



**CITY OF HAMILTON**  
**CITY MANAGER'S OFFICE**  
**Audit Services Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	June 8, 2015
<b>SUBJECT/REPORT NO:</b>	Performance Audit Report 2015-02 - Claims Adjusters & Operational Efficiencies (Value for Money Audit) (AUD15018) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Ann Pekaruk 905-546-2424 x4469 Amy Bodner 905-546-2424 x4438
<b>SUBMITTED BY:</b>	Brigitte Minard Acting Director, Audit Services City Manager's Office
<b>SIGNATURE:</b>	

- Discussion of Appendix "A" to Report AUD15018 in Closed Session is pursuant to Section 8.1, Sub-section (e) of the City's Procedural By-law 14-300, and Section 239(2), Sub-section (d) of the *Ontario Municipal Act, 2001*, as amended, as the subject matter pertains to litigation or potential litigation, including matters before administrative tribunals, affecting the City.

### RECOMMENDATION

- (a) That the Management Action Plans, as detailed in Private & Confidential Appendix "A" of Report AUD15018, be approved;
- (b) That the General Manager of Finance & Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Private & Confidential Appendix "A" to Report AUD15018) implemented;
- (c) That Appendix "A" to Report AUD15018, respecting Performance Audit Report 2015-02 - Claims Adjusters & Operational Efficiencies (Value for Money Audit) remain confidential.

### EXECUTIVE SUMMARY

The 2013 Performance Audit work plan approved by Council included an audit of claims against the City and the related claims handling processes (currently performed by internal staff and external service providers). The costs incurred by the City to adjust claims using both internal staff and external adjusters were calculated. These costs were used to estimate potential cost savings if claims were adjusted in-house.

Employees' work experience, training opportunities, time sheet activity and job duties were analyzed to assess whether capacity and expertise exist in-house to adjust additional claims. Claims handling timelines were mapped and analyzed to identify factors impacting the timeliness of claims investigations. Recommendations were made to identify opportunities for efficiencies and potential cost savings in the City's claims handling processes.

The results of this audit are presented in a formal Performance Audit Report (2015-02) containing observations, recommendations and management responses. Audit Report 2015-02 is attached as Appendix "A" to Report AUD15018.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

Financial: The implementation of the recommendations in this report may result in cost savings by reducing the volume of claims assigned to external adjusting service providers. Additional investigation and action is required by Risk Management before the merits of the recommendations can be measured. As a result, the overall related cost savings cannot be estimated at this time.

Staffing: One new full time administrative position is recommended to build value-added capacity in the existing staff complement.

Legal: None.

**HISTORICAL BACKGROUND (Chronology of events)**

This audit was scheduled as part of the 2013 Performance Audit work plan approved by Council. The audit fieldwork was completed in March 2015. The results of this audit are attached as Appendix "A" of Report AUD15018.

The Audit, Finance and Administration Committee receives and approves performance audit reports as part of its responsibilities for the oversight of governance.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

None.

**RELEVANT CONSULTATION**

Appendix "A" to Report AUD15018 includes action plans which reflect the responses of management responsible for the administration of the Risk Management function, the Financial Services Division of Corporate Services.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION  
(Include Performance Measurement/Benchmarking Data if applicable)**

It costs the City \$43.66 - \$65.18 per hour for internal Risk Management Section (RMS) employees to adjust claims. On average, these rates are 32% to 39% lower than hourly adjusting fees paid to the two primary external claims adjusting service providers. Potential cost savings of \$284,000 may be achieved if all claims assigned to the external adjusters are brought in-house.

However, RMS must address current capacity constraints, build expertise in handling bodily injury claims at the staff level and improve timeliness and equity in the claims handling process in order to reassign claims internally and realize these potential cost savings.

The formal Performance Audit Report (2015-02) containing background information, audit objectives, scope, methodology, findings and recommendations was issued. Thirteen recommendations were included in Performance Audit Report 2015-02 (attached as Appendix "A" to Report AUD15018). Among the recommendations are:

- Reallocate non-adjusting activities to a new full time administrative position.
- Contract external adjusters to perform specialized tasks as opposed to handling the entire claim process. Document such tasks and related costs in a formal contract.
- Train staff and build expertise in-house to handle bodily injury claims.
- Analyze current claims data and create initiatives to proactively reduce the quantity of claims received in the future.
- Create metrics to measure internal performance and monitor internal workflow.
- Monitor service levels for outside adjusting services through a set of performance metrics (expectations).
- Develop strategies to handle high volume claims in a fair and equitable manner.
- Identify key milestone in the claims handling process and set a target length of time for each. Create a dashboard or standard report in RISKMASTER showing the status of claims by employee and number of days passed. Use this information to monitor workflow and follow up with internal staff or external adjusters as required.

Management agreed with all the recommendations and provided action plans for implementation. The implementation of many recommendations is anticipated to be completed by the end of 2015, with a few longer term items having expected completion dates in 2016. Management action plans can be found in the attached Performance Audit Report (Appendix "A" to Report AUD15018).

**ALTERNATIVES FOR CONSIDERATION**

**(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

Not applicable.

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

**Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

**Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

**Strategic Priority #3**

Leadership & Governance

*WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.*

**Strategic Objective**

- 3.2 Build organizational capacity to ensure the City has a skilled workforce that is capable and enabled to deliver its business objectives.
- 3.4 Enhance opportunities for administrative and operational efficiencies.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report AUD15018 – Private & Confidential

BM:ab