	Satisfied	Somewhat Satisfied	Not Satisfactory	No Response	Total
Reporting Ease	0	6	18	1	0	25	50
Prompt Contact	0	4	21	0	0	25	50
Investigation Communication	0	4	19	1	1	25	50
Pay or Deny Explanation	0	4	20	1	0	25	50
Cultural Sensitivity in Communication	3	3	18	1	0	25	50
Payment Timeliness	2	2	19	0	2	25	50
Telephone Inquiry Response	0	4	20	1	0	25	50
Dispute Resolution	3	2	19	1	0	25	50
Safety Issue Explanation	3	2	18	0	2	25	50
Comfortable Without Attorney	0	2	22	0	1	25	50
Response Choice	Not Applicable	Very Satisfied	Satisfied	Somewhat Satisfied	Not Satisfactory	No Response	Total
Effect on Bond Voting	5	2	17	0	1	25	50

Twenty-five workers compensation responses were received.

1. Reporting Ease

There were no negative responses regarding reporting. Six respondents were very satisfied. The satisfied respondents commented the City employees were very helpful.

2. Prompt Contact

None of the respondents reported dissatisfaction with how quickly they were first contacted.

The audit also found 100% compliance with prompt contact procedures.

3. Investigation Communication

One respondent was somewhat dissatisfied with the timeliness of the investigation. One was dissatisfied with timeliness and the investigation result.

Recommendation

Actively follow up with claimants to keep them posted on investigation progress.

4. Pay or Deny Explanation

All respondents were satisfied with explanations regarding acceptance or denial of their claim. Four were very satisfied.

5. Cultural Sensitivity in Communication

One respondent checked the somewhat satisfied response. Comments indicate the respondent thought the question was unusual. None of the respondents reported negatively about communications received from the Workers Compensation Section.

6. Payment Timeliness

Two respondents were dissatisfied with the overall time it took to get their disability paid. The comments indicated the claims had been under investigation during the delay. One expressed dissatisfaction because she was paid by the bureau and then finally paid by the Workers Compensation Claims Section. Subsequently she had to pay the City back for the duplicate payment.

Recommendation

Maintain contact during the investigation and make every effort to meet target completion dates indicated to provide payment or timely denial.

7. Telephone Inquiry Response

No respondents were dissatisfied with how quickly their telephone inquiries received a response. One was somewhat satisfied. Twenty were satisfied and four were very satisfied.

8. Dispute Resolution

No respondents were dissatisfied with dispute resolution.

One respondent was somewhat satisfied and noted there had been delays in investigation to resolve the dispute.

Recommendation

Keep claimants informed of plans to obtain information and following up on target dates.

9. Safety Issue Explanation

Two respondents were dissatisfied with the City's attention to safety. Details were not provided.

Recommendation

Update procedures, as noted in Section A above, to include interface procedures with loss control. Safety issues should be brought to the attention of the bureau involved, the loss control Risk Specialists and the Risk Manager.

10. Comfortable Without Attorney

One respondent retained an attorney and noted their claim was paid once the attorney became involved. Two respondents were very satisfied. Twenty-two were satisfied.

11. Effect on Bond Voting

One respondent advised negative voting intentions. Five respondents reported claims handling did not affect their voting decisions. Two reported it is very likely they will vote positively in a bond election. Seventeen reported voting for a bond as likely.

G. HUMAN RESOURCE AND WORKERS COMPENSATION COORDINATION ISSUES

The question of whether the Workers Compensation Claims Section should be transferred to Human Resources from Risk Management was reviewed. The City Charter clearly defines the Risk Manager's role as overseeing commercial and self-insured activities. Workers compensation is self-insured.

The Workers Compensation Claims Section interfaces with the loss control Risk Specialists, Occupational Health Nurse and the Liability Claims Section. These interfaces are best handled under the direction of the Risk Manager. These interfaces are important to resolve safety issues, medical management issues, global settlement issues and subrogation issues.

Recommendation

Keep the Workers Compensation Claims Section in Risk Management and improve coordination of benefits between the Workers Compensation Claims Section and Human Resource by developing a task force to address interface issues. Then, update policy and procedure manuals for both organizations and provide training to involved personnel.

For instance, the Human Resources Benefits Manager reported employees are using their group health pharmacy card to purchase prescriptions related to workers compensation claims. To resolve this issue, the task force should:

- a. Assess the size of this problem to determine whether it warrants dedicating City resources to a resolution. The Human Resources and Workers Compensation Claims Section task force can mitigate and assess the size of the problem by:***
 - i) Advising employees the Health Fund is a separate benefit and it is their responsibility to keep their workers compensation benefits separate. This communication can be part of the initial workers compensation benefit notice package.***
 - ii) Ask employees to review their records for workers compensation related pharmacy purchases, which appear to be incorrectly charged to the Health Fund per review of the pharmacy list. This communication can be sent by Human Resources Benefits personnel to advise the employee about responsibility to keep workers compensation and Health Fund purchases separate to preserve Health Fund availability. The communication should advise that reimbursement requests submitted to Workers Compensation Claims are subject to a compensability determination prior to payment. The size of the problem can be assessed based on employee responses.***

- b. In the event the problem continues or is larger than can be addressed through the above approach, consensus between the Labor Management Committee, Risk Manager and the stakeholders will be required to assess feasibility of the solution proposed by the City Benefit Manager. The proposed solution includes:***
 - i) Agreeing upon a percentage of medical payments to be reimbursed from the Workers Compensation Fund to the Health Fund. The percentage could be based upon the pharmacy to medical expense ratio determined by the State of Oregon Department of Consumer and Business Services “Medical Payments in Workers Compensation System, First Quarter 2000,” published July 2001. The reported pharmacy to medical expense ratio per this publication was 5.5%.***
 - ii) Identifying claims with this problem. Workers compensation pharmacy expense being charged to the Health Fund only occurs on claims in which the employee elects the non-HMO provider as the MCO.***

iii) *Agreeing upon a formula for reimbursement, such as: (Total medical expense less pharmacy expense paid) × Agreed upon reimbursement % = Reimbursement amount).*

Additional research to determine the frequency of the “Medical Payments in Workers Compensation System” publication is needed.

The first approach above is advantageous, as eliminating the problem avoids using ongoing City resources to solve a problem, which employees can prevent. The second approach streamlines activities necessary to solve the problem, but may not be an accurate solution.

VI. SELLING CLAIM SERVICES TO OTHERS

The City is contemplating selling claim services to others. Based upon our liability and workers compensation claims analysis and interviews of the Risk Operations Risk Supervisor, General Services Director/Acting Risk Manager, Human Resources Benefits Manager, Office of Management and Finance and review of the City Charter, Risk Management Manual (Draft), Oregon Revised Statute Chapter (ORSC) 190, “Cooperation of Governmental Units...,” selling claim services to others is feasible.

This chapter presents our findings.

Recommendation

We recommend our findings be reviewed with the Risk Manager, City Attorney and Office of Management and Finance prior to proceeding with selling claim services to others.

A. CITY CHARTER AND CONTRACT CONTENT

ORSC 190.010 defines the “Authority of local governments to make inter-governmental agreement.” It states, “A unit of local government may enter into a written agreement with any other unit or units of local government for the performance of any or all functions and activities that a party to the agreement, its officers or agencies, have authority to perform. The agreement may provide for the performance of a function or activity:

1. By a consolidated department;
2. By jointly providing for administrative officers;
3. By means of facilities or equipment jointly constructed, owned, leased or operated;
4. By one of the parties for any other party;
5. By an inter-governmental entity created by the agreement and governed by a board or commission appointed by, responsible to and acting on behalf of the units of local governments that are parties to the agreement; or
6. By a combination of the methods described in this section.”

B. PROSPECTIVE CLIENTS AND EXPECTATIONS

Prospective Clients

The City has narrowed prospective clients to self-insured municipalities in Oregon. This target market is desirable because the City's goal is to spread claims administration costs across a greater number of clients, thereby achieving economies of scale for City taxpayers and prospective clients.

The prospective clients, being other cities, will have expectations for claims service and expenses, which are similar to the City's expectation.

Marketing Expectations

There are three primary considerations in marketing the City's liability and workers compensation claim services. These are:

1. Answering Requests for Proposal (RFP)

The "answering RFP" approach involves communicating with prospective clients to express an interest in submitting a proposal when liability or workers compensation claim proposals are sought.

Once an RFP is received, the City should:

- a. Review the RFP.** We recommend interviewing the prospect to verify the RFP is understood and to determine the prospective client's:
 - **Claims Philosophy.** This determination will require interviewing the prospect to determine whether the prospect shares the City's commitment to provide timely and fair claim services. The interview questions should assess:
 - i) **Reasons for satisfaction or dissatisfaction with the claims administration service provider being replaced.** Asking the prospect to share evaluation of claims related experiences will contribute to the assessment.

- ii) **Value placed on claim services requested.** Assessing this requires:
 - Reviewing services requested.
 - Evaluating the emphasis placed on pricing.
 - Comparing the City’s current policies and procedures to those of the prospect.
- iii) **Staffing needs.** Review five years of claims data history.
- iv) **Adequacy of the time allowed for planning and executing the transfer of claims handling responsibility.** There should be adequate time to:
 - Get to know the new client’s policies and procedures.
 - Complete claims data system mapping and download.
 - Hire and train necessary new staff members.
 - Inventory new claims and alert the client to any problems and recommended solutions.
- v) **Determine City’s eligibility for approval by the prospect’s excess carrier.** Will an audit by the excess insurer be needed to approve the City? If so, who will pay for it? What will it entail?

b. Answer the RFP. We recommend including in the proposal all information requested, organized as requested.

Answering the RFP will likely require:

- i) **An overview of the City’s claims administration programs.** We recommend having key staff member biographies and resumes ready.
- ii) **References.** We recommend providing key bureau, City Attorney Office, long-term service provider and state agency contact information ready.

- iii) **Claims administration approach.** We recommend having policies and procedures up-to-date and ready to present.
- iv) **Office location.** We recommend showing a map of locations currently serviced and presenting your approach to servicing their locations.
- v) **Approach for managing funding.** We recommend clearly setting forth the banking arrangement (positive pay checking accounts are best), cost of check stock, and responsibility for payments reconciliation against the loss data and bank statements.
- vi) **Approach to quality control.** We recommend being prepared to disclose prior audits and evidence showing all issues are being addressed.
- vii) **Approach to staffing and staffing dedication commitment.** We recommend using the “how we get things done” format from the workers compensation manual edited to “how we’ll get things done for you.”
- viii) **Pricing (see also next section).** It will be necessary to describe in detail all claims administration fees to be charged, including:
 - ix) **Time and expense.**
 - x) **Life-of-claim flat administration fee.**
 - xi) **Life-of-contract flat administration fee.**
 - xii) **Record entry and or monitoring claims fee (for medical only claims).**
 - xiii) Outline fees not included in administration fees, such as fees for check stock, information technology, field investigations, nurse case management, HCO management, integrated disability management, data transfer, file storage, subrogation, OSHA Log maintenance, loss control service, risk management service, system programming for special reports.
 - xiv) **Insurance coverage documentation or proof of capacity to self-insure.** Proof of the following is generally required: a certificate of insurance or self-

insurance for workers compensation, general liability, professional liability, automobile liability and fidelity coverage. Minimum required liability insurance limits or financial capacity are usually \$1,000,000.

- xv) **Contract.** Be prepared to provide a sample contract.

A disadvantage of this marketing method is new business revenues may not offset the expense of preparing proposals.

Recommendation

Our experience with public entities that market services to other public entities is that careful selection of prospects maximizes the success rate. Compatibility based upon factors v, vi, and vii above should be carefully considered when selecting prospects.

2. Cost Comparison Between City Administrative Services and Competing TPAs

We compared City Administrative Service costs and fees charged by TPAs known to compete for business in Oregon. Results are in Table VI-1. We used the advertised prices of competing TPAs, per the following Web site: www.employerhealth.com/EHR_sample_pages/dpstpa.htm, last modified by Work Loss Data Institute on March 21, 2003. Fees shown are similar to those we see quoted by other TPAs.

**Table VI-1
Third-Party Administrative (TPA) Service Fees**

WC TPA	Medical Only Price Per Claim (a)	Indemnity Price Per Claim (b)
ESIS	\$65	\$3,000
Tristar (formerly Firm Solutions)	50	1,500
NATLSCO	110	1,400
Cunningham/Lindsay	50	1,800
Pinnacle	100	1,100
AIGCS	115	775

It is the bulk medical only claims processing with pending ranging from 250 to 300 claims that allows TPA pricing for medical only claims at \$115, or less. The City provides similar investigation and medical management service for medical only and indemnity claims. This approach is considered superior to the bulk processing of medical only claims used by competing TPAs. This approach limits claim payments to injuries occurring at work. ***Considering the advantage of this approach, the City's unit cost discussed in Section C below of \$1,530 compares favorably to the pricing of competing TPAs.***

TPA pricing for liability claims administration services is based on \$65 per hour plus expenses. Considering the average claim is resolved in 10 hours, the average price to resolve a claim is \$650. The City's unit cost for liability claims discussed in Section C below is \$561. ***Liability claims unit cost compares favorably with pricing by competing TPAs.***

3. Staffing Expectations

Other city clients may desire a change of claims personnel. Current Human Resource rules allow for transfer of employees between task assignments by management when the reassignment does not affect wages or employment classification

As other city clients are added or elect to transfer their claims program to a different TPA, the City will need to expand and contract claims staff. Temporary employees can be hired with renewable contracts. However, employment practices issues arise when union represented employees allege the City is redirecting work from their job classification to temporary employees, especially when temporary employees are being treated the same as permanent employees. The temporary employees may also allege they should be granted permanent employee status with retroactive tenure. Unions do represent the Technicians and Assistant Technicians.

At this time, the Liability Claims Section has no unused capacity to handle additional claims. We have recommended reduction of pending claims through increased productivity and cross-training.

The Senior Analysts, Analyst and Technician in the Workers Compensation Claims Section are estimated to have unused capacity for 60 indemnity claims and 100 medical only claims. Therefore, an inter-governmental agreement with a city having a claims count of 60 indemnity and 100 medical only, or less, could be absorbed with no addition to staff (assuming RM System enhancements are successfully implemented to streamline litigation and eligibility for EAIP reimbursements tracking).

Recommendation

Enter intergovernmental agreements for periods of three years rather than one-year to minimize staffing volatility.

This staffing analysis assumes RM System enhancements and cross-training recommended in Chapters IV and V are completed to:

- *Free up current claims staff capacity to handle greater claims volume by completing system updates to streamline claims handling procedures related to litigation monitoring and EAIIP reimbursement requests.*
- *Prepare claims staff to train new employees and cross-train existing employees to meet the needs of new clients.*

C. CURRENT ALLOCATED OVERHEAD AND VARIABLE COSTS

Operating and variable costs for liability and workers compensation claims, as provided by the City, are:

- Per employee office set up and supplies per year: \$10,952
- Per employee fringe benefit package: 18,757
- Per employee salary estimate 45,000
- Estimated annual cost per employee \$74,709

Our calculation of the estimated unit cost per claim for liability claims adjusting is shown in Table VI-2.

**Table VI-2
Liability Unit Cost**

Description	Cost
A. Estimated annual variable cost (\$74,709 x 6)	\$448,254
B. 50% Risk Management Allocated Overhead, per Summary of Division Budget	\$137,120
C. Sum variable cost and overhead = (A + B)	\$585,374
D. Average liability claims per year based on five-year history	1,044
E. Liability unit cost including overhead = C ÷ D	\$561
F. Liability unit cost excluding overhead = A ÷ D	\$429

Our calculation for estimated unit cost per claim for workers compensation claims adjusting is shown in Table VI-3.

**Table VI-3
Workers Compensation Unit Cost**

Description	Cost
A. Estimated annual variable cost (\$74,709 x 5.6)	\$418,370
B. 50% Risk Management Allocated Overhead, per Summary of Division Budget	\$137,120
C. Sum variable cost and overhead = A + B	\$585,374
D. Average workers compensation claims per year based on five-year history	363
E. WC unit cost including overhead = C ÷ D	\$1,530
F. WC unit cost excluding overhead = A ÷ D	\$1,153

Recommendation

Use the unit cost including overhead, plus the costs of recruiting, training, and travel expenses, to determine per claim pricing.

VII. RISK MANAGEMENT ORGANIZATION

The Risk Management Division expects to incur about \$10.2 million in costs in FY03. While this is a small part of the City's total FY03 budget, it is a significant and controllable expenditure. This expenditure, referred to as the City's cost of risk (COR), is broken into components as shown in able VII-1.

**Table VII-1
FY03 Cost of Risk**

COR Component	FY03 Cost (000s)
Incurred claims	\$7,471
Insurance	954
Operating expenses	1,818
Total	\$10,243

This Chapter discusses risk management organizational issues designed to assist the City stabilize and reduce it's COR.

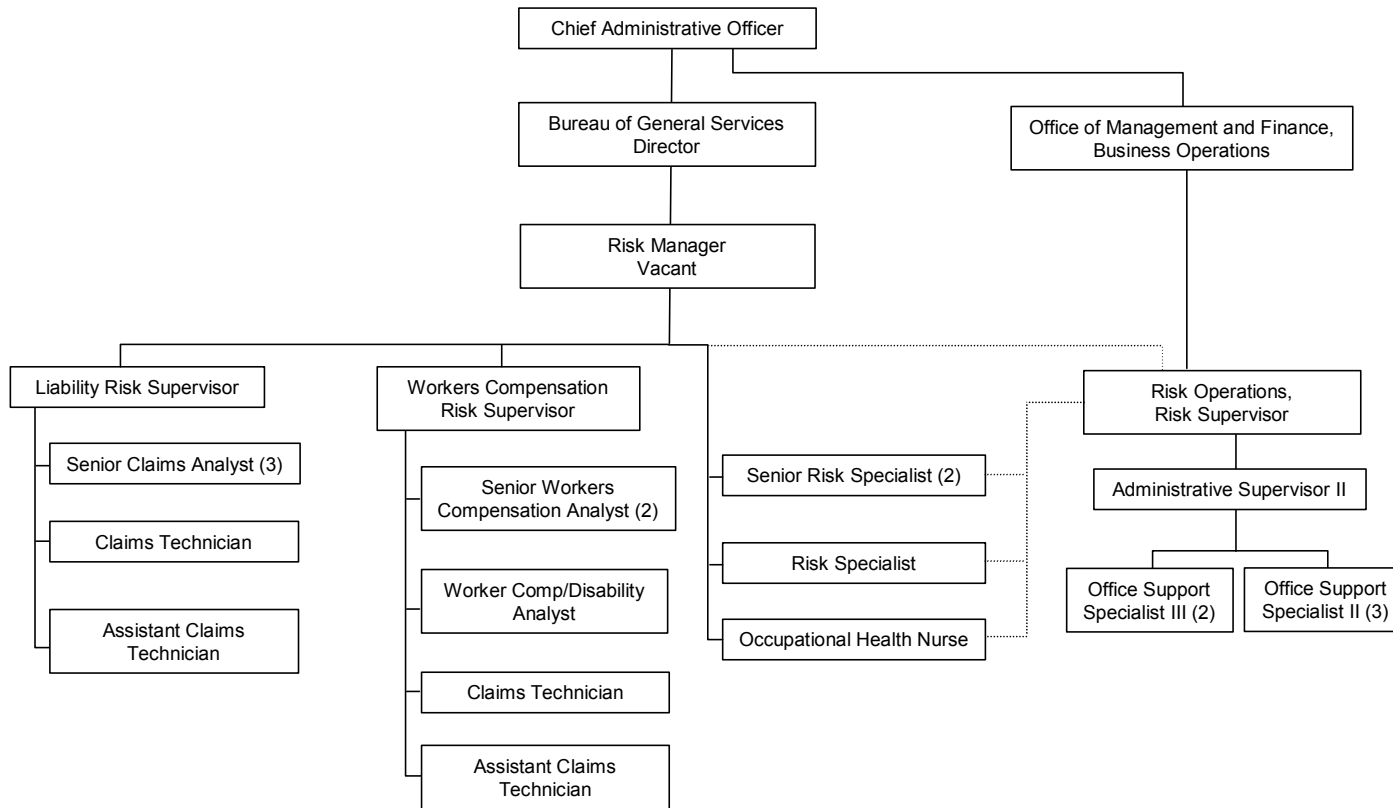
A. RISK MANAGEMENT REPORTING RELATIONSHIP

The current risk management organizational structure is shown in Exhibit VII-1. As shown, the Risk Manager reports to the Director of General Services.

There have been many changes in the risk management program over the last five years. We judge the most important organizational changes to be:

1. The Risk Manager now repots to the Director of General Services.
2. The Risk Operations Risk Supervisor reports to the Business Operations Manager, Office of Management and Finance (OMF), Budget Operations, not to the Risk Manager.
3. The Loss Prevention Risk Supervisor position was eliminated.
4. Employee Benefits has been moved from Risk Management to Human Resources.

**CITY OF PORTLAND, OREGON
Risk Management Organization Structure**



Note: Number in parenthesis is number of positions authorized, if more than one.

We learned of no major changes planned in the Risk Management Division. While changes are likely in City operations, none would have a fundamental affect on the Risk Management Division's organizational structure.

For the Risk Manager to have the greatest ability to control the City's COR, the position must:

1. Be placed sufficiently high in the City's structure to show the importance the City attaches to the function.
2. Report to someone sufficiently high in the organizational structure to lend significant support, when need.

Based on the Risk Management Division's role, budget size and location within General Services, we believe the current placement of the Risk Manager and the Risk Management Division are appropriate. Reasons include:

1. We believe the Director of General Services is concerned about risk management and provides strong support and guidance.
2. Risk management is a type of "general service" which is provided from a central location to all City bureaus.
3. At times, we see risk management placed in such units as human resources and the city or county (as the case may be) attorney's office. We find this provides support for the particular office's specialty but not the well-balanced support received as part of general services. For example:
 - a. Human resources might do well with workers compensation issues but less well with liability and property issues.
 - b. The attorney's office may do well with legal and claims issues but less well with insurance and risk financing issues.

Other changes recommended to the current structure are discussed below.

B. RISK MANAGEMENT DIVISION ORGANIZATION

As shown in Exhibit VII-1, there are currently 24 positions organized into four functional categories providing risk management services. Important organizational points to note are:

1. The Risk Operations Risk Supervisor reports to OMF, not to the Risk Manager.
2. All four loss control personnel report to the Risk Manager.
3. The Risk Manager position is vacant.
4. Claims are currently organized into two sections.

Previous chapters discussed the structure of the Loss Control and Claim Sections. This discussion focuses on Risk Operations.

Risk Operations handles many functions, including:

1. Preparation of budgets and related financial reports.
2. Preparation of the annual Risk Management Report.
3. Maintenance of the risk management information system (RMIS).
4. Operation of the cost allocation plan.
5. Input to the City Attorney on insurance and indemnity clauses to use in contracts.
6. Insurance purchasing.
7. Oversight of the outside actuary and other elements of the risk financing program.

If the Risk Operations Risk Supervisor reports to OMF, he will receive strong guidance on items one and two above and must coordinate with the Risk Manager on items three through seven. If the Risk Operations Risk Supervisor reports to the Risk Manager, the opposite will be true.

We recommend the Risk Operations Risk Supervisor report to the Risk Manager. We believe this will result in the Risk Operations Risk Supervisor receiving the best level of direct guidance for the broadest range of functions for which this position is responsible. It will also give the Risk Manager greater flexibility in coordinating the roles of all those now executing risk management functions.

The Risk Operations Risk Supervisor purchases the commercial insurance obtained by the City (except coverages for the owner controlled insurance program). Effectively purchasing insurance requires an understanding of:

1. The City's loss exposures and the potential losses that could occur.
2. Actuarial loss projections so the City can obtain the lowest long-term cost, considering both insurance premiums and losses retained below deductibles.
3. Commercial insurance products.
4. The insurance brokerage community.
5. Procurement regulations.
6. Activities the City takes to control losses, so these activities can be communicated to insurers.

We believe the Risk Operations Risk Supervisor has the requisite understanding of the above issues, due to both the placement of the function and the experience of the individual now holding this position. We believe placement of the insurance purchasing function is appropriate and will be enhanced if the Risk Operations Risk Supervisor reports to the Risk Manager.

We recommend combining the Workers Compensation and Liability Claims Sections under one Claims Manager, who should report to the Risk Manager. The WC Risk Supervisor has experience managing large claim organizations, has demonstrated organizational and delegation skills and is recommended as a candidate for such a position. A successful transition will require:

- Keeping the Liability Risk Supervisor in a leadership role to support the claims manager as this candidate does not have prior liability experience.
- Hiring a Risk Manager who has a strong liability claims background to provide guidance as needed to the claims manager.

Advantages of consolidating the Workers Compensation and Liability Sections include:

- Ability to cross-train Claims Technicians and Assistant Claims Technicians to provide both sections with support.

- Ability to have one Claims Manager responsible for the claims operation to provide bureaus and potential clients with consistent claims services by ensuring the entire claims staff is:
 - i) Provided cohesive objectives
 - ii) Provided an up-to-date procedure manual
 - iii) Provided performance appraisals based upon how well procedures are followed and objectives are met.
 - iv) New hires are selected to meet overall claims section needs.

C. CITY CODE

City Code Section 3.15.080 B2.a. states there will be a Division of Risk Management and sets forth it's responsibilities. In general the Division of Risk Management is to:

1. Coordinate and control the administrative and technical activities relating to commercial and self-insurance, including property, workers compensation, liability and subrogation.
2. Evaluate, approve or disapprove, on behalf of the City, all applications for self-insurance programs in lieu of commercial insurance requirements of contracts.
3. Manage workers compensation claims administration.
4. Act on behalf of the City on all matters related to workers compensation not specifically delineated in City Code Section 3.15.080.
5. Investigate complaints of discrimination filed with the Civil Rights Division of the Oregon Bureau of Labor and Industries or the Equal Employment Opportunity Commission.
6. Investigate and enter into settlements on fair and moral claims that are not covered by insurance, for which the Committee on Claims, under Chapter 3.72, has established guidelines.
7. Obtain a public liability insurance policy or provide the necessary funding through a self-insurance program, with limits of not less than the maximum statutory limits imposed on municipalities of the State of Oregon.

We note that the Division of Risk Management is to, among other functions, “coordinate and control the administrative and technical functions relating to commercial and self-insurance” and “obtain public liability insurance or...” These two functions are now handled by the Risk Operations Risk Supervisor. The change described in the preceding sections will align risk management functions with the City Code.

We believe the role assigned to the Risk Management Division by the City Code is appropriate.

D. EXECUTIVE RESPONSIBILITIES

The Director of General Services provides significant oversight and support to the Risk Manager. This is particularly true at present, as the Director of General Services is the acting Risk Manager.

The Mayor, who is the Commissioner with whom the Chief Administrative Officer (CAO) interacts the most, and the CEO now participate in one or two risk management events each year. We understand these events typically address loss control issues. Other governmental entities have found these events to be beneficial. We recommend they be continued.

We believe two changes will better involve the CAO and Commissioners to help reduce the City’s COR:

1. The Risk Manager should submit to the Commissioners an annual report that is more concise than the FY01 report. We believe the most effective reports, for presentation at the Commissioner level, are three to five pages, a portion of which are charts, tables or graphs. Longer reports are not likely to receive thorough review by Commissioners.

The annual report should contain:

- a. The City’s COR and how it has changed over the preceding five years. COR should be shown as a dollar amount and as a percent of the City’s budget. This will show the magnitude of risk costs and the results of efforts to control this cost. The COR should be the amount the City expects to incur each year.
- b. Major objectives for the coming year. These should be concrete actions that will show the Commissioners what the Risk Manager plans in the next year to control costs.
- c. Major risk management events for the coming year and the role of the Commissioners in those events (see below).

- d. Major accomplishments in the preceding year.
2. The CAO should discuss with bureau managers changes in their losses and risk cost allocations. These discussions should focus on reasons for cost increases and decreases and should encourage cost control efforts. Ideally, these discussions could also become part of each bureau manager's annual review.

VIII. INFORMATION TECHNOLOGY

A. INTRODUCTION

This section of our report provides commentary and recommendations related to the use of technology and information as part of the risk management program. In this regard, our principal conclusions are:

1. The City should define and communicate a formal risk information strategy to aid the alignment of the Risk Management Division with the City's key services bureaus and to enhance the process by which information is shared and valued.
2. We have evaluated the current system against a definition of "an industrial-strength application." *This is an application:*
 - *To which significant financial commitment is made on an annual, recurring basis.*
 - *For which full documentation of a system, user and architecture nature exists.*
 - *For which a multi-person, broad skill set support structure with formal escalation and fixed procedures is deployed.*
 - *For which functionality is reviewed on a frequent and recurring basis to ensure current and future needs are met.*
 - *For which data protocols, integrity and audits are undertaken.*
 - *For which supply contracts are available and valid.*
 - *For which comprehensive contingency plans have been developed and tested.*
 - *For which a three- to five-year product management development and enhancement plan is produced.*

Our observations are:

- a. The current claims administration system is capable of continuing to meet the City's internal requirements, is well developed and

provides an adequate platform for incremental enhancement. As such, the current system is a suitable platform for the City for the next three to five years, assuming the City remains involved solely in the administration of its own claims.

- b. The current system is not an “industrial-strength” application and may become cost-ineffective and obsolete as technology evolves. We envisage this situation arising over the next three to five years. Externally developed, commercial solutions exist and could offer significant enhancement in functionality, while meeting all current requirements.
 - c. The lack of “industrial-strength” characteristics within the current system is a significant barrier to the concept of the City providing claims management services to external entities. If the City wishes to pursue this business stream, it is appropriate to plan to replace the system with an externally developed commercial solution.
3. The Risk Management Division is exposed to three key dependencies at the present time, and plans to eliminate these dependencies should be formalized and accelerated.
 4. The City’s Information Technology strategy presents opportunities and threats for the Risk Management Division, and the management of the relationship between the two Bureaus will become a critical item.
 5. The City will need to consider and address a series of issues (as identified in detail in Section F of our report) that will be critical to the future success of any efforts to generate revenue through the provision of claims administration services. At this stage, the City does not have an appropriate technological platform or strategy in this regard and, as such, will not be competitive in the market.

B. RISK INFORMATION STRATEGY

The City’s use of technology and information within the risk management program is of a tactical nature, and we recommend that the City adopt a formal risk information strategy that positions this activity for the next three years. We propose the following strategic statements to apply for the 2003 to 2006 period:

- The City will adopt a formal risk information strategy that supports the broader mission statement of the Risk Management Division and that aids the overall achievement of high-quality public services by the City.

- The City will collect, collate and communicate information relevant to risk management performance and opportunities using cost-effective and proven technological applications.
- The City will select and implement applications that meet the information technology strategy and protocols of the organization and that can be sourced and supported either internally or externally in industrial-strength fashion.
- The City will ensure the maximum empowerment of system users within the Risk Management Division to limit dependence on the Bureau of Information Technology and to enhance the quality of service provided to customers (i.e., the City's own service bureaus and, potentially, external entities).

C. THE CITY'S CLAIMS ADMINISTRATION SYSTEM

General Comments

The City has a claims administration system deployed within the Risk Management Division. The system is developed using Visual Basic as the user interface and SQL as the database. The table structure appears stable and comprehensive. *The system is technologically and functionally sound and meets the current and short-term requirements of the City, as now defined. The system is certainly one of the most impressive internally developed applications we have reviewed.*

Other software used within the Risk Management Division includes standard Microsoft applications (i.e., Windows NT, Windows 2000, Office 2000 and Access 97). *These applications clearly represent 'best of breed' software.*

The system data is maintained on a dedicated server supported by the Bureau of Information Technology and is backed-up daily to server and tape. The tape version of the data is maintained offsite. There is a dependence on a single PC in the Risk Management Division for data uploads, although this is a short-term and non-critical issue.

The City has reviewed the external claims system market and reached the following conclusions:

1. Available functionality would not meet the City's specific requirements.

2. The application services provider (ASP) solution model would not be cost effective.

We do not agree with these conclusions and suggest that during the time that has elapsed since the City's last consideration of external providers, the market has developed significantly. A number of external providers are able to meet the City's short- and long-term functional needs from their base system applications, and are able to deliver ASP solutions very cost effectively when structured as medium- to long-term business risk technology partnerships. Some of the City's peers have successfully implemented such a model, and others are now in the vendor selection phase of this process.

We recommend the City review informally two to three leading external solutions as a precursor to a potential Request For Proposal process. We recommend this activity be undertaken in the near future, prior to the implementation of the Web-reporting functionality within the existing system, and we refer to additional comments made in Section F below of our commentary on information technology. We anticipate external system costs to be in the region of \$60,000 per year, and consider budgetary stability, functionality enhancement and longevity of contract with a supplier to be achievable.

It is noted that during the RIMS 2003 Convention, we provided informal recommendations of two leading ASP claims management system suppliers (and senior management contacts) to the City Risk Operations Supervisor. The two firms identified, Computer Sciences Corporation and Valley Oak Systems, would likely be included in any formal vendor review undertaken on behalf of the City, but additional options exist in the market. The provision of a full market review and vendor recommendation is not within the scope of our current engagement with the City.

Data Quality

Data is populated in the system through manual input by claim adjustors supported by data exchanges with other City applications (i.e., the human resources database to provide pre-fill capability for workers compensation claimants). Data interfaces exist with other applications and are stable (failure rate is low) and the automated production of these interfaces is an efficient means of operation. ***We recommend the City implement formal data audits and integrity reviews to ensure ongoing correct mapping and validation. This may be achieved by an annual diagnostic review of the database and structure by an independent external firm.***

Functionality

System security is set at a user level and is driven by modular access. This is an appropriate approach given current usage and user numbers.

The system is organized as a series of functional modules that are ***broadly consistent with the structure of most claims administration systems:***

- Workers compensation
- Liability
- Subrogation
- Vehicle accidents
- System report

We note the relative strength of the claims administration functionality within the system as compared to the policy and exposure recording, which is rudimentary. This may require enhancement at a later date, if necessary to automate the allocation process and to more broadly provide data support for loss control and other tasks.

Screen layouts/designs have been coordinated with end-users. The user community appears satisfied with the current application.

In the claims section of our report, we have identified a series of user-level functional enhancements that are achievable within the current system, and that we believe would aid the City's claims administration process. Below we recommend additional enhancements of a more generic nature.

The diary capability within the system is not widely used by the claim adjustors. ***We recommend this area of functionality be reviewed and enhanced with inclusion of workflow and supervisory functionality if cost effective. We anticipate operational savings through such an exercise.***

The system does not have any document management (file attachment) capability, and ***we recommend that this be implemented. The technology now deployed presents an opportunity for the City to achieve this cost effectively. This would allow users to maintain at the claims-record level an e-file of all Word and other associated documents used for the loss (and drawn from the library of templates that is maintained outside the system).***

The system is used to directly produce checks for claimants (it is noted that the City Accounts Department produces checks for vendors outside the system). Check payment information does not appear in the system until a reconciliation process with the Accounts Department is completed. This process can take a period of seven days. ***We recommend that the timing of this process be enhanced to improve efficiency.***

Reporting (analytics and outputs) is an area of the system that is presently the focus of a development effort. The current process involves some automated and some manual production reports. The project that is in progress will move the functionality from

Crystal Reports to Crystal Enterprise and will eliminate, in theory, the need for all ad hoc reports to be produced by a single staff member. *We recommend the Web-reporting project continue and be used as a forum and opportunity to derive a standard report suite and report distribution strategy.*

The current scope of the Web-reporting project with the planned capability to distribute reports to a Web site in PDF format, and to progress towards graphic- and Excel-based outputs is an important step. It is relevant to note that the functionality being developed in this regard can potentially be deployed as a bolt-on module to some of the external claims system products that we recommend the City review and, as such, the completion of this project will not involve unnecessary expense.

Table VIII-1 presents our best practice report categorization listing for City consideration.

**Table VIII-1
Report Categorization**

Report Category	Report Title / Function
Policy and Program Analysis	<ul style="list-style-type: none"> • Policy aggregate tracking • Policy loss statistics
Organization Structure Maintenance	<ul style="list-style-type: none"> • Risk profile surveys
Exposure Identification and Classification	<ul style="list-style-type: none"> • Exposure details • Exposure summaries
Cost of Risk Allocations	<ul style="list-style-type: none"> • Allocations
Risk Control and Investment Analysis	<ul style="list-style-type: none"> • Part of body, nature of injury, nature of accident • Accident rate and frequencies • Severity distributions • Benchmarking • Ranking
Claims and Loss Management	<ul style="list-style-type: none"> • Claims detail analysis • Report lags • Reserve analysis • Adjusting patterns • Large losses
Risk and Business Financing Analysis	<ul style="list-style-type: none"> • Loss layering • Loss triangles • Financial comparisons

D. DEPENDENCIES

The use of a custom-developed claims administration system, and the process of system support within the Risk Management Division, have combined to create three dependencies we consider to be of note and concern:

1. There is an intellectual dependence on the Risk Operations Risk Supervisor who was the creator of the initial system design some 20 years ago and who has been the coordinator of all system enhancement since that date. Our specific concern is that the system design and enhancement has been internally driven and has lacked comparison with external applications and current best practice functionality.
2. There is a technical dependence on the sole external contractor who has been involved with the system since its initial design. We are aware that a process of knowledge transfer to the Bureau of Information Technology has commenced, but our specific concern remains that the quality of technical knowledge transfer is dependent in large part on the desire of the system creator to provide full and open transition.

We recommend that the external contractor be required to create and deliver full system documentation (which we have been advised does not currently exist for all aspects of the system) to Bureau of Information Technology. We also recommend that the City determine to fully transition all knowledge and future development activity to the Bureau of Information Technology by December 31, 2003 (or sooner if achievable within available resources). To achieve this will require active participation and attention from BIT as well as from the Risk Management Division.

3. There is a user and support dependence on the representative of the Bureau of Information Technology who is 'seconded' to the Risk Management Division (and is a former staff member of that bureau). We recognize that the transfer of this employee to the Bureau of Information Technology was the result of an overall City decision to centralize such resources, and we see benefit in this structural approach. However, we continue to have specific concerns:
 - As the Bureau of Information Technology transitions knowledge from the specific individual to a broader resource base (as is the stated intention) the service provided to users within the Risk Management Division may be less focused and less available than that to which they are accustomed.

- The individual is now potentially subjected to involvement in additional projects and activities and, as such, may experience job satisfaction issues. At the ultimate level, this may lead to a decision to seek alternative employment.

We recommend that the training presently provided by this individual to members of Risk Management Division become formalized and that focus be placed on report production. We recommend that the Risk Management Division business model be amended to make report production a core task (and key performance indicator) for claims adjusting staff.

It is noted that the Risk Operations Supervisor has recognized the dependencies noted in items 1 to 3 above, and is supportive of any measures that can be taken to mitigate the risks to the City, to minimize operational costs and to enhance the strategic approach of the City.

E. IMPACT OF THE CITY'S INFORMATION TECHNOLOGY STRATEGY

In the previous section, we reference the recent decision of the City to centralize information technology personnel and associated development, purchasing and system support processes. We are also aware of the City's general technology track:

- Focus on e-government and the maximization of Internet usage.
- Consolidation of the myriad of current Internet sites.
- Combined functionality strategy for Internet and Intranet communities.
- Information Technology service-level agreement processes between bureaus
- Standardization of tools at a desktop level.
- Standardization of project management processes.
- Standardization of applications including:
 - Database — SQL
 - Web server — IIS

—	E-mail	—	Outlook
—	Reporting	—	Crystal Enterprise

The impacts of this strategy (commentary on which is outside the scope of this report) on the Risk Management Division include:

- Potential issues of prioritization and resource commitment from the Bureau of Information Technology, given the focus on e-government and other issues.
- A requirement for the Risk Management Division to provide more formal planning and activity projection to Bureau of Information Technology to ensure resource availability in advance (and as part of the annual process) and to better manage the variable cost element of the current system support model (i.e., the enhancement cost component).

To mitigate the potential negative impacts of the above items, we recommend the Risk Management Division develop a risk information strategy (see earlier section) and elevate the importance given to the management of the relationship with the Bureau of Information Technology.

It is also of note that the stated information technology strategy supports the potential replacement of the current claims system with an external solution delivered through a secure Internet site (ASP model), as well as the current model of internal system development and support.

F. IMPACT OF TECHNOLOGY ON THE CITY'S CLAIM SERVICES BUSINESS PLAN

The City is considering providing claims administration services to other entities. Such a venture would necessitate the City developing a comprehensive long-term business plan to ensure appropriate funding, resources, and management of revenue and cost expectations. In reviewing the current use of information technology by the Risk Management Division, we have identified this planned extension of the Division's role as a key factor in determining future strategy.

In seeking to provide claims administration services to external entities, the City will be entering into a highly competitive market in which the majority of suppliers have implemented, and are able to promote, proven industrial strength applications and dedicated risk management information professionals.

In Table VIII-2, we present:

- The criteria by which the City will be evaluated by potential clients.
- A statement regarding the City’s current position.
- A recommendation.

It is our fundamental recommendation that the City review and evaluate external claims administration system providers and implement an industrial-strength ASP solution prior to contracting to deliver third-party claims administration services. The implementation of such a system, which could be funded in part by revenues from external services and through a partnership arrangement with the selected vendor, would eliminate the need for the City to address the majority of issues identified in Table VIII-2.

**Table VIII-2
Evaluation Criteria**

Criteria	Current Position	Recommendation
Financial Commitment	The City does not currently have a formal budget commitment to risk information services.	The City should develop a formal response to this issue in advance of seeking to market services (i.e., the City commits 15% of claims service revenue to the maintenance and enhancement of risk information technology).
Staffing Model	The City is presently dedicating one individual to the support of risk information technology, supported by additional technical personnel as required.	The City should define a formal support process for external clients and should be able to communicate staffing levels and escalation procedures to potential clients.
Experience and References	The City is limited in experience to the use of the system for managing its own claims and cannot deliver external references.	The City should provide potential clients with an overview of the internal system history, including reference to the 20-year longevity and to key volumetric, such as total number of claims stored, etc.
Technology	The City is using current technology.	The City should feel comfortable in providing technical details.
Pricing	The City has not developed a pricing mechanism for external user access.	The City should avoid identification of stand-alone pricing for external client system usage but should identify support costs and factor these into the overall services price model.
Contractual Terms	The City has not developed a contract for external client user access.	The City should ensure that the future contract specifically includes: 1. Data ownership for the client 2. Exit terms under which the City will provide in a readable electronic format

Criteria	Current Position	Recommendation
Deployment Costs	The City has not reviewed the issue of deployment costs for external clients.	The City should ensure that the sole requirement on future clients is for Internet-browser access.
Independence	The City has identified the need to maintain the data for external entities separately from that of the City itself.	The City should develop suitable explanations of the user security/profiling within the system to ensure
Functionality	<p>The current system provides a suitable basis of functionality, but the City will need to identify strategies for:</p> <ol style="list-style-type: none"> 1. Client-specific codes 2. PRDP compliance 3. Reporting services 	<ol style="list-style-type: none"> 1. The City should consider the creation of a master code set, potentially based on PRDP, that would allow mapping to/from client-specific codes (such as those used presently for the City's own claims). 2. If the City adopts the recommendation in item 1, this issue will be eliminated, and the City will be positioned to offer services to external entities that are convinced of the value of PRDP involvement. 3. The City should establish a standard reporting suite (see earlier section regarding the current Claims System) and should deploy a report server that is separated from the main system database. This report server would act as a staging database and should be refreshed daily. Functionality should be deployed that would allow external users to access a secure Web site to produce reports and that would allow the automated production of scheduled reports to be distributed to client e-mail addresses as triggered by a series of business rules. All reports should be available to clients in key formats (i.e., PDF, Excel).
Data Conversion	The City has internal capability through the Bureau of Information Technology to convert historical claims data for external entities into the claims system.	The City will need to ensure that formal processes and resource levels are in place to meet this requirement. As an alternative, the City may seek an external partner to provide these services if the appetite does not exist to do so through the Bureau of Information Technology.
Interfaces	The City has internal capability through the Bureau of Information Technology to convert historical claims data for external entities into the claims system.	The City will need to ensure that formal processes and resource levels are in place to meet this requirement. As an alternative, the City may seek an external partner to provide these services if the appetite does not exist to do so through the Bureau of Information Technology.

IX. OWNER CONTROLLED INSURANCE PROGRAM

The City operates an owner controlled insurance program (OCIP). This chapter discusses the current OCIP and whether it should be extended to other projects.

A. CURRENT OCIP

The City has completed one group of related projects insured under an OCIP and has a second such group of projects in progress. A brief description of these two groups of projects, as provided by the City and the OCIP broker (Marsh USA, Inc.), is:

1. Phase 1, Columbia Slough Consolidation Conduit Projects (Phase 1)

This project commenced July 1, 1996 and was completed July 1, 2001. Total construction costs were about \$90.3 million. Detailed financial information, as provided by the City and the OCIP broker, is in Appendix C. Summary OCIP financial data provided is in Table IX-1.

**Table IX-1
Phase 1**

OCIP Element	Cost/Amount
1. Estimated cost of traditional insurance:	
a. Premiums	\$3,753,826
b. Recoveries	<u>70,497</u>
c. Total	\$3,824,323
2. Cost of OCIP to City:	
a. Premiums and losses	\$3,098,502
b. Consultants and City overhead	<u>1,048,650</u>
c. Total	\$4,147,152
3. OCIP savings (loss) (1c – 2c)	(\$322,829)

Note: Data provided by City and OCIP broker.

OCIP Phase 1 financial data is in Appendix C. Subsequent to receiving that exhibit, we were advised in a telephone discussion with the City that Row (4d), General Liability Claims, should be reduced from \$1,229,782 to \$991,815.

The City included property and general liability coverages in the OCIP. Amounts were recovered under these coverages that may not have been recovered in prior projects. Considering these recoveries, the City calculates total OCIP/CIP savings/credits of about \$2 million.

2. Phase 2, Various Tunneling and Related Projects (Phase 2)

This project commenced July 1, 2001. Completion is expected about July 1, 2006. Project construction cost is estimated at \$287,282,289. Detailed financial information, as provided by the City and the OCIP broker, is in Appendix C. Summary OCIP financial data is in Table IX-2.

**Table IX-2
Phase 2**

OCIP Element	Cost/Amount
1. Estimated cost of traditional insurance:	
• Premiums + overhead	\$13,680,222
2. Cost of OCIP to City:	
a. Premiums and losses	\$6,919,359
b. Consultants and City overhead	<u>1,414,368</u>
c. Total	\$8,333,727
3. OCIP savings (1 – 2c)	\$5,346,495

Note: Data provided by City and OCIP broker.

Important points to note regarding each OCIP are:

1. The City advises that, prior to the Phase 1 OCIP, it did not require contractors to purchase property insurance to cover construction projects. We understand contractors attempted to recover property losses by filing a construction claim (i.e., a change in conditions) that was charged against the CIP budget (i.e., were retained by the City if the contractor did not buy property insurance).

In the Phase 1 OCIP, the City purchased property insurance. As a result, a loss that might have been uninsured was paid by the insurer. The City considers the loss payment a CIP savings or credit. While ensuring property insurance was in place was a positive change, an OCIP was not required to obtain property insurance, and this will not be an ongoing savings.

2. We understand the OCIP general liability insurer paid a \$1.2 million general liability claim, and that \$991,815 of this amount was for damage to City property. The City advises that, in the past, it funded such losses as follows:
 - Small losses were charged to the contractor causing the loss.
 - Larger losses were funded by charging repair costs to the CIP. Then, the damage amount was withheld from the contractor's payment. This, at times, resulted in an arbitration claim and/or a claim against the contractor's insurer.

The City considers the \$991,815 payment a CIP savings or credit. It is desirable to ensure that contractors have general liability insurance to pay for damage they cause. However, an OCIP is not needed for this purpose, this will not be an ongoing savings, and most cities obtain this protection without an OCIP.

3. Estimated OCIP costs shown for Phase 2 are based on \$1.9 million in losses. Actual losses may be more or less than this. City responsibility for losses is capped at \$4.6 million.
4. Costs contractors would incur to purchase the insurance the City normally requires, and which are to be eliminated from contractor bids in an OCIP, were estimated by the broker. Amounts contractors would normally pay for insurance are not tracked.

Insurance deductions are normally tracked in one of two ways:

- Construction bids are obtained with and without insurance. We understand procurement regulations do not allow this approach.
- Information is obtained from contractors, and the automated OCIP administration system calculates the premium contractors would have paid had they purchased insurance.

5. The City “self-administers” the OCIP. That is, the City advises contractors about the OCIP, obtains certificates of insurance from contractors for coverages the OCIP does not provide, collects payroll information from contractors for reporting to the OCIP insurers and handles other administrative functions.
6. City overhead costs, which are included in City OCIP costs, were provided by the City. For each Phase, the City has committed the following personnel:
 - a. **Phase 1** — 1.75 FTE, composed of one OCIP Administrator, one Loss Control Representative and one-half the time of Manager, Bureau of Environmental Services (BES), Risk Services Division.
 - b. **Phase 2** — 2.5 FTE, which are the FTE for Phase 1, plus an additional Loss Control Representative.
7. The OCIP insurers provide claims administration services. BES Risk Services Division assists the insurer with some claims administration functions.
8. The City paid a fee to the OCIP broker to use the broker’s automated OCIP administration system (known as “CSmart”).

B. RESULTS ACHIEVED IN PHASES 1 AND 2

During the course of this project, we interviewed BES personnel and representatives of the OCIP broker. We also reviewed financial information on the Phase 1 and 2 OCIPs, and the OCIP administration manual. Based on information provided to us, our conclusions are:

1. We believe the Phase 1 OCIP operated at a loss of about \$323,000 (although, as stated earlier, the City believes the loss recoveries credited to the CIP resulted in a savings). Construction costs (\$90.3 million) were at the low end of the range for an OCIP. Greater construction values would spread some of the fixed costs over a greater base and improve results.
2. Contractor insurance premiums the City has “saved” (\$3.1 million in Phase 1) cannot be documented.
3. A benefit of many OCIPs is that historically underutilized businesses (HUBs) are better able to bid on construction projects because the project owner provides the insurance. We understand preliminary data shows this

has occurred on City OCIPs. We also understand HUBs participating on the project have had a positive experience with it.

4. The City and the broker report the OCIP insurers have provided high-quality claims administration services. This minimizes the cost of claims and reduces friction when two or more contactors are involved in the same claim.
5. The City reports that the loss control program at the construction sites is effective. This should reduce claims.

C. OCIP EXTENSION

The City would like to know if the current OCIP (referred to as “Phase 2”) should be expanded to include other City projects. Exhibit IX-1 contains the City’s CIP for FY04 through FY07. The five-year total is about \$1.3 billion. Projects included in this budget are likely candidates for an OCIP.

We were provided a November 4, 1996 Interoffice Memorandum prepared by a Deputy City Attorney addressing certain OCIP issues and a copy of the relevant *Insurance Code* section. While we have not conducted a legal analysis, based on our reading of the *Insurance Code* sections and the Interoffice Memorandum, we believe two important guidelines are:

1. Projects must be “related” to be included in the same OCIP. This appears to allow some BES projects to be included in the Phase 2 OCIP. It appears to preclude adding, for example, park facilities or other projects of bureaus other than BES.
2. Total construction costs for projects included in a single OCIP must exceed \$100 million.

Based on these guidelines, it does not appear the Phase 2 OCIP can be expanded to include additional projects. However, the City could start an additional OCIP to provide insurance for another group of related projects.

We believe an OCIP can reduce insurance costs associated with major construction projects by about 0.5% of actual construction costs. Our two major concerns regarding City OCIPs are:

1. Records for the Phase 1 and 2 OCIPs do not allow an evaluation of amounts contractors would have spent on insurance had they not been covered by an OCIP.

**CITY OF PORTLAND
Capital Improvement Plan — Citywide
Capital Costs**

This table summarizes project costs by the bureaus within each service area.

Service Area/Bureau	Prior Years	Revised FY2001/02	Adopted FY2002/03	Capital Plan				
				FY 2003/04	FY2004/05	FY2005/06	FY2006/07	5-Year Total
Public Safety								
Bureau of Fire, Rescue & Emergency	\$2,050,000	\$1,102,500	\$1,040,000	\$1,360,000	\$1,280,000	\$1,340,000	\$1,407,000	\$6,427,000
Bureau of General Services	6,651,600	10,946,000	15,292,917	36,676,417	63,712,667	62,524,667	18,555,917	196,762,585
Bureau of Police	0	0	0	160,000	0	0	0	160,000
Total Public Safety	\$8,701,600	\$12,048,500	\$16,332,917	\$38,196,417	\$64,992,667	\$63,864,667	\$19,962,917	\$203,349,585
Parks, Recreation and Culture								
Bureau of Parks and Recreation	\$7,518,875	\$11,746,532	\$5,602,833	\$21,018,897	\$20,365,290	\$17,239,902	\$155,713,479	\$219,940,401
Spectator Facilities	36,303,182	2,271,493	650,000	400,000	200,000	200,000	200,000	1,650,000
Total Parks, Recreation and Culture	\$43,822,057	\$14,018,025	\$6,252,833	\$21,418,897	\$20,565,290	\$17,439,902	\$155,913,479	\$221,590,401
Public Utilities								
Bureau of Environmental Science	\$229,031,376	\$60,626,628	\$92,814,951	\$105,209,011	\$90,795,695	\$89,901,516	\$63,399,327	\$442,120,500
Bureau of Water Works	37,378,746	22,076,670	41,460,300	57,039,000	57,103,000	58,581,000	57,171,000	271,354,300
Environmental Remediation Division	0	0	365,000	0	0	0	0	365,000
Total Public Utilities	\$266,410,122	\$82,703,298	\$136,640,251	\$162,248,011	\$147,898,695	\$148,482,516	\$120,570,327	\$713,839,800
Community Development & Services								
Bureau of General Services	\$0	\$166,000	\$225,000	\$225,000	\$2,929,000	\$225,000	\$30,225,000	\$33,829,000
Local Improvement Districts	15,133,100	3,100,000	2,249,161	569,604	583,962	378,552	389,781	4,171,060
Total Community Development & Services	\$15,133,100	\$3,266,000	\$2,474,161	\$794,604	\$3,512,962	\$603,552	\$30,614,781	\$38,000,060
Transportation and Parking								
Bureau of General Services	\$0	\$58,950	\$1,398,736	\$988,568	\$1,337,284	\$1,184,494	\$1,196,568	\$6,105,650
Office of Transportation	11,520,214	30,987,962	38,006,635	21,259,087	42,142,152	24,486,638	7,732,873	133,627,385
Total Transportation and Parking	\$11,520,214	\$31,046,912	\$39,405,371	\$22,247,655	\$43,479,436	\$25,671,132	\$8,929,441	\$139,733,035
Legislative, Administrative and Support Services								
Bureau of General Services	\$1,960,252	\$10,052,932	\$2,922,106	\$1,882,667	\$3,834,666	\$1,986,000	\$1,874,000	\$12,499,439
Total Legislative, Admin. and Support Services	\$1,960,252	\$10,052,932	\$2,922,106	\$1,882,667	\$3,834,666	\$1,986,000	\$1,874,000	\$12,499,439
TOTAL CITY CAPITAL PLAN	\$347,547,345	\$153,135,667	\$202,027,639	\$246,788,251	\$284,283,716	\$258,047,769	\$337,864,945	\$1,329,012,320

2. OCIP administration costs appear high. Exhibit IX-2 contains a summary of OCIP administration costs proposed by different brokers on different projects. We would expect OCIP administration costs to be about 0.25% of construction costs. City costs are higher, as shown in Exhibit IX-2.

Phase 2 administration costs are budgeted at a lower percent of construction costs than Phase 1. Actual results will not begin to emerge for one to two years.

We recommend the City establish a third (or Phase 3) OCIP, as follows:

1. Select a group of related projects with total construction costs in the \$100 million to \$125 million range.
2. Issue a request for proposals (RFP) to obtain quotations for four services:
 - a. Placing OCIP insurance coverages.
 - b. Claims consulting.
 - c. Loss control based on a commitment of 1.0 FTE, 0.5 FTE and no service.
 - d. OCIP administration.
3. Select the most favorable proposal, and:
 - a. Carefully compare contract costs to in-house administration costs.
 - b. Implement the most favorable administration approach.
 - c. Contract for OCIP administration.
 - d. Carefully track amounts contractors would have spent on insurance the OCIP provides to better document avoided costs.

Loss control services may be provided by City or broker personnel.

**CITY OF PORTLAND
Summary of OCIP Administration Costs**

Project	Portland OCIP Phase 1	Portland OCIP Phase 2	Project 1 Broker A	Project 1 Broker B	Project 1 Broker C	Project 1 Broker D	Project 2 Broker A	Project 2 Broker B	Project 2 Broker C	Project 2 Broker D	Project 2 Broker E	Project 3 Broker A	Project 3 Broker B	Project 3 Broker C	Project 3 Broker D	Project 4 Broker A	Total/ Average Excluding Portland
Construction costs (millions)	\$100	\$287	\$650	\$650	\$650	\$650	\$270	\$270	\$270	\$270	\$270	\$296	\$296	\$296	\$296	\$848	\$5,982
Project term (years)	5	5	6	6	6	6	3	3	3	3	3	4	4	4	4	5	
Brokerage fee	Included	Included	47,561	45,000	60,000	Included	Included	Included	Included	Included	Included	34,990	118,350	Included	Included	Included	
Claims assistance fee	Included	Included	146,222	45,000	140,000	Included	Included	Included	Included	Included	Included	151,042	48,750	Included	Included	Included	
Loss control fee	Included	Included	346,222	338,000	250,000	Included	Included	Included	Included	Included	Included	413,510	250,000	Included	Included	Included	
OCIP administration fee	Included	Included	580,375	665,000	550,000	Included	Included	Included	Included	Included	Included	655,441	404,775	Included	Included	Included	
Total fee	1,048,650	1,414,368	1,120,380	1,093,000	1,000,000	747,000	583,851	737,559	690,000	926,620	684,950	1,254,983	821,875	850,000	600,000	1,580,000	12,690,218
Total fee as a percent of construction costs	1.05%	0.49%	0.17%	0.17%	0.15%	0.11%	0.22%	0.27%	0.26%	0.34%	0.25%	0.42%	0.28%	0.29%	0.20%	0.19%	0.21%
Loss control commitment (FTE)	0.75	1.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00	0.50	0.50	0.50	0.50	1.00	
Additional fee for 1.0 loss control FTE												388,601	250,000	250,000	360,000		

After one to two years, the amount the City has spent on the OCIP should be compared to amounts contractors would have spent. If there is a savings, as expected, additional projects (or OCIPs) should be considered. We expect the current favorable experience with claims and loss control services will continue.

D. ALTERNATIVE SURETY BOND PROGRAMS

The City now requires contractors awarded construction contracts greater than \$50,000 to post performance and payment bonds. The City has asked us to describe alternative bonding arrangements it might consider. Two are described below.

1. Contractor Default Insurance

Public projects are usually performed using:

- A prime contractor to take the lead on the project, or
- A project manager as the “prime contractor.”

Contractor default insurance can be used in place of a bond for subcontractors in both situations. The policy would reimburse the City for the costs resulting from a subcontractor’s default, subject to a deductible and a coinsurance percentage that the City would incur as its share of loss. The policy is almost as broad in scope as a bond, but the policy has some exclusions (where a bond does not), and it is subject to stated limits, while a bond normally covers 100% of the contract cost.

The policy is purchased by the City for a specific project, and the City would underwrite and enroll subcontractors. The policy provides the City a:

- Limit per loss for direct costs resulting from subcontractor default.
- Limit per loss for indirect costs and expense (added overhead, indirect job acceleration costs, etc.).
- Aggregate limit for all loss covered by the policy.

The prime contractor on a City project must meet state and federal statutes that require a surety bond. However, most project managers and many prime contractors also require bonds of subcontractors, particularly subcontractors they do not know intimately or may not have used in the past. This protects the prime contractor in the event a subcontractor defaults. Without subcontract bonds, the prime contractor might otherwise be forced into default itself due to unanticipated costs.

In bidding the job, the prime contractor's cost includes the cost of subcontractor work. In turn, subcontractor costs include bond costs. As default insurance generally costs less than a surety bond, the City might realize a savings by advising the prime contractor that it will provide default insurance for all subcontractors in place of any subcontractor bonds. However, the prime contractor must continue to purchase a bond to comply with applicable statutes.

Cost of Contractor Default Insurance. The premium for contractor default insurance is typically between 0.5% to 0.7% of the contract cost. This excludes the cost of any deductible or co-payment the City must retain. This compares to a typical bond cost of about 1.0% of the contract cost. The savings, represented by the difference between the cost of a surety bond and the cost of contractor default insurance, can be exhausted if losses are sizable.

Typical deductibles for contractor default insurance range between \$250,000 and \$500,000. Additionally, the co-payment provision will add another 20% of the loss to the insured's cost (subject to a maximum co-payment cost equal to the deductible amount).

Table IX-3 compares the cost of a \$25 million construction contract on which the insured suffers a default costing \$2.5 million to the cost of a surety bond for the same project. Table IX-3 assumes the cost of the contractor default insurance is 0.6% of the contract cost, the insured has a \$250,000 deductible and the cost of the surety bond is 1.0% of the contract cost.

**Table IX-3
Cost Comparison of
Contractor Default Insurance
vs.
Surety Bond**

Comparison Point	Contractor Default Insurance	Surety Bond
1. Premium on \$25 million project	\$150,000	\$250,000
2. City deductible payment	250,000	0
3. City co-payment (20% of loss above the deductible, subject to a maximum of \$250,000)	250,000	0
4. Total City cost	\$650,000	\$250,000

In the example shown in Table IX-3, the contractor default insurance ends up being \$400,000 more expensive than the surety bond, due to the loss. Had there been no loss, the contractor default insurance would have afforded a savings of \$100,000 over the surety bond.

In contrast, on a project of \$150 million, the total cost of contractor default insurance with the same loss would be \$100,000 less than the cost of a surety bond, as shown in Table IX-4.

**Table IX-4
Cost Comparison of
Contractor Default Insurance
vs.
Surety Bond**

Comparison Point	Contractor Default Insurance	Surety Bond
1. Premium on \$150 million project	\$900,000	\$1,500,000
2. City deductible payment	250,000	0
3. City co-payment (20% of loss above the deductible, subject to a maximum of \$250,000)	250,000	0
4. Total City cost	\$1,400,000	\$1,500,000

2. Fronted Surety Bonds

Another approach is to provide each subcontractor (and, potentially, the prime contractor) a “fronted” bond. A few insurers will provide a public entity with surety bonds for contractors with the provision that the public entity take on part or all of the risk of loss should a contractor default.

As with contractor default insurance, the City would underwrite the contractors involved and takes on a substantial risk of loss in the event contractors default.

Although, in some situations, subcontractors can be required to participate in an insurance program, there might be “directed surety statutes” that limit the City’s ability to direct a contractor to use a particular surety. In this case, subcontractors must be convinced to participate in the bond program voluntarily. This is usually done through a savings or incentive program (i.e., the City shares some of the savings with the contractors).

Cost of Fronted Surety Programs. The cost of a fronted surety bond program will vary based on the amount of risk assumed and the incentives provided to the contractors. There are very few such programs in force. We are unable to provide reliable cost estimates.

X. IMPLEMENTATION PLANS

This chapter presents our most important recommendations, key implementation activities and target completion dates. Implementation plans are presented in tables in the order issues are covered in the report. We have used heavy lines in the body of each table to distinguish fiscal years.

A. COST ALLOCATION

We recommend the schedule in Table X-1 for implementing our two key recommendations regarding the cost allocation plan.

**Table X-1
Cost Allocation Plan Changes
Implementation Schedule**

Activity	Target Completion Date
Prepare written plan explanation	June 1, 2003
Post plan explanation on Division Web site	December 1, 2003
Implement revised credibility weight formula	January 1, 2004

B. LOSS PREVENTION

We recommend the schedule in Table X-2 for implementing key recommendations regarding the City's loss prevention program.

**Table X-2
Loss Prevention Program Changes
Implementation Schedule**

Activity	Target Completion Date
Assemble a subcommittee of members from the SafetyNet group to participate in the development, rollout and ongoing evaluation of the drivers evaluation program	Immediate
Utilize Risk Management Division to manage and implement Citywide policies where appropriate	June 30, 2003

Activity	Target Completion Date
Bureau of Water Works concentrate additional effort on implementing programs and policy enforcement in: <ul style="list-style-type: none"> • Construction project management • Trenching and shoring • Fleet safety and MVR program • Employee training 	June 30, 2003
Bureau of Police concentrate additional effort on the implementation and ongoing management of: <ul style="list-style-type: none"> • Fleet safety and MVR program • Use of force • Back safety • Muscular skeletal disorders • Losses related to stress/mental 	June 30, 2003
Bureau of Parks and Recreation concentrate additional effort on the implementation and ongoing management of: <ul style="list-style-type: none"> • Fleet safety and MVR program • Back safety • Ergonomics • Material handling • Employee training • Hazard identification 	June 30, 2003
Make the SafetyNet group a vehicle for collaboration on vendor qualification and contract acquisitions	June 30, 2003
Have the six major bureaus benchmark loss trends and loss prevention practices against other government organizations with similar exposures and operations	December 31, 2003
Add a section requiring employees to be trained on the proper selection and care of PPE to the employee training and information section of the Hazard Communication Written Procedures for the Bureau of Water Works	December 31, 2003
Add a section requiring contractors that work on a jobsite controlled by the Bureau of Water Works to state what chemicals they have or use that may affect bureau employees interacting with the contractor	December 31, 2003
Indicate where equipment specific lockout tagout procedures are kept in the policy section of the lockout tagout program for the Bureau of Water Works	December 31, 2003
Consider adding emergency contact information on the confined-space entry permit	December 31, 2003
Have the City Risk Manager utilize the same risk matrix for determining driving privileges for employees with "hardship" licenses, as used in new-hire evaluations	December 31, 2003
Make the HR Database changes that would allow for a field to be included that would identify an employee's driving status and provide Risk Management Division access to the information for input into the MVR "flag" system	December 31, 2003
Provide hazard identification training to construction inspectors in the Bureau of Parks and Recreation	March 31, 2004
Have bureaus establish action plans with measurable outcomes	March 31, 2004

Activity	Target Completion Date
Provide additional training for the Risk Management Division Risk Specialist Position in industrial ergonomics	March 31, 2004
Clearly state the different requirements for affected and authorized employees under the lockout tagout regulatory standards. Authorized employees should be trained and documentation of such training should be maintained	March 31, 2004
Utilize a risk matrix (Exhibit III-2) to determine continued driving privileges and possible employee disciplinary action for "at fault" fleet incidents during the FARB proceedings	June 30, 2004
Develop a formal supervisor evaluation process that includes loss prevention measurements. Key factors should include policy enforcement, safety leadership and continued process improvement.	December 31, 2004
Develop a system that identifies employees within the bureaus as needing to be entered into the MVR "flag" system	December 31, 2004
Utilize the e-pan process for updating drivers information as their driving status changes	December 31, 2004
Utilize e-risk control tools or Web applications to update the bureaus on OR OSHA regulatory requirements	March 31, 2005
Develop a Citywide policy that includes evaluation of "personal" driving records for the purpose of providing additional training or other loss prevention measures	March 31, 2005
Consider staffing requirements for the Risk Management Bureau should a formal drivers evaluation program be implemented	Upon implementation of a formal drivers evaluation program

C. LIABILITY CLAIMS

We recommend the schedule in Table X-3 for implementing key recommendations regarding the City's liability claims administration program.

**Table X-3
Liability Claims Administration Program Changes
Implementation Schedule**

Activity	Target Completion Date
Consolidate Liability and Workers Compensation Claims Sections, with a single Claims Manager reporting to the Risk Manager. Introduce new reporting relationships to section employees and bureaus.	July 15, 2003
Obtain City approval of the draft Risk Management Manual and update the Liability Claims Section Policies and Procedures Manual.	August 1, 2003

Activity	Target Completion Date
Present plan to Claims Manager for Liability Risk Supervisor's approach to: <ul style="list-style-type: none"> • Complete claims evaluation form as a vehicle to provide guidance and direction to claim handlers. • Follow up on target completion dates established as a result of guidance and direction provided to claim handlers. 	August 15, 2003
Amend job description for Senior Claims Analysts to more clearly define training responsibilities.	August 15, 2003
Develop cross-training schedule to improve ability to utilize existing staff to reduce liability claims pending, including cross training between Liability and Workers Compensation Claims Sections for tasks assigned to Claims Technicians and Assistant Claims Technicians.	September 1, 2003
Decide where to store closed liability claims having potential for reopening during the 26-month period allowed for the statute of limitations to toll.	September 1, 2003
Meet with liability claims staff to roll out cross-training plan and approach to: <ul style="list-style-type: none"> • Identify claims for closure. • Reduce pending claim assignments through reassignment. • Teamwork for improved productivity. • Budgeting litigation with City Attorneys and outside defense attorneys. 	September 15, 2003
Meet with liability claims staff to discuss accountability to improve current system usage, including entry of: <ul style="list-style-type: none"> • Plaintiff and defense attorney(s). • Litigation results • Settlement prayers, Also discuss planned system enhancement noted below, along with status of the Internet Access Project.	September 15, 2003
Discuss structuring the Quarterly Risk Claims Review meetings with liability claims staff members to assign: <ul style="list-style-type: none"> • Identification of claim occurrences within the quarter for discussion of reserves and disposition plans with bureau contacts. • Putting claims with unresolved issues on the meeting agenda. • Preparing cost-benefit analysis for discussion at meeting. • Accountability for recording pertinent documents and phone calls received, disposition plans with follow up target completion dates, actual completion dates and target closure date in the claim file. • Accountability to report closure activity and reserve increases above the authorization limit to the bureau contacts. 	September 15, 2003

Activity	Target Completion Date
Request RM system enhancement to add fields for litigation tracking, including: <ul style="list-style-type: none"> • Verdict • Appeal decision • Appeal result • Arbitrator name • Arbitration result • Separate prefix code for claims challenging City's right to maintain an ordinance restriction or taxation. 	September 15, 2003
Research available contractor networks and explore usage for infrastructure claims with Risk Manager.	October 1, 2003

D. WORKERS COMPENSATION CLAIMS

We recommend the schedule in Table X-4 for implementing key recommendations regarding the City's workers compensation claims administration program.

**Table X-4
Workers Compensation Claims Administration
Program Change Implementation Schedule**

Activity	Target Completion Date
Consolidate Liability and Workers Compensation Claims Sections, with a single Claims Manager reporting to the Risk Manager. Introduce new reporting relationships to claims staff and bureaus.	July 15, 2003
Obtain City approval of the draft Risk Management Manual and update the Workers Compensation Claims Policies and Procedures Manual.	August 1, 2003
Claims Manager reports to Risk Manager the approach to: <ul style="list-style-type: none"> • Completing claims evaluation form as a vehicle to provide guidance and direction to claim handlers. • Following up on target completion dates established as a result of guidance and direction provided to claim handlers. 	August 15, 2003
Amend job description for Senior Workers Compensation/Disability Claims Analysts to more clearly define training responsibilities.	August 15, 2003

Activity	Target Completion Date
<p>Meet with Claims staff to roll out cross-training plan and approach to:</p> <ul style="list-style-type: none"> • Process claims closures. • Evenly distribute pending claim assignments. • Teamwork for improved productivity. • Budgeting litigation with City Attorneys and outside defense attorneys. • Improve system usage by: <ul style="list-style-type: none"> — Entering claim notes regarding pertinent documents and phone calls received, disposition plans, target completion dates, actual completion dates and target closure. — Consistently entering plaintiff and defense attorney names. — Consistently entering litigation status and results. 	September 15, 2003
<p>Discuss structuring the Quarterly Risk Claims Review meetings with claims staff to assign:</p> <ul style="list-style-type: none"> • Identification of claim occurrences within the quarter for discussion of reserves and disposition plans with bureau contacts. • Putting claims with unresolved issues on the meeting agenda. • Preparing cost-benefit analysis for discussion at meeting. • Accountability for recording disposition plans developed in meeting, follow up target completion dates, actual completion dates and target closure date in the claim file. • Accountability to report closure activity and reserve increases above the authorization limit to the bureau contacts. 	September 15, 2003

Activity	Target Completion Date
<p>Request RM system enhancement to add fields for tracking litigation, disability and Employer At Injury Program, including:</p> <ul style="list-style-type: none"> • Adding fields to RM System Part 2 to track disability and EAIP: <ul style="list-style-type: none"> — TL start date — TL end date — Modified RTW date — Beginning eligibility dates for wage loss benefit and EAIP reimbursement — Ending dates for eligibility for wage loss benefit and EAIP reimbursement — Initiation of the EAIP reimbursement request process: • Adding fields to Part 3 for subrogation recovery status and use of NCCI Loss Coverage codes. • Adding fields to post reinsurance information • Updating recovery coding to differentiate recoveries related to: <ul style="list-style-type: none"> — Subrogation — State reimbursements — Reinsurance — Other • Add field to Part 1 to record MCO selection so rehabilitation field is preserved for intended use. • Add litigation tracking fields, including: <ul style="list-style-type: none"> — Appeal decision — Appeal result — Arbitrator name — Arbitration result • Enhance system viewing mechanism to: <ul style="list-style-type: none"> — Sort payments by provider, payment code and date. Current sort is by date. — Show totals for each payment category and outstanding reserve. — Allow scrolling back to claimant name search from individual claim screens — Produce printable hearing calendar and litigation log for management review and tracking of litigation expense against results. 	<p>September 15, 2003</p>

E. SELLING CLAIM SERVICES TO OTHERS

We believe the City will further evaluate the option of selling claim services to others. Table X-5 presents a schedule of activities necessary to sell claim services to others. Target completion dates are shown in number of weeks after the City develops a business plan and elects to proceed.

**Table X-5
Selling Claims Administration Services
Implementation Schedule**

Activity	Target Completion Date
Develop task force within Claims Section to: <ul style="list-style-type: none"> • Interface with BIT related to information system changes needed to better meet City and external customer needs as noted in Table X-8. • Oversee completion of activities listed below. 	1 week
Develop business plan and staffing model based upon anticipated new business within target market, prepare budget and obtain budget approval.	8 weeks
Develop pre-proposal dialog to use as guide in communicating with public entity seeking new TPA relationship to determine feasibility of using City resources to respond to their request for proposal.	16 weeks
Develop proposal format template with easily changeable features to tailor to each request for proposal.	24 weeks
Develop marketing materials to include with proposals describing claims personnel, legal services, IT services, loss control services, EAIP services, claim review services, training services.	32 weeks
Develop plan to purchase fidelity bond and insurance likely to be required by prospective clients.	40 weeks
Develop sample inter-governmental agreement and review the sample with City Attorney and appropriate City personnel.	48 weeks

Activity	Target Completion Date
<p>Develop intake procedures for:</p> <ul style="list-style-type: none"> ● Establishing client procedures for claims reporting, initial investigation, interim investigation, decision-making process, status report process, excess insurance requirements, liability/damage assessment requirements, medical management, litigation management, cost-containment requirements, payment funding, and reserve/payment/settlement authorization. ● Identifying client's training needs to effectively implement the transitional period. ● Establishing training schedule. ● Establishing new client approval process for hiring necessary staff. ● Completing tape-to-tape transfer of new client's claims information into system. ● Determining location of closed claims and transferring these claims to facility with easy access for City when claim reopening needs are identified. ● Identification and assignment of claims with immediate issues including: <ul style="list-style-type: none"> — Ongoing payment schedules — Outstanding payments — Outstanding liability or compensability determinations. — On-going litigation. — Outstanding response to pertinent correspondence. ● Assigning and scheduling routine follow up for newly received claims. ● Planning approach to weekly, monthly, quarterly and annual claims program updates to new client. ● Planning quarterly claim review schedule and criteria for choosing claims to be included in quarterly claims review. ● Notifying State about location of claims handling, claims contact and claims storage. ● Notifying claimants, excess carriers, broker and providers about location of claims handling and claims contact. 	<p>56 weeks</p>

F. RISK MANAGEMENT ORGANIZATION

We recommend the schedule in Table X-6 for implementing our two key recommendations regarding the City's risk management organization.

**Table X-6
Risk Management Organization Changes
Implementation Schedule**

Activity	Target Completion Date
Internal discussion of Risk Operations Risk Supervisor reporting relationship	June 30, 2003
Internal discussion of Liability Claims Section and Workers Compensation Claims Section consolidation with Liability Risk Supervisor reporting to Claims Manager and Claims Manager reporting to Risk Manager	June 30, 2003
Risk Operations Risk Supervisor reports to Risk Manager	August 1, 2003
Claims Manager reports to Risk Manager	August 1, 2003

G. INFORMATION TECHNOLOGY

We recommend the schedules in Tables X-7 and X-8 for implementing our key recommendations regarding the City's risk management information system. Table X-9 presents changes for the system to better meet City needs. Table X-10 presents changes for the system to also meet the needs of external claims administration customers.

**Table X-7
Risk Management Information System Changes
Better Meet City Needs
Implementation Schedule**

Action	Target Completion Date
Undertake a formal data quality and data integrity review of the current system	August 1, 2003
Implement configuration changes to the current system (enhance claims functionality)	September 1, 2003
Finalize the Web-reporting project currently in progress	October 1, 2003
Review and implement a new report distribution strategy	October 1, 2003
Implement the usage of diary functionality within the current system	October 1, 2003
Create a plan with BIT for 2004 resource	November 1, 2003

Action	Target Completion Date
Review and specify requirements for document management functionality and, if appropriate, create implementation plan	December 1, 2003
Implement formal and ongoing user training for all relevant staff	December 1, 2003
Instruct the external contractor (developer) to fully document the current system to a document specification to be produced by BIT	December 31, 2003
Complete the transition of support to BIT	December 31, 2003

We believe the City will further evaluate the advantages and disadvantages of selling claims administration services to others. The date the City will elect to proceed is not known. Thus, in Table X-8, we present target completion dates in number of weeks from date the City elects to proceed with this initiative.

Table X-8
Risk Management Information System Changes
Better Meet City and External Customer Needs
Implementation Schedule

Action	Target Completion Date
Define system requirements (functional and technological) to meet the claim services business plan	4 weeks
Obtain budgetary approval for external system purchase to support the claim services business plan	8 weeks
Identify potential system vendors capable of meeting the defined requirements (including ASP model, industrial strength support and PRDP compliance)	10 weeks
Undertake consultative review with potential system vendors, and identify preferred partner	16 weeks
Enter contract and service agreement with selected vendor partner	20 weeks
Implement (including testing, training, etc.) selected system	36 weeks
Define contract to apply to all risk management information and data management services to be provided to external parties	39 weeks
Define pricing, costs and economics strategy for services to be provided to external parties	45 weeks
Create demonstration and marketing material to support the promotion of the chosen system within the claim services to be provided to external parties	49 weeks

PRDP = Public Risk Database Project

H. OWNER CONTROLLED INSURANCE PROGRAM

Our major recommendation regarding the owner controlled insurance program is to implement a Phase 3 OCIP and to obtain proposals for contract administration services. The Phase 3 OCIP will not start until sufficient projects are available. These are “related” projects with construction costs exceeding \$100 million. Based on the CIP budget summary in Exhibit IX-1 and our discussions with City personnel, this appears to be:

1. Parks Bureau projects budgeted for FY 07, or
2. A water treatment facility project not shown in the CIP budget. We understand construction costs may range from \$55 million (too low for an OCIP) to \$250 million, depending on the type of facility constructed.

For implementation plan purposes, we assume these projects will commence July 1, 2006. We also assume the City will seek needed legislation at least 18 months prior to OCIP inception.

**Table X-9
Owner Controlled Insurance Program
Implementation Schedule**

Activity	Target Completion Date
Phase 3 OCIP feasibility study completed	December 1, 2004
Seek legislative approval for the OCIP	January 1, 2005
Request for proposal issued for OCIP administration services	February 1, 2006
OCIP administration services proposals received	April 1, 2006
OCIP administrator selected	May 1, 2006
OCIP Implemented	July 1, 2006

APPENDIX A

Liability Claims Grading Summary and City of Portland Liability Claims Review

**LIABILITY CLAIMS GRADING SUMMARY AND
CITY OF PORTLAND LIABILITY CLAIMS REVIEW**

Claims Component	Grade	Percentile
Prompt Contacts	3.76	0.94
Investigation	3.98	0.99
Subrogation	4.00	1.00
Fraud	3.50	0.88
Medical/Disability Verification	3.96	0.99
Reserves	3.82	0.96
Litigation Management	3.80	0.95
Liability/Damages Assessment	3.97	0.99
Payments	3.69	0.92
Excess Reporting	3.33	0.83
Case Finalization/Settlements	3.89	0.97
Supervision and Staffing	3.39	0.85
Diary	3.71	0.93
Documentation/File Organization	3.85	0.96
CDAS/Loss Experience Reports	3.65	0.91
Overall Claim Grade	3.78	0.94

APPENDIX B

Workers Compensation Claims Grading Summary and City of Portland Workers Compensation Claims Review

Appendix B

**WORKERS COMPENSATION CLAIMS GRADING SUMMARY AND
CITY OF PORTLAND WORKERS COMPENSATION CLAIMS REVIEW**

Claims Component	Grade	Percentile
Prompt Contacts	4.00	1.00
Investigation	3.96	0.99
Subrogation	4.00	1.00
Fraud	N/A	N/A
Medical/Disability Management	3.95	0.99
Vocational Rehabilitation	4.00	1.00
Litigation Management	3.67	0.92
Reserves	3.92	0.98
Compensability Assessment	4.00	1.00
Payments	3.98	0.95
Excess Reporting	3.50	0.87
Case Finalization/Settlements	3.87	0.97
Supervision and Staffing	3.06	0.76
Diary	3.06	0.76
Documentation/File Organization	3.50	0.87
CDAS/Loss Experience Reports	3.22	0.80
Overall Claim Grade	3.68	0.92

APPENDIX C

Summary OCIP Financial Data

APPENDIX D

Sample Litigation Joint Disposition Plan and Budget

**CITY OF PORTLAND, OREGON
LITIGATION JOINT DISPOSITION PLAN AND BUDGET**

Claimant:	Date of Loss
Claim #:	File Handler:
Description of Occurrence/Liability Assessment:	
Demand for Payment (Damages, Diagnosis, Treatment, Prognosis and Economic or Other Loss):	

Discovery Plan	Assigned to:	Estimated Cost
Correspondence to determine facts:		
Obtain public records (police report, OSHA report, court records, etc.)		
Statements or depositions of witnesses		
Obtain personal records (by authorization or subpoena – medical records, marriage license, divorce decree, birth certificates, employment records, tax records, etc.)		
Indexing		
Preparation of documents / evidence to present in / file with court (suit, pleadings, points and authorities, appeals, subpoenas, etc.)		
Case analysis		
Discussion of recommendations		
Court appearances		
Other		
Current budget subtotal:		
Paid to date:		
Current budget total:		
Target completion date for planned activities:		
Summary of plan and cost-benefit analysis (explanation of how discovery will assist in mitigating loss and/or evaluation of claim for resolution).		

File Handler _____
 Supervisor _____
 Defense Attorney _____

Date _____