



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Legal and Risk Management Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	August 15, 2019
SUBJECT/REPORT NO:	Management Update on Performance Audit Report 2015-02 - Claims Adjusters and Operations Efficiencies (Value for Money Audit) (FCS 17016(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John McLennan (905) 546-2424 Ext. 5736
SUBMITTED BY:	Nicole Auty City Solicitor Legal and Risk Management Services
SIGNATURE:	

RECOMMENDATION(S)

That the temporary contract position of Risk Management Assistant (1 FTE) within the Risk Management Services Section, created through the approval of Performance Audit Report 2015-02 – Claims Adjusters and Operational Efficiencies (Value for Money Audit)(AUD15018), be made permanent and be funded through the Corporate Services Operating Budget at a cost of \$80,000 annually.

EXECUTIVE SUMMARY

Performance Audit Report 2015-02 contained 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 originally approved the creation of a Risk Management Assistant posting under

SUBJECT: Management Update on Performance Audit Report 2015-02 - Claims Adjusters and Operations Efficiencies (Value for Money Audit) (FCS 17016(a)) (City Wide) - Page 2 of 5

an 18 month contract in 2015 to determine if savings could be realized by unencumbering RMS claims staff from clerical functions, which occupied 30% of their collective time. The reference 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 were realized, and as a result, the Risk Assistant contract was extended a further 18 months by Council in 2017 and also extended a further 6 months to this point by the City Solicitor through Director authority. The 36 month contract has established that the establishment of the Risk Assistant position created not only financial savings but also operational efficiencies within the Risk Management Services Section. As such, designating the Risk Assistant position as permanent is well supported and reasonable.

Alternatives for Consideration – See Page 6 or Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The establishment and continued development of the Risk Assistant position within RMS, as recommended within Performance Audit Report 2015-02, has resulted in cost savings through 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: One FTE added to the current RMS complement of 9 FTE’s.

Legal: Not applicable

HISTORICAL BACKGROUND

OUR Vision: To be the best place to raise a child and age successfully.
OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.
OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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.

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 incorporating all 13 recommendations within Performance Audit Report 2015-02 since the completion of the Report. The creation of the Risk Assistant position was the most significant of the recommendations and the only recommendation, in and of itself, which required the approval of Council. The position has now been through two complete 18 month contracts and results indicate that the designation of the position as permanent would be financially and operationally prudent.

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(S)

ALTERNATIVES FOR CONSIDERATION

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.

SUBJECT: Management Update on Performance Audit Report 2015-02 - Claims Adjusters and Operations Efficiencies (Value for Money Audit) (FCS 17016(a)) (City Wide) - Page 4 of 5

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.

In response to Primary Recommendation #1, RMS created a job description for a Risk Assistant and the position was filled in December 2015. The statistics have been very positive throughout the existence of the Risk Assistant position, particularly in the lowering of the percentage of assignments out to contracted adjusting services. In the two years (2014-2015) previous to Risk Assistant placement, approximately 30% of all claim investigations were assigned to outside adjusters. In the three years (2016-2018) since the establishment of the Risk Assistant position the percentage of claim investigation assigned to outside adjusters has been reduced by nearly half to 16%. The following chart illustrates the positive trend:

RMS Claim Assignments Statistics - 2014-2019 (end June)					
Year	Risk Assistant	Total Claims Received	Claims Assigned to Outside Adjusters	Claims Kept At RMS	% of Total Claims Kept At RMS
2014	No	2439	854	1585	65
2015	No	2034	567	1467	72
2016	Yes	1831	248	1583	86
2017	Yes	2324	223	2101	90
2018	Yes	2538	631	1907	75
2019 (end June)	Yes	965	167	798	83

It is important to note that the positive trend would be even better had it not been for the anomalous pothole claims experience (400 claims higher than average) in 2018. The sheer volume of pothole claims necessitated a heavy reliance on outside adjusters to satisfy the RMS mandate of expedience in claims handling.

SUBJECT: Management Update on Performance Audit Report 2015-02 - Claims Adjusters and Operations Efficiencies (Value for Money Audit) (FCS 17016(a)) (City Wide) - Page 5 of 5

The average outside adjusting cost per assignment since 2014 is \$1,100. Had the outside assignment percentage remained at 30% the additional expense to the City, with an additional 1027 claims being assigned out, would have been \$1,129,700. The creation of the Risk Assistant position has clearly provided positive financial results for the City.

Another positive trend which continues since the creation of the Risk Assistant position is the virtual elimination of RMS staff overtime. While some staff overtime is necessitated by high volume claim cycles, it is being limited to small amounts of banked time which allow claims staff to cover the Christmas shutdown period.

In light of the continued positive financial and operational trends relative to the second extension of the Risk Assistant contract it is recommended that the position be made permanent.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

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

APPENDICES AND SCHEDULES ATTACHED

NA/JM