



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services

TO:	Chair and Members Audit Finance and Administration Committee
COMMITTEE DATE:	March 6, 2017
SUBJECT/REPORT NO:	Management Update On Performance Audit Report 2015-02 – Claims Adjusters and Operations Efficiencies (Value for Money Audit) (FCS17016) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John McLennan (905) 546-2424 Ext. 5736
SUBMITTED BY:	Rick Male Director of Financial Services and Corporate Controller Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That the contract position of Risk Management Assistant, created through the approval of Performance Audit Report 2015-02 – Claims Adjusters and Operational Efficiencies (Value for Money Audit) (AUD15018) (City Wide) (Item 8.3), be extended for a further 18 months at the expiry of the current 18 month contract in June 2017.

EXECUTIVE SUMMARY

Performance Audit Report 2015-02 contained the seven primary recommendations and six secondary recommendations for Risk Management Services (RMS), with a common theme of exploring opportunities for cost savings by reassigning work to internal adjusters, building capacity, and developing expertise of internal staff.

Council approval was required for the most significant of the recommendations - that RMS reallocate non-adjusting activities (e.g. data entry, copying, filing, etc.) to a new full time administrative function.

Council approved the creation of a Risk Management Assistant posting under an 18 month contract to determine if savings could be realized by unencumbering RMS claims staff from clerical functions, which occupied 30% of their collective time. The reference

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for approval comes from Council approving Audit, Finance and Administration Committee Report 15-006, Items 11(a), (b), and (c), which stated:

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

Significant savings have been realized, and are detailed later in this report. As such, RMS is seeking to extend the Risk Management Assistant contract for a second 18 month term for the purpose of verifying sustainability and possibly enhancing value.

Alternatives for Consideration – See Page 4

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The progress made by RMS with respect to the Recommendations within Performance Audit Report 2015-02 has resulted in cost savings by a reduction in the volume of claims assigned to external adjusting service providers, a reduction in RMS staff overtime, and a reduction of total risk exposure to the City of Hamilton (City).

Staffing: An extension of the Risk Management Assistant contract position for a further 18 months is recommended.

Legal: N/A

HISTORICAL BACKGROUND

Performance Audit Report 2015-02 was scheduled as part of the 2013 Performance Audit Work Plan approved by Council. The audit fieldwork was completed in March 2015. RMS has been addressing the 13 recommendations within Performance Audit Report 2015-02 since the completion of the Report. RMS has thoroughly addressed nine of the 13 recommendations and partial progress has been made on the remaining four recommendations.

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RMS exists first and foremost to protect the financial and material assets of the City against accidental loss. The loss exposures facing large municipalities are significant and far-ranging. The objective of protecting the City against these exposures is accomplished by way of a sophisticated, multi-faceted approach facilitated by RMS staff and founded on the pillars of claims management, insurance procurement, and enterprise risk management.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Municipal and private sector risk management/insurance/claims professionals, Pearson Dunn Insurance (City's Broker of Record), Jardine Lloyd Thompson Canada (City's Insurance Program Manager), Public Works Department, Legal Services Division

ANALYSIS AND RATIONALE FOR RECOMMENDATION

It costs the City \$43.66 - \$65.18 per hour for internal RMS employees to handle claims. On average, these rates are 32% to 39% lower than hourly adjusting fees paid to the two primary external claims adjusting service providers. An opportunity for significant cost reduction exists through decreasing reliance on these service providers. The reliance will only be reduced if:

- Certain capacity constraints are consistently addressed;
- Staff expertise for handling bodily injury claims is enhanced; and,
- Timeliness and equity in the claims handling process is improved.

The above three concerns can only be addressed if capacity can be created within the claims handling staff of RMS. Internal Audit determined that sufficient capacity could be created if claims handling staff were unencumbered of clerical functions (data entry, scanning, photocopying, form letters, invoice processing, etc.) which were found to occupy approximately 30% of their cumulative work load.

Internal Audit, in their Primary Recommendation #1, proposed that the creation of a Risk Management Assistant position, responsible for the bulk of clerical and receptionist functions at RMS, would serve to create capacity space among the claims handling staff of RMS. Council approved an 18 month contract for a Risk Management Assistant to determine if savings could indeed be realized.

In response to Primary Recommendation #1, RMS created a job description for a Risk Management Assistant and the position was filled in December 2015. A review of

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statistics after 12 months of the 18 month contract indicated very positive results. The following chart illustrates a significant decline in assignments to external adjusting service providers along with the associated expense:

RMS Claim Assignments To External Adjusters 2014-2016					
Year	Total Claims Received	Claims Assigned to External Adjusters	External Adjusting Expense	Claims Handled Internally By RMS	Percentage Of Claims Handled Internally By RMS
2014	2439	854	\$939,400	1585	65
2015	2034	567	\$623,700	1467	72
2016	1831	248	\$272,800	1583	86

The number of claims assigned to external adjusting service providers has been reduced by 21%. Using a figure of \$1,100 per external assignment, the 21% reduction represents an average yearly savings of \$508,750 against the previous two years.

Another positive development was that RMS staff overtime was eliminated from June 2016 forward. It is expected, barring a catastrophic claims event, that overtime for claims staff will not be necessary in the foreseeable future. Average overtime for RMS staff over the last four years has been \$27,000.

It is important to note that there was a considerable learning curve for the first 2 months of the Risk Management Assistant, creating a minimizing factor to the full effect of the position's value.

It is also important to note that the above savings cannot be attributed entirely to the creation of the Risk Management Assistant position. Other factors such as successful risk control programs, weather patterns, and legislative changes have had a reducing influence on incoming claims, which, in turn, will also reduce RMS staff overtime and assignments to external claims adjusting service providers.

An extension of the Risk Management Assistant contract for a second 18 month term is recommended for the purpose of verifying sustainability and possibly enhancing the value of the position.

ALTERNATIVES FOR CONSIDERATION

The Risk Management Assistant position could be discontinued at the expiration of the current 18 month contract. Clerical responsibilities would return to claims staff which would necessitate an increased utilization of external claims adjusting service providers.

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In the alternative, Council could choose to make the Risk Management Assistant position permanent based on the very positive results to date.

The recommendation to extend the contract for a second 18 month term is being made to facilitate further study by Management to determine a more exact relationship between savings and the Risk Management Assistant position and if those savings are sustainable.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

JM/dw

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