Winnipeg

Risk Management Audit
January 2011

Leaders in building public trust in civic government

Audit Department

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EXECUTIVE SUMMARY

The Risk Management Division is part of the Corporate Finance Department. Risk Management provides an internal service to civic departments that protects the City's assets and its ability to provide services and meet its objectives by reducing its exposure to losses. Three key goals of the Division are to optimize loss mitigation activities and minimize loss payments; optimize risk financing activities to ensure the proper balance between risk retention and risk transfer costs; and optimization of workers compensation costs to the City by actively managing WCB appeals processes and the City's reserves for future mortality as a result of work related accident or sickness. The Division has a full time equivalent (FTE) complement of thirteen staff. The Division is responsible for dealing with claims made against the City by the public, purchasing insurance and setting insurance requirements for the City, risk identification, assessment and loss control. Risk Management Division is made up of three distinct branches:

- Claims Branch - responsible for the management of claims and recoveries with an aim to mitigation of losses once an incident has occurred; pre-loss identification and evaluation in order to advise operational areas where incidents of loss may be prevented or reduced; and
- Insurance Branch - responsible for securing and management of the City's insurance policies as well as the management of the insurance requirements of third parties that conduct business with or on behalf of the City and other risk financing measures; and
- Workers Compensation Branch - responsible for the management of the City's Workers Compensation claims.

The purpose of this audit is to report to the Audit Committee and Council on the efficiency and effectiveness of the Risk Management Division. The audit was identified in the City Auditor's 2009-2010 Audit Plan and endorsed by the Audit Committee. The objectives of this audit were to:

- assess the operational performance of the Division;
- determine whether adequate systems, practices and controls are in place to achieve the Risk Management Division's goals and objectives; and
- determine the extent reported service performance results are complete, relevant, accurate, balanced and meaningful.

Key Observations and Recommendations

We have made a number of recommendations to improve the efficiency and effectiveness of the Risk Management Division. A summary of all recommendations is attached as **Appendix 3**. Some of our recommendations are directed at the Divisional level and the majority are specific to each Branch as they operate autonomously.

Overall we noted that adequate systems, practices and controls are in place to ensure the Risk Management Division is able to deliver its core business of managing City's claims and recoveries and ensuring the City is adequately risk financed. Only legitimate claims are being paid and it is clear that adequate effort is made to ensure that any settlement amounts are fair to both the taxpayers and the claimant. Processes are in place to ensure the City is adequately insured at a reasonable cost. Workers Compensation claimants' files are being managed in a manner that ensures a claimant is provided with adequate time to rehabilitate and is returned to active work as quickly as possible.

The Risk Management Division is lacking a formal performance management system, which is necessary for the Division to better understand the areas where service delivery could improve and areas where it is operating at full operational capacity. We believe that the performance of the Division would improve with the implementation of a performance management system. The performance management system starts with an operational plan aligned with the Corporate Finance business plan which would include a mission statement, clearly defined goals, achievable service standards based on resources currently available and performance measures. Also, a formal analysis of the Division's operational capacity and adequacy of the current level of staff to provide an agreed upon service level is required for all the branches within the Division, only then can the Division begin to strike the delicate balance of delivering a realistic service level within the current fiscal restraints.

We have summarized the key observations for each Branch below.

Claims Branch

The Claims Branch has a process in place to ensure that claims are recorded in a timely fashion. Processes and practices are also in place to ensure only legitimate claims are paid and decisions are fair to both parties but they need to be formally documented. The Claims Branch needs to better manage the use of overtime and external adjusters. We found controls around the processing of payments must be improved to help ensure that unauthorized payments are prevented. There is an opportunity to streamline the claims management process by revising the payment authorization limits. There also is an opportunity to enhance recoveries by ensuring that more effort is placed on managing recoveries as process enhancements free up existing resources.

Insurance Branch

For the most part the insurance and risk financing processes are sound but the coverage and deductible level decision process should be revisited to ensure the City is adequately managing its insurable risks in a cost-effective manner. We noted a number of issues related to the management of the Insurance Reserve Fund (IRF). The responsibility for the IRF needs to be clarified. To begin with, it is unclear what the role and responsibility of each Division of Corporate Finance has with respect to the IRF. This has become a bigger issue following the retirement of the Risk Management Division accountant. We believe that the lack of clarity about roles and responsibilities has contributed to a number of issues including: The IRF balance is below the $4.5 million recommended level; the funding formula for the Insurance Reserve Fund requiring revision to ensure that the departments who place a greater burden on the IRF contribute an appropriate amount; and the accounting practices for the IRF requiring clarification.

Workers Compensation Branch

The Workers Compensation claims process is functioning as intended. Although, the Workers Compensation Branch is not responsible for workplace safety we did note that throughout the City efforts towards the prevention of workplace injuries must be strengthened, the City has an injury rate of approximately double the Manitoba average as reported by the Workers Compensation Board of Manitoba. A succession plan needs to be developed for the Workers Compensation Branch, with a focus on the Workers Compensation Coordinator position to ensure continuity in the functions this branch performs. Finally, we believe the adequacy of the Workers Compensation Reserve should be revisited.

MANDATE OF THE CITY AUDITOR

The City Auditor is a statutory officer appointed by City Council under the *City of Winnipeg Charter Act*. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City's Public Service. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. Once an audit report has been communicated to Council, it becomes a public document.

AUDIT BACKGROUND

The audit was identified in the City Auditor's Audit Plan for 2009 to 2010 and endorsed by the Audit Committee.

The purpose of this audit is to report to the Audit Committee and Council on the efficiency and effectiveness of the Risk Management Division.

AUDIT OBJECTIVES

The objectives of this audit were to:

- assess the operational performance of the Division;
- determine whether adequate systems, practices and controls are in place to achieve the Risk Management Division goals and objectives; and,
- determine the extent reported service performance results are complete, relevant, accurate, balanced and meaningful.

AUDIT APPROACH

We have conducted the audit in accordance with generally accepted auditing standards. **Appendix 1** provides a flowchart of the audit process.

- We conducted interviews with the management and staff in the Risk Management Division to obtain an understanding of current processes and procedures.
- We obtained and reviewed financial and statistical data related to risk management operations.
- We reviewed risk management standards, procedures and other relevant background information as well as industry and other jurisdictional data to gain an understanding of risk management operations and standards within the industry.
- We conducted interviews with staff in the Corporate Support Services Department, Public Works Department, Winnipeg Fire Paramedic Service, Winnipeg Police Service, Winnipeg Transit and Water and Waste Department with respect to management practices of workers compensation claims.

AUDIT SCOPE

The audit covered the period January 1, 2005 to December 31, 2009. The scope of our audit included the transactions, processes, policies and practices in place at the Risk Management Division during this period. We believe that this scope affords us the ability to analyze emerging trends without a pervasive risk of losing context in the examination due to continually changing social, environmental and economic circumstances.

We have undertaken appropriate procedures in an attempt to verify the accuracy of the information we were provided. At various times during the review, due to information system limitations, we were unable to obtain information to support our analyses.

AUDIT CONCLUSIONS

The audit work performed led us to the following conclusions:

- The operational performance of the Risk Management Division requires improvement in the processing of claims and recoveries. Service standards have not been established nor has an analysis of the resources required to achieve the desired standards been performed.
- The Risk Management Division is lacking a clear set of performance goals to evaluate results against. However, aside from the noted exceptions in the Observations and Recommendations section of our report, adequate systems, practices and controls are in place to ensure the Risk Management Division achieves its overall business objectives.
- Few performance measures have been established by the Division. The Division needs to develop and report on key performance indicators for all significant areas of operations. The performance information should provide insight into whether the Division is achieving its goals and objectives.

ACKNOWLEDGEMENT

The Audit Department wants to extend its appreciation to the management and staff of the Risk Management Division of the Corporate Finance Department and staff of the Corporate Support Services, Finance Department, Public Works Department, Water and Waste Department, and Winnipeg Fire Paramedic Service, Winnipeg Police Service and Winnipeg Transit.

Member of the Audit Team
Jason Egert, CA•CIA Project Leader

Brian Whiteside, CA•CIA
City Auditor

June 17, 2011
Date

RISK MANAGEMENT DIVISION BACKGROUND

The Risk Management Division is part of the Corporate Finance Department. Risk Management provides an internal service to civic departments that protects the City's assets and its ability to provide services and meet its objectives by reducing its exposure to losses through initiating or proposing:

- risk control measures aimed at loss prevention and the reduction of severity and unpredictability of losses; and
- risk financing measures aimed at achieving a strategic balance in the payment of losses (e.g. self-insurance, external insurance).

The key goal of the Division is optimization of loss mitigation activities and minimization of loss payments. The Division has a full time equivalent (FTE) complement of thirteen staff.

The Division is responsible for dealing with claims made against the City by the public, purchasing insurance and setting insurance requirements for the City, and working with departments throughout the City to ensure risk identification, assessment and loss control are in practice. Risk Management Division is made up of three distinct branches:

- Claims Branch - responsible for the post-loss management of claims and recoveries with an aim to mitigation of losses once an incident has occurred.
- Insurance Branch - responsible for securing and management of the City's insurance policies as well as the management of the insurance requirements of third parties that conduct business with or on behalf of the City and other risk financing measures.
- Workers Compensation Branch - responsible for the management of the City's Workers Compensation claims.

An organizational chart of the Risk Management Division is included in **Appendix 2**

KEY RISKS

The following potential key risks associated with the Risk Management Division were considered in the conduct of the Audit:

- Insurance cost escalation due to internal insurance requirements, external market conditions and both internal and external claims events
- Fraudulent claims
- Lack of policies and guidelines to properly direct risk and claims management
- Lack of clear accountability
- Too much reliance on self-insurance or too much reliance on insurance
- Fraud
- Inadequate number of staff to meet demand for service
- Inadequate funding to complete scope of work within acceptable service standards
- Inadequate reserves to address future claims and optimize loss mitigation strategies
- Insufficient information available to adequately determine the City's exposures to ensure the associated risks are adequately managed
- Inadequate performance information to effectively manage the Risk Management Division

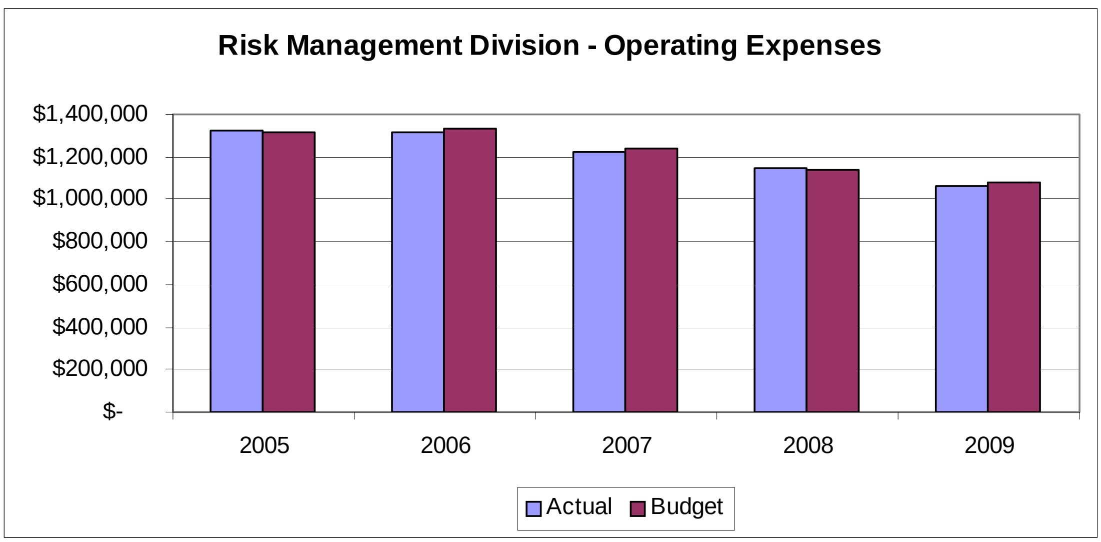
PERFORMANCE ANALYSIS

Few formal performance measures have been established by the Risk Management Division to monitor the effectiveness and efficiency of risk management operations. This analysis is limited to the performance data that is regularly tracked and reported by the Division. We have supplemented these performance measures with our own analysis of the Risk Management Division's performance from the data within the systems used, primarily Risk Master and PeopleSoft supplemented with statistics that were kept on separate spreadsheets. We have included this supplementary information in the *Observations and Recommendations* section of this report to highlight the importance of establishing a broad set of key performance measures in the ongoing management of the Division.

Financial

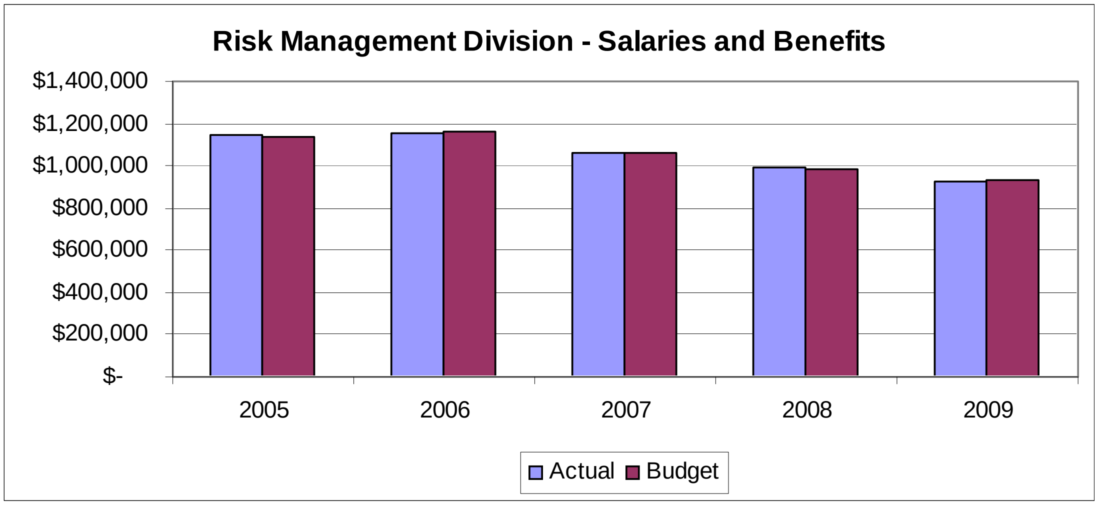
The financial results for the Risk Management Division for the years 2005-2009 are shown in Exhibits 1 and 2 below:

Exhibit 1



Risk Management Division operating expenses, not including claims settlements, have been on a decreasing trend since 2006 and have decreased 19.7% from $1,320,512 in 2005 to $1,060,487 in 2009. The reduction in operating expenses has been achieved primarily through the reduction in staff. As seen in Exhibit 2 below salaries and benefits expenses have decreased by 19.5% from $1,149,144 in 2005 to $924,522 in 2009. We will explore the effects of this strategy on service levels later in the report.

Exhibit 2



The number of Workers Compensation and Tree Root claims are reported in the Adopted Operating Budget. Exhibit 3 highlights the information as it was reported in the Adopted 2010 Operating Budget. These measures provide information on the volume of work performed in the Division. The number of Workers Compensation claims has remained relatively constant for the period 2006 through 2009. There has been a 16.2% increase in the volume of tree root claims from 2006 through 2008, with a 19.2% drop in 2009. The problem with service level information in isolation is that it does not provide much insight into the efficiency and effectiveness of operations of the respective branches. Efficiency indicators include measures such as claims processed per staff or effectiveness measures include measures such as dollar value per claim or average response time to department queries.

Exhibit 3

Service Level Statistics

	2006	**2007**	**2008**	**2009**
Workers Compensation Claims	1,057	1,038	1,038	1,024
Tree Root Claims	4,077	4,765	4,736	3,824

OBSERVATIONS AND RECOMMENDATIONS

The remainder of this report details our observations and recommendations. We believe the issues identified are important and implementing the recommendations will assist management of the Risk Management Division in achieving better results. A complete summary of our recommendations is attached as **Appendix 3**.

Risk Management Division

An operational plan complete with a mission statement, clearly defined goals and performance measures needs to be developed

It is accepted best practice in all lines of business that in order for an organization to excel it must first have a clear understanding of what it wants to achieve at a high level (i.e. mission statement). Management should establish goals and strategies to outline how it intends to fulfill the mission. These goals should be clearly defined and measurable. Performance measures must be established to monitor the organization's progress in achieving the goals. The operational plan should also identify the key risks that could prevent the achievement of the goals and develop action plans to manage these risks. We noted that the Risk Management Division did not have a current operational plan. We also noted that there were no complete operational plans for the period under audit. We did find an incomplete operational plan which was dated November 6, 2007. This operational plan consisted mainly of a risk assessment concerning the Division's ability to deliver its service given the current staff complement and lacked the other key elements of a complete operational plan. Management should develop an operational plan where a mission statement is clearly articulated and goals and strategies to support this mission are established and finally the risks are identified and plans are put in place to manage these risks.

Recommendation 1:
The Corporate Risk Manager needs to develop an operational plan for the Risk Management Division that includes the following:

- a clearly defined mission,
- clearly defined and measurable goals and strategies designed to fulfill the mission,
- a risk assessment to identify the key risks that could prevent the achievement of goals and strategies, and
- action plans to manage these risks.

The operational plan should be revisited and adjusted annually to reflect the dynamic environment the City operates within. We further recommend that the division hold a facilitated planning session to ensure all Risk Management staff are involved in the planning process and use this as a venue to help identify any underlying risks, internally and externally, that could impede the achievement of the Division's objectives.

Management Response

Management agrees that an operational plan is warranted. The operational plan for the Division must be consistent with the corporate direction the City chooses to take on risk management. The operational plan must ensure that the Division's mission, mandate, processes and procedures respond to the departments' requirements and employ a prudent risk strategy for the City overall.

There have been key management changes in 2009, 2010 and 2011; including the Risk Manager, Supervisor of Insurance and Risk Financing and the Supervisor of Claims and Loss Control and development of an operational plan will assist the Division prioritize the work conducted in the division. Management will establish applicable terms of reference, strategic and operational process and timelines no later than the beginning of Q3 2012.

Performance management needs to be improved

Few performance measures or service standards have been established and regularly monitored and reported on by the Risk Management Division. Performance measures and service standards enable division management to monitor the effectiveness and efficiency of Division operations and to determine if the Division is achieving its goals. We were able to find two measures in the 2009 Service Based Operating Budget. They are the number of Workers Compensation claims and the number of Tree Root Claims. These measures provide information on the volume of work for these two types of claims and do not assist in the determination if the Division is performing well or meeting the needs of its clients. We did find that one service standard had been established for the initial processing of a claim (i.e. issuance of a letter acknowledging the receipt of the claim and assignment of a Claims Adjuster within ten days) is being monitored. We did not find any service standards established for the processing time for a claim or recovery. We did not find any information on the average time spent on a claim. We found that the division primarily monitors performance on an ad-hoc basis, usually in the form of inquires of the system. While this may satisfy the immediate operational needs, these ad-hoc requests do little to establish a set of agreed upon performance measures and service standards that can be used to monitor the Division's progress towards achieving its goals and manage its risks. In addition, we noted that the Division has access to considerable data within the Risk Master system. We believe that this data could easily be translated into usable performance information that would serve to assist the Division in the management of its operations.

Recommendation 2:

The Risk Management Division should develop and report on, a comprehensive set of performance measures for each key area of the business. Examples of key measures include claims processing time, staff productivity, etc. The performance information should provide insight into whether the Division is efficiently and effectively achieving its goals and objectives. The Risk Management Division should also establish a set of service standards, in particular for its Claims Branch. Ideally, service standards should be established and approved by Council as well as full consideration of resources available to the Branch.

Management Response

The City has recently joined the OMBI benchmarking initiative and performance measurement at the City is evolving. Any performance measurements/systems implemented by the Risk Management Division must be consistent with the city-wide approach.

In January 2011 the Division upgraded its claims management system which has enhanced functionality and improved management information which will assist in identifying and tracking key performance measures.

Consistent with the OMBI balanced score card initiative that the City is supporting, Risk Management service measures will be assessed and proposed to support the OMBI Initiative by beginning of Q3 – 2012 and targets will be developed in conjunction with the operational planning exercise.

Claims Branch

The Claims Branch is responsible for the processing property claims and bodily and personal injury claims. The claims process primarily starts with the City's 311 service where the claim is reported. The claim is downloaded by the Claims Branch and is entered into the Risk Master system and is assigned to the applicable adjuster or department as required. Once a claim is assigned to an adjuster, the claimant is informed that the City has received their claim and identifies the claims adjuster assigned to the file. The service standard is to reply to a claimant within ten days of the initial 311 call. This standard has been met 100 percent of the time for both 2009 and for January to August 2010.   The adjuster then adjudicates the claim, which can involve a site visit, follow-up with the claimant, follow-up with the affected department and an inquiry with the City's Legal Department. Some of the work associated with these claims, especially in periods of high volumes (e.g. significant weather events), is completed by an external adjuster. Once a claim is adjudicated, the claimant is informed of the settlement amount, if any, and they sign a release with the City and the settlement payment is processed. If the claimant is not satisfied with the decision they have three levels of appeal available to them.

The number of claims the City receives and processes has been steadily increasing since 2006 (see Exhibit 4). There has been a 9.8 % increase in the number of claims from 2007 to 2009. There are four main sources of claims: First party - licensed vehicle, General liability – property damage, Third-party licensed vehicle, and City property – uninsured (see Exhibit 5). Over the past five years these four categories represent 85.1 % of the total number of claims.

Exhibit 4

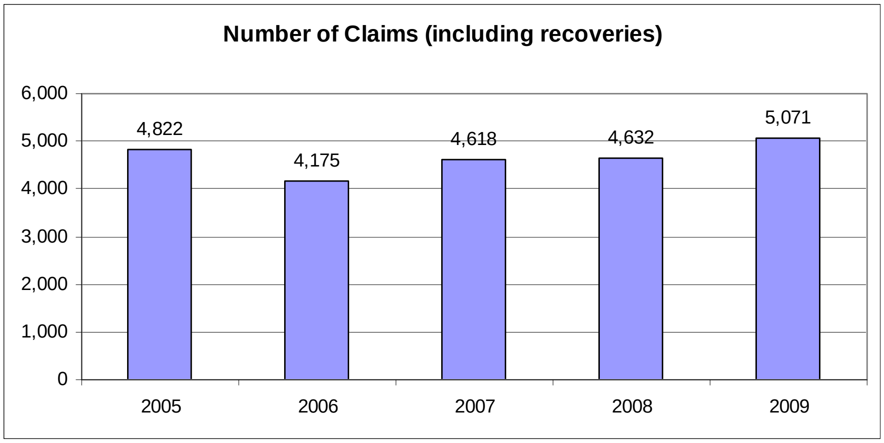


Exhibit 5

Claim Type	2005	2006	2007	2008	2009	Total
City Prop - Uninsured	869	698	818	873	610	3,868
Gen Liab - Prop Damage	1,807	1,200	935	727	1,097	5,766
Licensed Veh - 1st Party	1,230	1,214	1,711	1,687	1,761	7,603
Licensed Veh - 3rd Party	348	535	492	594	633	2,602
Other	568	528	662	751	970	3,479
	4,822	4,175	4,618	4,632	5,071	23,318

Service standards for claims processing times should be established

We could not conclude on the timeliness of the processing of claims because no service standards have been established for the completion of a claim. Our analysis on page 17 of this report found that while the number of files being completed within 30 and 90 days has improved, the number of open files has almost doubled (see Exhibit 6). We understand that although each claim has unique components making it difficult to determine exactly how long each claim will take to process. We believe that the vast majority of claims are routine in nature and that service standards could be established for "routine" claims. These service standards could be used to better measure and manage Branch performance. We also understand that the establishment of service standards may not be possible for complex claims such as some bodily injury claims. But this should not limit the Branch from establishing service standards for the other more routine claims. Without realistic service standards, based on the resources available to the Branch, there is no basis on which to evaluate the performance of the Branch. The lack of service standards can lead to misperceptions from the public on how fast a claim can be completed. This can result in staff feeling undue pressure from the public to meet the public's differing expected service standards. A clearly communicated service standard serves to set realistic expectations on behalf of the public as to what level of service the City can afford to provide. The claims are processed by the Claims Branch on behalf of city departments and as such the city departments play a vital role in the delivery of this service. The Claims Branch's ability to deliver a certain service standard to the public is reliant on the respective city department's ability to provide the necessary information to process a claim in a timely manner. Therefore, we believe a formal service level agreement between the city departments and the Claims Branch may be necessary to outline the service level expectations the Claims Branch requires from city departments in order to meet the Claims Branch's service standards to the public. A formal recommendation addressing the establishment of service standards and performance measures is provided in Recommendation 2 as it is applicable to the entire Risk Management Division.

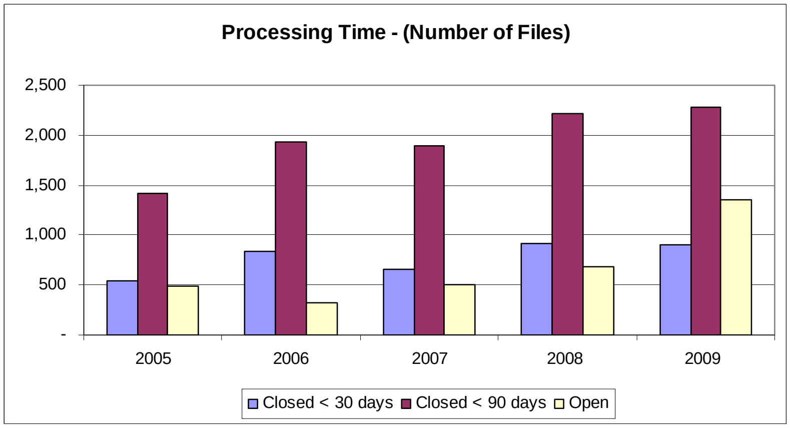
Human Resources

Staff workloads and workflow should be reviewed and potential staff shortages that effect the desired level of service should be addressed

We found that the Supervisor Claims and Risk Control (the Supervisor) is required to spend a large portion of his time on operational related issues, such as handling problem claims, drafting briefing notes and reports to the CFO for approval to settle claims over $5,000 and $10,000 respectively, transferring the claims data from the Lagan system from 311 centre to Risk Master, administering recovery claims and signing the cheque requisitions for all claim settlements up to his authority level ($5,000). This allows limited time to perform key management responsibilities such as performance management or mentoring, general financial management or strategic planning. For supervisors and managers to be effective, time must be allocated for key responsibilities such as performance management, financial management and strategic planning and establishing formal policies and procedures. When management and supervisory positions are performing "the work" the experience and competencies of the person in the position are underutilized and "the work" is not being performed in an efficient or cost effective manner.

We also found that the number of Claims Adjusters have been reduced from four positions to two positions in 2008. According to a high level analysis performed by the Supervisor this has resulted in an increase in the total number of open claims handled by the two adjusters. The total number of open claims had risen from 461 as of September 2008 to 965 in April 2009 and had dropped to 896 in March 2010. This is approximately a doubling in the number of open files. However, a portion of this increase can be attributed to the extraordinary flood events during the period under audit review. Some of these claims are time consuming to process due to the nature of these events. Under normalized conditions, the level of staffing may be appropriate. Although the time it takes to process a claim was not actively tracked by the Branch, we measured the time from the opening of file to the closure of a file.

Exhibit 6



We found that the number of files being completed within 30 days and 90 days has actually increased relatively constantly despite a loss of two Claims adjuster positions in 2008 (see Exhibit 6). This indicates that productivity has improved over this period. However, of greater concern from a service delivery standpoint is that the number of open files has increased significantly from 688 in 2008 to 1,352 in 2009 which supports the Supervisor's high level analysis. This increase in open files demonstrates that the increase in productivity is not enough to offset the loss of half of the Claims Adjusters.

In the fall of 2009, overtime for Claims Adjusters was approved to address the file backlog in the short term. In addition, the Branch had the ability to contract out files to an external adjuster. Since the fall of 2009 the Claims Adjusters have worked on average 1.2 hours overtime per day in 2009 and 0.85 hours overtime per day in 2010. We noted that the external adjuster has not been used extensively to date. No claims were referred to the external adjuster in 2009 and only 56 claims were referred up to June 2010. To date, the use of overtime has resulted in Claims Adjusters just being able to keep up with the increase volume in claims and has had limited impact on alleviating the backlog.

We understand that two Clerk B positions were transferred to the 311 Contact Centre in 2009 to reflect the transfer of the taking of reports from claimants to the 311 Contact Centre. Staff interviewed stated that this work actually only represented 25% of the four Clerks total workload, so the workload of the two remaining Clerks was effectively increased by 25% through the transfer of the two positions. Note that no detailed analysis has been performed by the Claims Branch to confirm this. Since the 311 Contact Centre has been operating for more than a year it may be a good time to perform a job analysis for the Clerk Bs to determine if the Division has adequate staff resources for effective and efficient service delivery. These positions require considerable knowledge of claims processes and are a valuable resource in ensuring a claimant has provided adequate information to the City to efficiently process their claim. Ensuring this position is adequately staffed and that 311 staff dealing with claimants are adequately trained in obtaining the necessary information to efficiently process a claim is important to the quality of the service being delivered to the public.

Recommendation 3:
The Corporate Risk Manager should conduct a workflow and workload analysis for the positions within the Claims Branch and prepare a formal operational plan on how to address any potential staffing shortages affecting service delivery.

Management Response

Significant staff changes, both in supervision and service delivery within the Claims Branch requires that a workload/workflow analysis be undertaken to address the current and ongoing levels of claims.

The Division recently completed a comprehensive review of the external advisory consulting services and a Request for Proposal for provision of insurance and related risk management services was closed and awarded in January 2011. The division will seek advice from the approved suppliers on best practice claims management service processes and will be asked to provide feedback on the operations of the City's Claims Branch. The Division will review staffing levels, workload, workflow, service standards and use of external adjusters to ensure value for the citizens of Winnipeg. This analysis is targeted to be completed by the beginning of Q2 - 2012.

Overtime and use of external adjuster need to be better managed

As reported in the preceding section, overtime and the use of an external adjuster was approved in the fall of 2009 to address the backlog of open claims. We found that there was only verbal authorization from the CFO to proceed with the use of overtime and an external adjuster. The 2010 operating budget, included an overtime budget of $2,000 and no budget for an external adjuster. We found for 2009 that the actual overtime expense was $7,383 and there was no use of an external service provider to address the backlog at that time. For the first 25 weeks of 2010, overtime costs are $10,537 which already exceeds the 2010 budget five fold. Extrapolated to the end of 2010 this would be $21,917 which is $19,917 over budget and ten times the approved budget. We found that there is no specific requirement for supervisory approval prior to the overtime being worked making it difficult to manage the amount of overtime worked over the year.

We also noted that for the first 25 weeks the claims adjuster had assigned 56 files to an external adjuster. From a review of the two invoices received to date the adjuster charges approximately $250 per file which translates to $14,000 year to date. An anticipated expense of this magnitude should be planned and budgeted for. We also noted that there is no contract in place for the external adjuster and the external adjuster was directly assigned outside of a competitive process. We would expect to see a standard contract and a pre-qualified Claims Adjuster listing in place for external adjusters that would outline the service level expectations and the rate of remuneration. We also noted that the files provided to the external adjuster were only formally tracked by one of the Claims Adjusters using a spreadsheet. Risk Master does have a field for a secondary adjuster so that the external adjuster's name could be entered and the files sent to external adjuster could be tracked through Risk Master. Without formally tracking the files the external adjuster is assigned it is difficult to manage their performance to ensure they are providing their service on a timely basis. It also makes it more difficult to review the accuracy of the invoices submitted for services rendered. We did note that the Branch has good practices in place to ensure that external adjusters are only paid for work they perform because before an invoice is paid the external adjuster must have submitted a claim report that is electronically attached to the claim. Given that the backlog of open claims is still high the use of overtime and external adjusters will likely increase so better processes should be in place to effectively manage these resources.

Recommendation 4:
The Corporate Risk Manager should ensure there are adequate processes in place to manage the use of overtime and the use of external adjusters. These processes should include, at a minimum, formal approval of overtime, managing to the budget and a standard contract for adjusters and a pre-qualified contractor listing for external adjusters.

Management Response

The use or potential use of external adjusters is loss event driven and is therefore unpredictable. Having acknowledged this uncertainty, the Corporate Risk Manager will review the average use of external adjusters, reasons for their use and develop a budget going forward based on expected usage. The use of Risk Master to track external adjusters will commence by Q4 2011.
With respect to overtime, its use is again loss driven with weather events being a major driver of loss activity. Additionally, staff changes have had a significant impact on claims service delivery and the Risk Manager is reviewing the cost-benefit of using external/internal adjusters in conjunction with service standards. The Risk Manager is now pre-approving overtime and will monitor usage and cost through the City's operating forecast process and monthly reviews.

A process is in place to ensure that claims are recorded in a timely fashion

The first contact that a claimant makes with the City is typically through the 311 Contact Centre. Claim information is recorded by the 311 Centre and forwarded to the Claims Branch. A service standard was established through the 311 Initiative that requires that a claimant receives a letter acknowledging the claim, the assignment of a Claims Adjuster and the provision of a direct contact number within ten days of reporting the claim. In 2009, this standard was only missed four times out of 1,412 and two times out of 1,269 from January 1, 2010 to August 31, 2010. An investigation of the six incidents found that communication to the claimant was within ten days of receiving complete information from the claimant. So essentially the service standard has been met 100% of the time. We noted from our discussions with staff that at times there may be a misunderstanding of what the 10 day service standard encompasses. Some claimants believe that their claim will be adjudicated within the 10 days which results in frustration on the claimant's behalf when they discover that it only refers to the issuance of an initial contact letter. This expectation gap can result in unnecessary calls to management or Councillors about the service standard There is an opportunity for the 311 Contact Centre to review its practices to ensure the claimant clearly understands that all they should expect within the ten days is the initial contact letter.

Processes and practices are in place to ensure only legitimate claims are paid but needs to be formally documented

A key objective of the Claims Branch is to ensure that only legitimate claims are processed and that the losses to the City are minimized. We reviewed forty claims and recovery files and found that in all instances the claims and recovery process is working to the extent that only valid claims are considered and adequate evidence is on file to support a claim and a claim settlement. We found evidence on all files of a thorough review by a Claims Adjuster, where applicable. We found notes on file outlining physical inspections when deemed necessary to support the claim. We found proof of damage or injury on all applicable files. We noted that for tree root claims the system is designed to only allow a payment to the same address or person once every year which is consistent with the Council policy with respect to reimbursement for tree root claims. Tree root claimants are required to provide an invoice and the invoice must indicate that tree roots were discovered in order to be claimed. However, despite good processes and practices in place we found that there is no current formal documentation of the claims processing practices and procedures. These practices and procedures are known by the staff and expose the Division to the risk of these practices and procedures not being applied uniformly or potentially losing this knowledge of the practices and procedures when an employee leaves.

Processes and practices are in place to ensure settlements are fair to both parties but should be improved and documented

A key objective for the Claims Branch is that claims are settled in a manner that is fair to both the City and the claimant. We found appropriate evidence of a negotiation of a settlement on file. We found evidence of the City taking the lower of the two required quotes for repairs where applicable. However, we did not find a current set of policies or procedures that were to be followed when adjusting a claim. The Loss Procedures Manual on file did not reflect the current practices, procedures and technology in place. Instead the claims adjusters relied on their experience and the guidance provided by the Legal Department.

We also found that there were no established guidelines for the settlement of claims; this too was left to the discretion of the Claims Adjusters, Supervisor Claims, the Legal Department and the CFO within their established settlement authority limits. Through observation and a review of the files it is evident that the amount of time that is spent on a file is at least partially affected by the amount of the claim, with smaller claims receiving less effort. So Claims Branch staff have some internal guidelines as to the amount of work they should spend on a file based on the claim amount sought. This is logical; you would not expect the City to spend $500 in resources to adjudicate a $100 claim. The potential problem with the current state, where no guidelines are established, is that the amount of work that should be expended is left up to the Claims Adjuster and as a result may differ for each adjuster. Our analysis of claims paid from 2005 to 2009 indicated that there were 3,945 claims paid under $500 for a total of $1,120,760. This represented 59.8% of the total of 6,600 claims that were paid during this period and only 7.7% of the total amount of $14,608,941 paid. We believe that by establishing guidelines and possibly fast tracking the adjudication process for the high volume, low dollar amount claims some of the backlog of open claims may be reduced. By establishing settlement guidelines the Claims Branch will help ensure that claims are adjudicated efficiently and consistently. The guidelines also serve as a tool to evaluate the effectiveness of the process and the performance of staff involved in the claims settlement process.

Recommendation 5:
The Corporate Risk Manager should ensure that the key practices, procedures and policies for the Claims Branch are updated in the Loss Procedures Manual. The Corporate Risk Manager should review the feasibility of establishing settlement guidelines by type of claim and by the amount of the claim where possible with an aim to streamline the claims adjusting and settlement process.

Management Response

As part of the Claims Branch workload analysis and process review, the Corporate Risk Manager will have the Loss Procedures Manual updated in order to provide a guideline for handling various types of claims. This will be completed by beginning of Q2 – 2012 and is consistent with the response to recommendation 3.

We found controls around the processing of payments needed to be improved

We found a lack of segregation of duties for the processing of payments through Risk Master and the PeopleSoft system in Corporate Finance. We found that the same person can set up a claim file, set up a payment, change the payee name, process the interface file to be sent to PeopleSoft for processing and reconcile Risk Master with the PeopleSoft interface file. This is a serious lack of segregation of duties, brought on in part by the limited number of staff in Risk Management. This set-up could result in unauthorized payments without detection. Segregation of incompatible duties is a control element designed to prevent errors and misappropriation. At a minimum, individuals should not have responsibility for all three components of a transaction cycle: initiation, processing and reconciliation/review. Where staffing levels permit, it is preferable to segregate all three components. The Corporate Risk Manager was immediately made aware of this situation and has taken steps to correct the situation. As a follow-up to this we did perform limited audit procedures to determine to the extent possible if any payments were made to unauthorized parties. We did not detect any such transactions.

Recommendation 6:
The Corporate Risk Manager should ensure there is adequate segregation of duties for the processing of payments to claimants.

Management Response

Management has implemented workflow changes so that adequate segregation of duties is now in effect.

Payment authorization limits should be revised

The Claims Settlement By-law 3349/83 requires that the Supervisor of Claims and Risk Control Services or the Corporate Risk Manager must authorize all claim settlements for payments up $5,000.The City Solicitor has a limit of $10,000; EPC has a limit of $250,000 and delegated a portion of its authority (up to $100,000) to the Chief Administration Officer who then delegated this full authority to the Chief Financial Officer. These limits have not been revisited since 1993 and are low in comparison to the purchasing limits of most City Department Heads that can enter into consultant contacts up to $100,000, with some being able to enter into contracts up to $2,000,000. These low limits have resulted in onerous reporting requirements in order to receive approval from the Chief Financial Officer (CFO). Currently a Briefing Note to the CFO with Legal input must be submitted to the CFO for approval on all settlements between $5,000 and $10,000, and a formal Report to CFO with Legal input is required for all settlements greater than $10,000. We found for the five year period 2005 to 2009, 169 Briefing Notes and another 219 Full Reports, were prepared for CFO review and approval. This translates to approximately 78 reports per year. If the authorization limit were increased to $25,000 during this period, it would have reduced the total number of reports required to 79, a reduction of 79.4% and would have still covered 45.7% of the total dollar value of the transactions for that period. In order to effectively and efficiently process claims a balance has to be struck between management review and delegation of authority. Given the expertise in the Risk Management Division and the Legal Department we believe a revision to the current authorization limits is warranted and that a further delegation of authority to settle claims is warranted.

Recommendation 7:
The Chief Financial Officer (CFO) should revaluate the claims settlement authorization limits with a mind to further delegating some of the CFO's authority to the Corporate Risk Manager and City Solicitor. We further recommend that the Corporate Risk Manager authorization limit should be increased to at least $25,000. The Corporate Risk Manager should reevaluate claims settlement limits within the division with a mind to further delegating a portion of his settlement authority to the Supervisor Claims The CFO should take the necessary actions to affect these changes.

Management Response

Management agrees that claims settlement limits could be further delegated to the Risk Manager. This would require revision to the Claims Settlement Bylaw #3349 and will be completed by Q1 2012.
The Public Service will recommend to Council that the Corporate Risk Manager claims settlement delegated authority be increased to $10,000. The Risk Manager would then submit a quarterly report to the Chief Financial Officer that would summarize all settlements based on claim type and value. One year after implementation Management will determine if any further delegation is warranted.

Claims appeal process is not timely

All claimants are informed of their right to appeal a decision or present new evidence in the settlement letter. A claimant has three avenues for appeal: first to Corporate Risk Manager, second to Chief Financial Officer and third to the Ombudsman. Aside from that some claimants do attempt to circumvent the system through direct appeals to their Councillor or the Mayor. Through our interviews with the Corporate Risk Manager and the Supervisor Claims and Risk Control Services we found that this process can take months. Management indicated that this was primarily due to the current workload on Risk Management staff. Management also indicated that decisions are rarely overturned unless significant new information is presented. This is due, at least in part; to the fact that claims adjusters have no claims settlement authority so all settlements are reviewed by the Supervisor Claims or the Corporate Risk Manager. The number, status and outcome of appeals is not being formally tracked or reported on. We believe that the status of appeals needs to be monitored better and reported to the CFO on a periodic basis to ensure that appeals are dealt with in a timely fashion and to highlight some of the reasons for delays so that they may be addressed.

Recommendation 8:
The Corporate Risk Manager should ensure that a process is established to track and report on the handling of appeals. At minimum, the number of appeals, the type, the result and processing time to resolution of each appeal should be monitored.

Management Response

Management agrees that the current appeals process is lengthy given the number of actual appeals each appellant is allowed to make. A more streamlined approach will be proposed to the CFO with target implementation of Q1 2012.
The Corporate Risk Manager will establish both a tracking mechanism and establish maximum timelines for response (at each level). In addition, the Risk Manager will report to the CFO on a semi-annual basis on outstanding appeals. These will be implemented by end of Q1 2012.

Recoveries should be better managed

The Claims Branch is also responsible for recoveries, even though some of the work associated with recoveries is performed by staff outside the Branch. Recoveries represent approximately $1,000,000 annually (see Exhibit 7). In 2008, recoveries were considerably higher due to the recovery from our insurer regarding the St. James basement flooding claims. Recoveries usually involves ensuring the City receives the payments for insured losses (mostly related to Manitoba Public Insurance) and that the City only pays for the portion of the loss, if any, that the City is responsible for (primarily related to accidents involving the City's vehicles). Recoveries from Manitoba Public Insurance represent a significant portion of all recovery claims (see Exhibit 8 and Exhibit 9). Except for 2008, Traffic Signals Asset Management (Public Works), Winnipeg Police Service and Winnipeg Transit account for the majority of the recovery claims, with Traffic Signals representing the largest portion (see Exhibit 10).

Exhibit 7

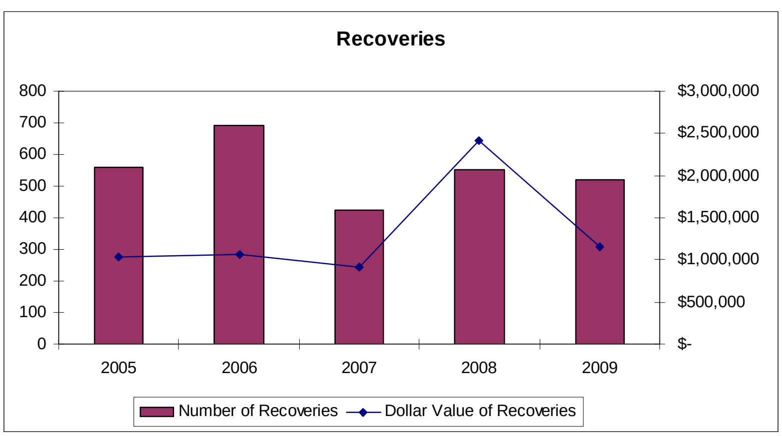


Exhibit 8

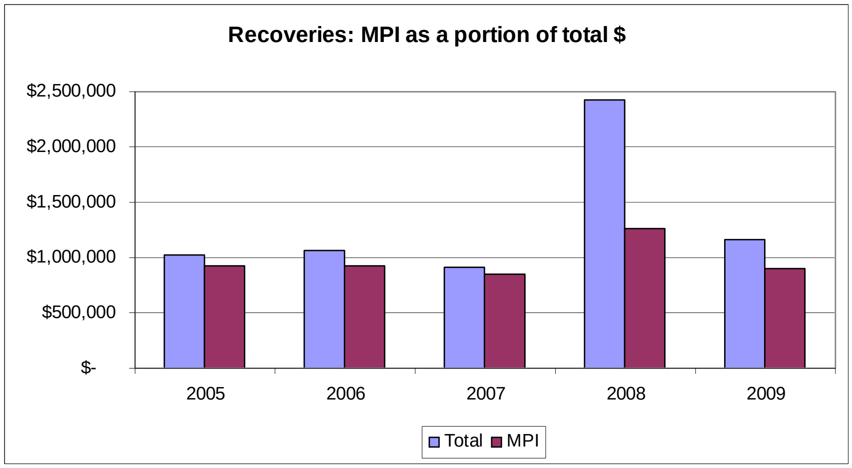


Exhibit 9

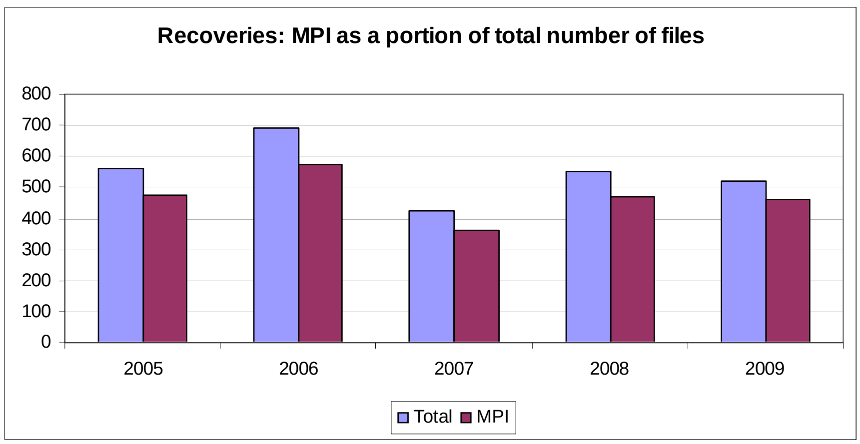
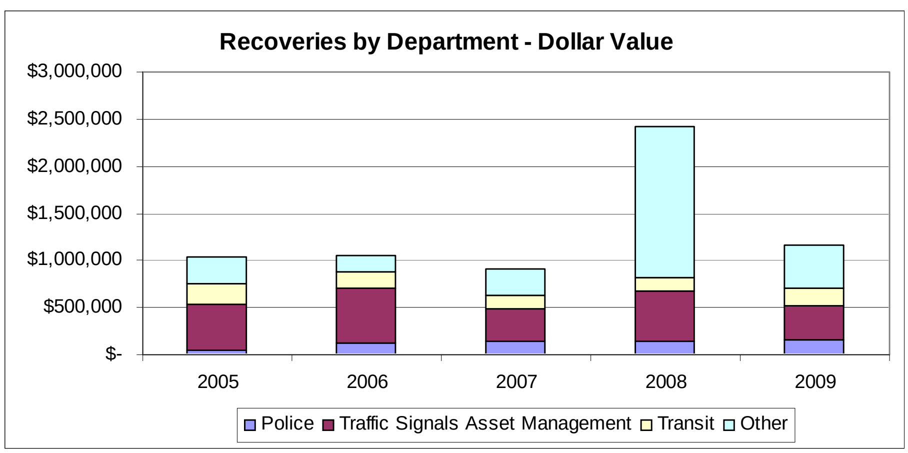


Exhibit 10



Over the past five years the Branch has lost all three of the dedicated recovery positions and has shifted this work to several people within the Risk Management Division as an add on to their existing duties. This has resulted in a lack of focus on recovery efforts. We found in our *Traffic Signals Branch Performance Audit* that there is a backlog of six to eight months with respect to entry of MPI recovery claims into the Risk Master System. The backlog coupled with an inability for Claims Branch staff to devote sufficient time to follow-up, let alone enter these claims has resulted in a large number of recoveries not being followed up by the Claims Branch and simply being closed for lack of support (usually the result of missing vehicle identification). Our report highlighted the fact that Traffic Signals wrote off $328,600 in receivables from potential recoveries in 2008 and $424,600 in 2009. Since this issue was raised during the course of this Audit, Claims Branch staff have met with MPI and MPI has agreed to receive all claims and will attempt to match them with claims at the same location made by motorists. Workload requirements and priorities need to be reviewed so that recoveries are processed in a timely fashion and that the recovery of reasonably supported City claims is pursued.

Recommendation 9:
The Corporate Risk Manager should ensure responsibility for recoveries is assigned and the process for managing recoveries is reviewed and communicated to staff involved in the process.

Management Response

As stated many outstanding recoveries are associated with MPI claims where the City or Winnipeg Police Service have no record of plate number or in some cases even a Police Report. In 2010, the Corporate Risk Manager arranged meetings with MPI management to see if it would be possible to have MPI match their claims adjusting information with dates of incidents. To date, this process has shows a higher level of recoveries from MPI.

The Corporate Risk Manager, along with the Supervisor, Claims and Risk Control will review the outcome of the recovery program with MPI by June 2011 – when the program has been in place for approximately 1 year. The Corporate Risk Manager will assess to the cost-benefit of this initiative to determine if it is feasible within the existing resources to assign a dedicated resource to manage recoveries. This analysis will be completed by the beginning of Q1 - 2012.

Insurance Branch

The Insurance Branch is responsible for ensuring the City has adequate insurance coverage for the risks that are insurable. The Insurance Branch is also responsible to ensure the people and businesses that contract with the City also have and maintain adequate insurance. Within this broad description of responsibilities the Insurance Branch employees are responsible to carry out a variety of tasks to ensure the City and groups conducting business on City property are adequately insuring their risks and are maintaining adequate insurance. The work involves the storage and organization of large volumes of information ranging from ensuring asset listings are maintained and up to date to verifying insurance coverage held by contractors is renewed and kept up to date. The Insurance Branch is comprised of three employees, the Supervisor Insurance and Risk Financing, the Insurance Underwriter and an Insurance Clerk. The level of staffing has remained constant over the five years analyzed despite an increase in the amount and complexity of the work being performed.

One of the key responsibilities of the Insurance Branch is ensuring that the City's insurance needs are met in a fiscally prudent manner. The City's insurance costs, not including special project insurance, has been increasing modestly on a year to year basis (See Exhibit 11). Insurance costs have increased 9.4 %over the five year period under review. The increase in premiums is reasonable considering the 69.3 % increase in the value of assets being insured (see Exhibit 12) and the City adding $100,000,000 in Excess Property coverage in 2007 at a cost of $50,000, effectively increasing the single occurrence limit to $400,000,000 for property claims.

Exhibit 11

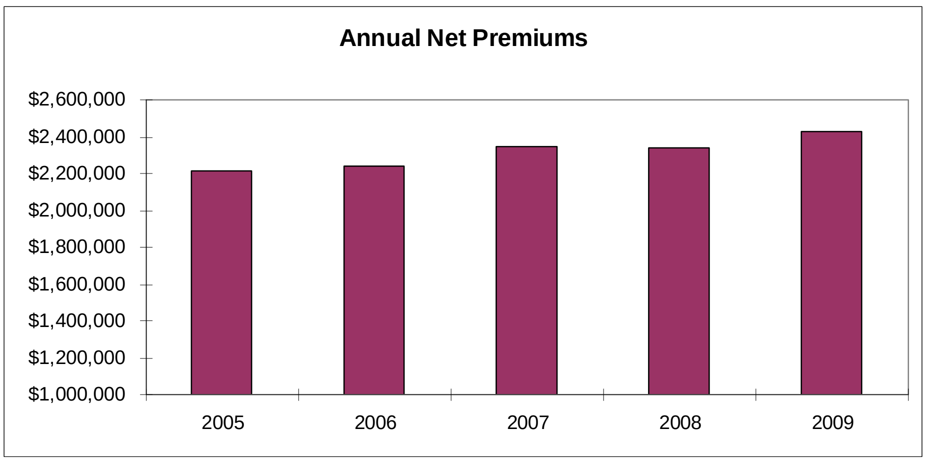
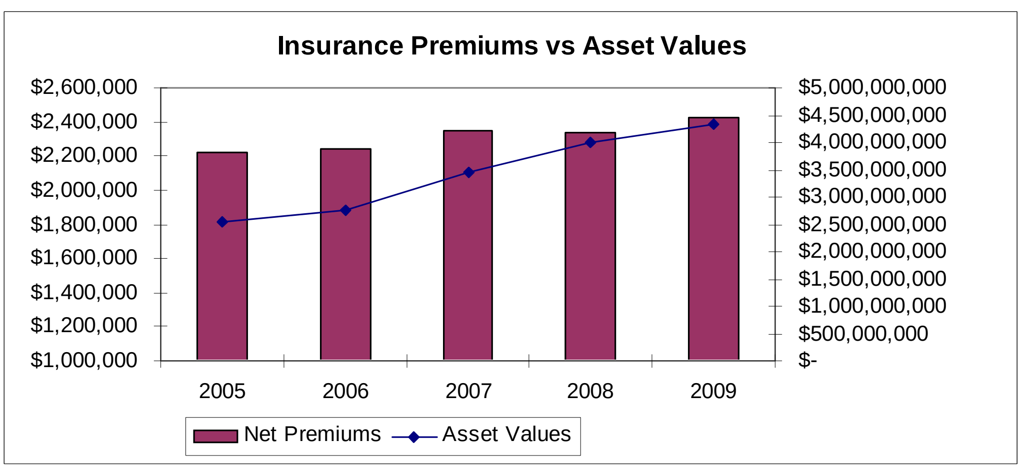


Exhibit 12



For the most part the insurance and risk financing processes are sound but the coverage and deductible level decision process should be revisited

The purchase of insurance is a significant portion of the total cost of risk financing, as it is currently calculated (i.e. self insured losses plus third party insurance costs), making up approximately one third to one half of the total costs of risk financing through self insurance and third party insurance. The City's current insurance contract is a ten month extension of a previous five year contract which was entered into after an open competitive bidding process. The extension was granted, without a competitive bid process due to extenuating circumstances (i.e. Corporate Risk Manager recently resigned and City entering into several complex P3 type agreements that required a significant amount of the Supervisor Insurance and Risk Financing's time). From our review the decision to extend the current agreement until a time where a proper competitive process could be undertaken was sound. Risk Management is currently in a competitive bid process for a five year contract for insurance services. From our analysis the net insurance premiums and broker fees for the core insurance coverage charged under this agreement have been fair and any increases have been consistent with the growth in the City's asset base. Exhibit 13 outlines the costs.

Exhibit 13

	2005	**2006**	**2007**	**2008**	**2009**
Net Premium	$2,219,794	$2,239,667	$2,345,065	$2,340,907	$2,429,310
Broker Fee	$ 125,000	$ 103,900	$ 106,200	$ 108,500	$ 110,908

Our review of the annual broker reports found the City has comprehensive coverage on property and liability insurance and in comparison to the City's claims experience. Noted exceptions in the broker's annual reports are that the City has chosen not to obtain insurance for the following: Environmental Impairment Liability, Employment Practices Liability, Municipal Error's and Omissions, and Public Officials Liability. Risk Management staff have indicated that the City has chosen to not obtain Employment Practices Liability, Municipal Error's and Omissions and Public Officials Liability insurance because they believe the City of Winnipeg Charter Act provides a valid defence to the City from liability in cases of this nature. The City has also chosen not to obtain Environmental Impairment Liability coverage primarily due to it being cost prohibitive in the past. However, for the current competitive bid process Risk Management has included Environmental Insurance with an aim to determine if it is affordable or if they will continue to self insure.

The deductible on a majority of the City's policies is $250,000, which is considerably lower than other jurisdictions. The City of Calgary's deductible is $2,000,000 and the City of Toronto's deductible is $5,000,000. Typically the higher the deductible the lower the cost of insurance because the city has chosen to self insure all amounts under the deductible. We noted that a formal analysis of the effect on insurance premiums at different deductible levels has not been conducted. Through our discussions with the Corporate Risk Manager it is likely that in order to receive material benefits in insurance premium reductions the City would have to increase its deductible to the $2 million to $5 million range and presently the City could not afford to self insure at this level as the Insurance Reserve Fund does not have sufficient funds. As a result these self insured losses would have to come from general revenue. Ultimately, an optimal balance has to be struck to lower the total cost of risks which includes at a minimum the cost of insurance from third parties and the cost of self-insurance.

We noted in both cases the decisions relating to the levels and types of insurance and the deductible level were not supported by a documented analysis. From a review of the file it was not evident what factors were considered in arriving at these decisions. We expect that coverage and deductible decisions to be supported by a documented analysis containing an evaluation of the City's exposure, the likelihood of occurrence and the cost of insuring the risk.

Subsequent to the audit we noted that processes and procedures are in development to ensure that sufficient information is available to provide a full analysis to support deductible level and insurance coverage decisions in the future.

Recommendation 10:
The Corporate Risk Manager should ensure a full analysis is performed to support decisions with respect to deductible levels and the extent and type of insurance coverage, especially the noted omissions in the annual broker's report, which includes: Environmental Impairment Liability, Employment Practices Liability, Municipal Error's and Omissions, and Public Officials Liability. This analysis should include an evaluation of the City's exposure, the likelihood of occurrence and the cost of insuring the risk.

Management Response

The adequacy of the City's core insurance programs and the deductible level is evaluated each year prior to annual renewal on May 1. Risk Management will continue to work towards ensuring more formal processes, procedures and analyses are documented to support the City's decision regarding the City's exposure, likelihood of risk occurrence and costs to transfer the risk. The Corporate Risk Manager along with the Supervisor, Insurance and Risk Financing expect that these formal processes and procedures will be in place by Q2 2012.

Annual insurance renewal process is working well overall

The City is required to renew its insurance policies annually. The City's insurance broker prepares a report annually outlining the City's current coverage and offers some advice regarding whether to switch insurance carriers and any gaps in the current insurance coverage. We noted that in some cases the brokers have recommended to switch carriers when the current carrier's rates were not reasonable compared to market ensuring the City is paying a competitive rate for its insurance needs.

Quarterly, the City is required to provide a statement of property values that summarizes the value of the property being insured to the broker. These statements of values are important as they are the basis on which the City's property is insured. The City's premiums are based on the items and values on the list. Therefore, the completeness and accuracy of the statement of values is very important. These quarterly reports are submitted using the data from the annual submission which is updated with known additions and deletions from both inquires to the departments and reviewing a list a property additions and deletions complied by the Planning Property and Development. This process is not as involved as the annual process. From our review, sufficient practices are in place to ensure the quarterly statement of values are complete, accurate and submitted on a timely basis.

An annual statement of values is prepared at renewal and is more labour intensive and requires the cooperation of all the City departments. Each department is responsible for ensuring that the listing of assets and their replacement value is complete and accurate. The Insurance Branch will check the major additions to the listings provided by Planning, Property and Development regarding real estate activities. They do encounter problems in obtaining cooperation from some departments affecting the turnaround time. We noted that the statement of values for insurance purposes is not reconciled to the Peoplesoft asset listings. The Insurance Branch attempted to do this in the past and encountered several issues concerning historical values and the lack of replacement values. The asset information in Peoplesoft consists of historical values and insurance requires replacement value and Peoplesoft does not include all assets, only ones that meet the definition of a capital asset. It was decided the process was too time consuming and ultimately did not add value. Based on the above factors we concur with the decision to discontinue this practice due to the limited value it would add to the process. A goal in the future may be to have the PeopleSoft listing incorporate replacement value so that it could serve as a reasonableness test, if not a full reconciliation.

Human Resources

The Insurance Branch currently has three employees (see Appendix 2). The number of staff has remained unchanged over the past five years. The staff are highly qualified with two of the three being Certified Insurance Professionals (CIP) and the other currently working towards receiving the CIP designation. The workload has increased by 8.9 percent over the past five years (see Exhibit 14) but the staffing complement has remained constant. The increase in volume of work has occurred in most areas except for payments being processed, where first and third party payments responsibility was moved from the Branch. In addition the recoveries for vehicle collisions were added to the Branch workload (see Exhibit 15). Staff time is being devoted solely to operational duties with no time allotted to process improvements or performance data collection or analysis.

Exhibit 14

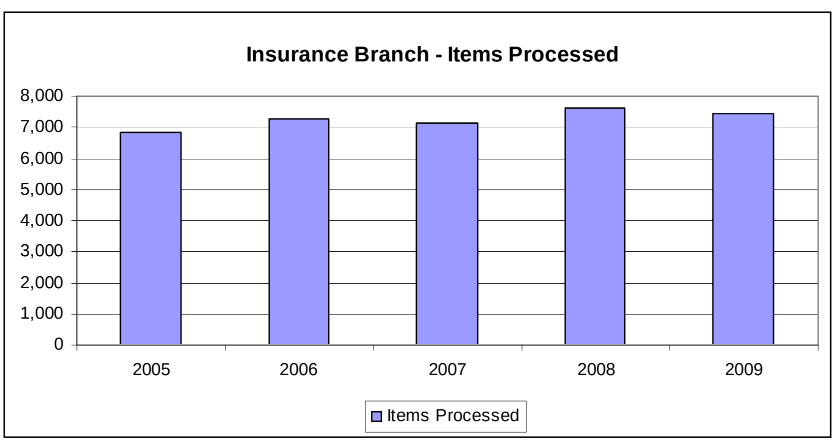


Exhibit 15
Insurance Branch Workload

	2005	2006	2007	2008	2009
Renewal Letters Sent	2,500	2,625	2,760	2,850	2,720
Certificates Renewed	1,240	1,300	1,365	1,480	1,370
Blanket Contractors Tracked	600	810	918	1,051	981
Various Permits/Bonds/Grant Tracked	253	351	345	417	553
Use Agreements Tracked	203	191	232	194	154
Contracts and Bids Reviewed	695	766	767	840	847
Payments Processed	1,258	1,132	674	664	689
Certificates arranged through Broker	72	87	89	105	112
Total	6,821	7,262	7,150	7,601	7,426

The Supervisor of Insurance and Risk Financing (Supervisor) is responsible for ensuring the City has adequate insurance coverage. The Supervisor has been able to balance dealing with the special projects and managing the branch. Special Projects (e.g. P3s, Assiniboine Park Conservancy, water treatment plants, etc.) have evolved over time to increasingly complex arrangements requiring unique insurance needs which require considerable time from the Supervisor because of their complexity and the need to be familiar with the project in order to be able to identify the risks and adequately prepare the RFP's to obtain the proper insurance for these projects. In the future, if the number and/or complexity of the special projects increases more reliance may need to be placed on our external brokers for advice and the Supervisor take on more of an oversight role for these special projects to allow the Supervisor adequate time to effectively manage the performance of the Branch.

The Insurance Underwriter and Clerk positions involve a considerable amount of follow-up with departments and external parties. The work also involves a lot of filing of paper documents which they identify as inefficient and time consuming. The Branch is currently exploring opportunities to convert to electronic filing where possible. We also found that there is adequate cross-training between these two positions, where each position can cover the majority of the other person's works during periods of absence.

We did note that major responsibilities and practices are documented for the Underwriter and Clerk positions. However, we noted that they have not been updated since 2004. This documentation consists primarily of brief instructions on how to perform a specific task supplemented with emails or guidance on how to deal with unique situations. We noted that there was no documentation for the Supervisor position. Documentation of the major duties and guidelines of each position is important in ensuring continuity in the event of staff absences or turnover and ensuring consistency in practices.

Recommendation 11:
The Corporate Risk Manager should ensure the Supervisor Insurance and Risk Financing position's major practices and the Insurance Branch policies are codified and the Insurance Underwriter and Insurance Clerk procedures are kept up to date.

Management Response
Policy and procedural manuals are under development and will be completed by Q1 2012.

Insurance Reserve Fund

The Insurance Reserve Fund (IRF) is established to fund the City's cost of risk and to provide a cushion for departments in years where claims exceed the budgeted normal expected amount. It is funded by charging annual premiums to the departments. The intention of the IRF is to be used for insured losses with uninsurable losses to come out of general revenue, as currently there is no specific reserve set up for uninsurable losses. Exhibit 16 shows that the net expenses out of the IRF have been increasing from 2005 to 2008 with an 18.6% reduction in 2009.

Exhibit 16

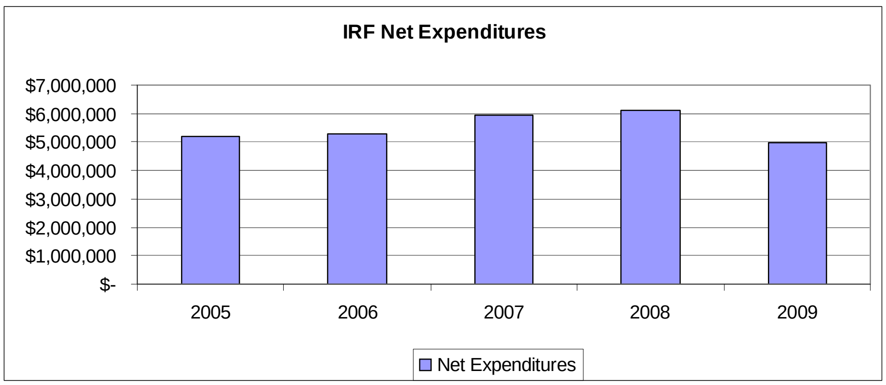


Exhibit 17 provides a further breakdown of the net IRF expenses and in 2008 and we can see a significant increase in the Claims-Over Deductible category and a corresponding increase in recoveries. Both were a result of the payment of claims to the City by the homeowners and reimbursement from our third party insurer regarding the St. James basement claims. In 2009 Claims – Over Deductible declined significantly and Claims – Under Deductible saw an increase. The $280,000 under Other in 2005 was related to deficit avoidance.

Exhibit 17

IRF Expenditures and Recoveries

	2005	2006	2007	2008	2009
Premiums	$ 3,129,803	$ 3,078,021	$ 3,241,990	$ 3,240,821	$ 3,486,556
Claims-Over	$ 1,772,495	$ 2,102,484	$ 2,601,011	$ 3,597,855	$ 1,501,692
Claims-Under	$ 496,599	$ 520,328	$ 503,361	$ 600,741	$ 842,905
Tree Roots	$ 191,266	$ 191,753	$ 225,282	$ 225,710	$ 182,455
Other	$ 280,000				
Recoveries	$ (690,678)	$ (606,986)	$ (650,254)	$ (1,547,592)	$ (1,035,377)
Net expenditures	$ 5,179,485	$ 5,285,600	$ 5,921,390	$ 6,117,535	$ 4,978,231

The responsibility for the day to day management of the Insurance Reserve Fund should be clarified

We found that although the Corporate Controller is the fund manager and is ultimately accountable for the IRF, it is unclear what role and responsibility each person, branch or division has with respect to the day to day management of the IRF. The maintenance and level of the reserve should be part of a risk financing strategy which is currently the responsibility of the Insurance Branch. However, the majority of the entries are generated through the claims and recoveries processed through the Claims Branch. This is further complicated by the fact that the setting of the contribution rates, the accounting and reporting for the IRF is performed by the Corporate Controller's Division in Corporate Finance. The result is that no one area has taken full responsibility for the day to day management of the IRF. The responsibility for the day to day management of the IRF must be clarified in order for it to be managed effectively.

Recommendation 12:
The Corporate Controller should establish clear responsibility for the day to day management of the IRF. We recommend that the Corporate Risk Manager be given the responsibility to manage the IRF on behalf of the Corporate Controller.

Management Response

The IRF is an integral component of the City's Risk Management framework and, by virtue, the day to day operations of the Risk Management division. As head of the division, the Corporate Risk Manager is involved in the day to day management of the IRF. Having said that, it is timely to reaffirm responsibilities in the day to day management of the IRF. The Fund Manager will provide direction on the day to day IRF management responsibilities by Q3 2011.

The Insurance Reserve Fund balance is below the recommended level

In recent years, due to the effect of a few significant claims being awarded to claimants, the balance in the city's Insurance Reserve Fund (IRF) has dropped to a low level. In 2005, the IRF's balance was $7,340,000 and in 2009 it was $1,639,000, a drop of $5,701,000 or 77.7% (see Exhibit 18). This dramatic drop is primarily attributed to a single claim. However, the 2008 and 2009 balance of the IRF was far below the $4.5 million recommended in a 2004 Insurance Reserve Fund Assessment conducted by AON Reed Stenhouse. Subsequent to the audit period, we noted that the December 31, 2010 fund balance increased to $3,690,167. The recommended balance was for insured losses only; they further suggested that the City build up a reserve for uninsured losses at a rate of $250,000 per year until the balance reaches $2.0 million. A failure to have adequate reserves exposes the City to uncontrolled fluctuations in operating expenses in any given year as all losses that exceed the reserve must be paid from general revenue. Also a small reserve significantly limits the City's ability to increase the deductible and potentially lower its insurance premiums and ultimately its total cost of risk.

Exhibit 18

	2005	**2006**	**2007**	**2008**	**2009**	**2010**
IRF Balance	$7,340,000	$7,952,000	$7,985,000	$1,769,000	$1,639,000	$3,690,167

Funding formula for the Insurance Reserve Fund should be re-evaluated

Currently the IRF is being funded by premiums charged to each department to cover the settlement of insurable risks. During our audit we were unable to definitively determine the basis used in setting the current premiums rates for each department. From our discussions with Risk Management Division and Corporate Controller's Division staff the annual premiums are calculated by applying an inflation factor to the initial base premium that was brought forward when the Corporate Controller's Division assumed responsibility for the accounting of the IRF. Neither group was able to confirm what methodology was used to determine the initial base premium, but from those discussions it appeared that it was at least partially based experience and affordability (i.e. size of the department). This initial base premium has not been adjusted to reflect the current claims experience of each department potentially resulting in an inequitable distribution of IRF premiums. The current funding formula or basis for charging premiums is not optimal. The current formula lacks an ongoing claims experience based rate calculation, such as a five year rolling average, which would reward departments for lower claims experience. Currently, departments have a set amount that rises by some inflationary factor and they have no incentive to lower their claims because any excess is taken directly from the IRF and not their operational budgets. In the current environment there is a disincentive to have a robust, or any loss prevention program at the department level for insurable losses because their costs are fixed, whether the departments' actual claims are over or under the IRF premium charge does not matter because the department's costs are fixed at the premium amount. AON Reed Stenhouse suggested, in a 2004 Insurance Reserve Fund Assessment, that one funding option would be to base premiums on a five year rolling average and also base it partially on affordability. This suggested funding option would serve to reward departments with good risk management practices, which would include claims management and loss prevention.

Recommendation 13:
The Corporate Risk Manager should conduct a review to determine the appropriate fund balance for the Insurance Reserve Fund and develop a plan to take the steps necessary to ensure it is funded at the appropriate level. We further recommend that a review of the fund be performed at least every five years. As part of this review the Corporate Risk Manager should re-evaluate the funding mechanism for the IRF to ensure that it encourages departments to implement and/or sustain good risk management practices.

Management Response
The IRF was independently reviewed in 2004 and the balance in the reserve was sufficient at that time.

In the past couple years; the IRF has been subject to paying unusually significant claims, as well as having fund balance reductions with one time transfers to the General Revenue Fund. The IRF fund balance considers the risk the City is willing to assume with other measures available to protect the City in the event losses exceed the IRF balance. Rates charged impact departmental budgets and is a consideration in the annual operating budget process.

There is value in having a rate setting process that considers experience and risk. A formula driven approach based on a rolling five year average of claims/exposure to recognize and charge the users has been developed to generate sufficient revenue to the IRF in the future. A proposed program design has been completed and will be presented to the Chief Financial Officer for consideration in the 2012 operating budget process. The IRF balance, including these rates, will remain subject to approval by Council through the operating budget.

Additionally, since the IRF was last independently reviewed in 2004, we will be requesting that an independent analysis be done prior to December 31, 2013, subject to approval of a budget for this review.

Accounting practices for the IRF need to be updated and clarified

The IRF is supposed to only be used for funding a department's insurable losses. When a claim is paid by Risk Management they code the cheque requisition and charge the appropriate department with an expense to their corresponding insurance expense account. At the end of the year, the actual expenses in each department are compared to the IRF premium and if the actual expenses are less than the IRF premium the balance is expensed and transferred to the IRF. If the actual expenses are greater than the premium, an entry is made to transfer funds from the IRF to the departmental expense account to reduce the actual expenses to the amount of the IRF premium. This ensures that departments are never charged more than the budgeted IRF premium for insurable losses. These entries relating to actual claims make up the majority of the entries made to each department's insurance expense accounts and these are usually made by the staff in the Claims Branch who have the most information about the claim in order to determine if it is an insurable or non-insurable expense. However, departments have the ability to make direct entries into their insurance expense accounts. For some departments this is necessary as they process their own claims, but for most this is not necessary. There is a risk; given that a department's insurable expense is limited to the IRF premium, that departments may charge other non-insurable losses into the expense account. We determined that there were no procedures in place to review for these types of transactions and we found that no one had been assigned that specific responsibility. We understand that the position responsible for accounting for the IRF was previously in Risk Management and that position was eliminated and the accounting function was moved under Corporate Finance Controller Division. This is another example where there exists a shared responsibility for the accounting for the IRF. This shared responsibility can lead to confusion over who is responsible for ensuring the accuracy of the entries posted to the IRF with each party assuming the other party is performing the task.

The current practice of charging claim losses to the department's respective loss expense accounts and then clearing them at the end of the year to the IRF without a review of the entries does not appear to add any value. The loss expenses, both insurable and uninsurable are being tracked in the Risk Master system. Risk Master can produce monthly reports to departments that would outline their expense in order to monitor their progress. Given the fact the departments are only charged the IRF premium for insurable losses there is no reason that valid expenditures, determined by the qualified staff in the Claims Branch could not be directly charged to the IRF. This would serve to eliminate unnecessary accounting entries, clarify the responsibility for managing the entries made to the IRF by assigning it to the most qualified and independent group, the Claims Branch and still provide the departments and Risk Management Division with the necessary information they need to manage their claims.

Recommendation 14:
The Corporate Risk Manager should review the accounting and oversight practices for the IRF both departmentally and corporately with a mind in eliminating non-value added accounting practices and establishing clear lines of responsibility for the entries made to the IRF.

Management Response

The practice of charging departmental accounts for losses rather than direct to the IRF serves a purpose in that departmental controllers will see these charges in their departmental general ledgers/accounting and creates accountability at the departmental level for losses incurred. Relying solely on Risk Master reports may serve to provide less scrutiny on the charges ultimately charged to the IRF. These entries are important in terms of moving to a more “loss prevention” model at the departmental level.

The accounting practice will be reviewed to determine if better processes can be utilized. The Corporate Controller will review this with departmental controllers with a view to make any changes to be effective for the 2012 fiscal year accounting.

Workers Compensation Branch

The Workers Compensation Branch assists departments in managing the Workers Compensation Board (WCB) claimant file. The Branch ensures the claim documentation is sufficient and in order to facilitate the timely processing of a WCB claim on the City’s behalf and the file is kept up to date. The Branch is responsible for providing advice to departments on the compensability of a WCB claim. The Branch provides ongoing management of the claim with a clear goal of safely returning the employee to active employment where possible and ensuring the provision of appropriate financial support in the interim. Essentially, the Workers Compensation Branch is a resource utilized by the departments to help ensure they are in compliance with the Workers Compensation Act and the respective collective agreements.

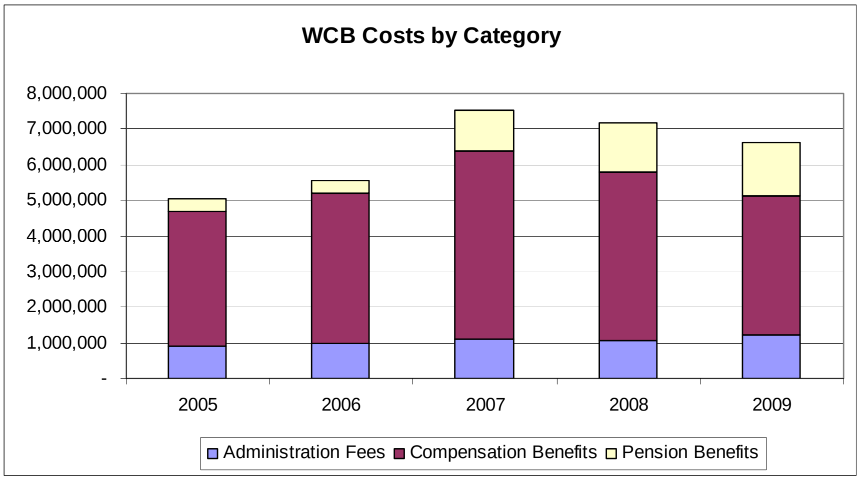
The City of Winnipeg is a self insured employer, which means that in lieu of annual premiums to the Workers Compensation Board the City assumes liability for the actual costs of all claims plus administration costs. In accordance with the majority of collective agreements the City continues full salary throughout the disability period. The City has an agreement in place with WCB whereby WCB adjudicates the City’s claims and pay for related costs out of a City fund held by the WCB. The WCB charges the City an administration fee for this service in accordance with a pre-determined fee schedule.

Under the Workers Compensation Act the employee is entitled to wage loss benefits equal to 90% of the loss of earning capacity for any work related injury. All collective agreements relating to City employees, with the exception of Amalgamated Transit Union (ATU), provide for a supplement of this benefit to a maximum of 100% of the loss of earning capacity. The ATU collective agreement is consistent with the Workers Compensation Act and provides a benefit equal to 90% of loss of earnings.

Workers Compensation related expenses had increased until 2007 but have been decreasing since then

Workers compensation related costs rose dramatically from 2005 to 2007. Exhibit 19 shows that from 2005 to, 2007 WCB cost went from $5,050,362 in 2005 to $7,523,679 in 2007, a 49 percent increase. These increases were primarily due to increases in the compensation and pension benefits paid, while administration fees rose 21.5 percent during this same period. From the high in 2007 we have seen a decreasing trend in total workers compensation related costs with a reduction of 11.7 percent from 2007 to 2009. Administration fees are still on an increasing trend with an 11.1 percent increase during the same period.

Exhibit 19



The Winnipeg Police Service and the Winnipeg Fire Paramedic Service consistently represent approximately half of the total costs. (see Exhibit 20) There has been an increase in workers compensation costs from 2005 to 2009 in these two departments as well as Public Works. From our analysis we found the costs associated with the WPS are more a result of their higher wages than poor Loss Time Injury statistics.

Exhibit 20

Workers Compensation Costs by Department

DEPARTMENT	2005	2006	2007	2008	2009
POLICE SERVICES	1,368,518	1,365,883	2,124,398	2,197,402	1,616,183
FIRE PARAMEDIC SERVICES	1,252,620	1,709,832	1,773,283	1,485,362	1,441,423
RESERVE CLEARING & DISTRIBUTION CLEARING (Note 1)	158,514	173,396	858,878	949,087	1,178,586
PUBLIC WORKS	412,945	606,173	661,637	751,114	715,062
TRANSIT SYSTEM	472,499	508,846	670,313	618,485	686,409
WATER & WASTE	721,738	772,534	809,644	725,949	639,763
PP&D - BUILDING SERVICES (Note 2)	137,076	63,480	82,358	124,383	144,193
COMMUNITY SERVICES	95,006	199,910	204,541	150,950	120,968
FLEET MANAGEMENT	88,113	66,542	72,898	31,671	50,050
PP&D - CIVIC BUILDING	113,741	52,421	214,232	75,908	33,867
CORPORATE SUPPORT SERVICES DEPARTMENT	5,668	17,598	7,675	11,347	6,200
ANIMAL SERVICES	4,958	5,304	11,016	15,715	3,110
ASSESSMENT	1,988	4,343	1,274	5,529	1,387
WINNIPEG PARKING AUTHORITY (Note 3)	2,253	-	9,766	9,378	1,247
GOLF COURSES	9,289	12,741	12,799	1,476	1,128
CITY CLERKS	74	6,562	2,757	3,670	142
CORPORATE FINANCE DEPARTMENT	17,698	6,873	5,075	20	89
CAO SECRETARIAT	-	264	4	-	-
EPC SECRETARIAT	-	-	-	-	-
EMPLOYEE BENEFITS BOARD	684	-	-	-	-
GLACIAL SAND AND GRAVEL	1,973	953	1,132	-	-
PUBLIC WORKS-CONSTRUCTION BRANCH (Note 4)	184,985	1,204	-	-	-
MUSEUMS	23	-	-	-	-
	5,050,362	5,574,861	7,523,679	7,157,445	6,639,808

Notes:

Note 1 Reserve and Distribution Clearing are amounts charged to the Workers Compensation Reserve, does not include the Dept. Fatality Surcharge

Note 2 Building Services Fund became part of PP&D in 2007.

Note 3 Winnipeg Parking Services became an SOA in 2006.

Note 4 Construction Services Division of Public Works is shown separately for the first time in 2005.

The Workers Compensation claims process is functioning as intended but existing process documentation needs to be reviewed and updated.

Departments are ultimately responsible for managing the WCB claims and ensuring they are in compliance with the Worker's Compensation Act. Each department has at least one staff person responsible for ensuring that the claims are filed within the required time period and the required documentation to support the claim is completed and submitted. Each department is also responsible for reviewing the accuracy and completeness of monthly statements received from WCB which are distributed by the Workers Compensation Branch in Risk Management. The Workers Compensation Branch acts as a liaison between the departments and WCB to facilitate the timely processing of WCB claims. The Branch is the single point of contact between the City and the WCB and all correspondence both to and from WCB is directed through the Branch.

The Workers Compensation Branch maintains a file for each claimant that provides support for the original claim as well as ongoing correspondence with WCB, the claimant and the department regarding the ongoing efforts to facilitate a claimant's timely return to the workplace. The Branch also retains documentation related to departmental efforts to accommodate and/or facilitate a claimant's return to work. The Workers Compensation Board maintains the medical records that support the claim as they adjudicate the claims to determine if they are eligible for Workers Compensation benefits.

For active employees departments pay the salary and benefits directly and the Workers Compensation Board pays all other related claims costs (i.e. medical treatments) from an account funded by the City but managed by WCB. The Workers Compensation Board also issues benefits related to the family of employees that have died due to a job related accident or illness.

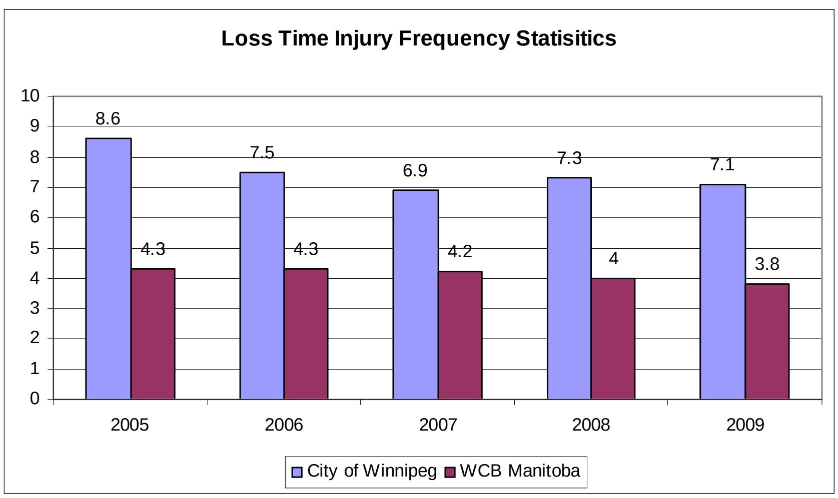
We reviewed twenty Workers Compensation files and noted that in all cases there was adequate documentation on file to support the claim, the claim had been filed with the WCB within the required timeframe and there was documentation on file that the department had attempted to make reasonable accommodations where applicable.

However, we did note that although there was a policy and procedure manual in place for the Workers Compensation Branch it was last updated in 1992. While we acknowledge staff are knowledgeable about the policies and procedures to be followed, we also noted that only one member of the staff has most of the WCB specific business knowledge. It is important to review and update the documentation of significant policies and procedures to ensure they are current and are applied in a consistent manner within the Branch and in the departments and over time as staff is replaced.

Prevention of workplace injuries must be strengthened

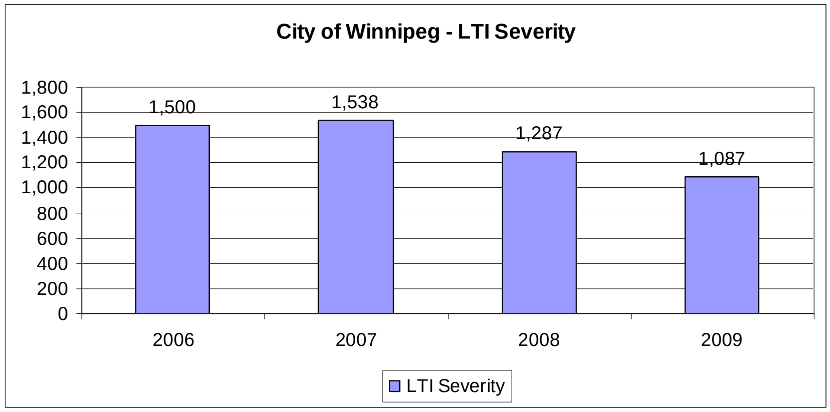
Although the Workers Compensation Branch is not responsible for administration of the workplace safety programs in the departments, the effectiveness of these programs can have a direct impact on Worker's Compensation costs. One of the measures used to rate the effectiveness of the City's workplace safety program is the Loss Time Injury Statistic which measures the number of loss time injuries per 100 FTEs. The City of Winnipeg's lost time due to injury experience is almost double the provincial average (see Exhibit 21). The Manitoba average is declining while the City's experience is starting to improve slightly. Clearly the City has some room to improve in this area.

Exhibit 21



Another measure commonly used and is the "Loss Time Injury – Severity" which is the number of hours lost due to lost time injury per 100 workers per year. The City is showing a favorable trend (LTI Severity of 1,500 in 2006 to 1,087 in 2009, a 27.5% drop –see Exhibit 22). This could mean that City is doing a better job at preventing serious injuries and also could mean that the City is doing a better job at rehabilitating an injured worker. More analysis needs to be performed by the City to determine the underling reasons for the decline.

Exhibit 22



It is also important to note that there has been clear direction from the CAO to significantly reduce LTI rates at the City. In 2010, nine city departments were given a target of a 25% reduction in LTI-Frequency in two years and the other seven more office worker oriented departments were given a target of a LTI-Frequency of zero within two years. One of the guiding principles in the Workers Compensation Act is "the prevention of workplace injuries and diseases".

Prevention of workplace injuries and illnesses should be at the cornerstone of every program and is crucial to effectively managing WCB costs. The Workers Compensation Branch is not responsible in any aspect for workplace safety; this is clearly the responsibility of the departments. We interviewed staff responsible for workplace safety in the major departments in the City and noted that there exists a large degree of variation in the robustness of their respective Workers Compensation Administration and Workplace Safety programs. We also observed best practices in place, such as working with the School of Medical Rehabilitation's Occupational Therapy program to have their students do their practicum at City departments (Public Works and Water and Waste). This added very little cost to the department's' safety program but provided considerable value in identifying and understanding the mechanisms of injury and how to alter work practices to prevent further injury. We encourage other departments to utilize this valuable resource in the future.

We also noted that of the departments that had a large component of their staff involved in high physical demanding work, Transit's record was among the top and has actually seen a significant decrease in the LTI Frequency rate of 7.7 to 5.4. It is also interesting to note that Transit has the only union where they do not top up the standard WCB benefits of 90% of loss of earnings. This may be something to consider in future collective agreements, as ultimately the City wants to ensure its workers return to work as soon as possible to aid in their rehabilitation. There is likely more incentive to return to work more quickly if a worker is not receiving 100 percent of their earnings. However, this must be weighed against the principle of not placing an injured worker at a financial disadvantage for being injured at the workplace. We also noted that some departments, like Public Works and Water and Waste have more robust reporting to senior management of workplace safety issues while others have very limited reporting. Regular reporting of key safety information to senior management helps ensure that the appropriate attention and resources are provided to workplace health and safety issues.

Although there is a forum through the Organizational Safety Committee for workplace safety staff from each department to share workplace safety related issues, we noted that this group has met very infrequently over the period under audit (one or two times a year) and the forum has not been used as a place to share best practices. Through discussions with organizational safety representatives at the corporate level we understand that the corporate direction is to make these meetings more frequent and to have an established agenda which includes a deeper look at workplace injury data and use it as a forum to share best practices.

We also found from our discussions with safety staff that one of the most common reasons cited for the City's higher Loss Time Injury statistics and the perceived ineffectiveness of the existing safety programs is the age of the City's workforce. The City's workforce has been getting older and is still performing the same hard physical labour that they have for years resulting in injuries that are more frequent, chronic and severe in nature. Another reason cited is the use of long shifts, where more injuries occur at the end of these long shifts. Finally, there is little incentive to return to work when the worker is receiving 100% benefits. To date these are only suggested reasons and no analysis has been performed to determine if these are actually contributing factors. More analysis on the nature of workplace injuries needs to be performed on a City–wide basis. We also noted that at the corporate level more attention is being placed on tracking and analyzing workplace injury data and we encourage this. We encourage Corporate Support Services to develop a set of standard performance measures to monitor the City's safety program's progress on preventing workplace injuries. These performance measures, once established, could be reported annually at the management and senior management level. In addition, Corporate Support Services should continue to report on the nature of injuries throughout the City to help focus injury prevention efforts in areas that will provide the most impact.

Human Resources

The Workers Compensation Branch currently has three employees with one of the employees also performing work for the Claims Branch (See Appendix 2). Prior to 2005 the branch had six employees with two dedicated to managing claims files. Currently, the Workers Compensation Coordinator is responsible for managing all WCB claims. This considerable reduction in staff has resulted in the Workers Compensation Branch only being able to perform the bare minimum of services to ensure the WCB claims are processed in a timely manner and provide the departments with information to facilitate the timely return of claimants to work. There is little time available to analyze WCB statistics or scrutinize WCB decisions or billings or perform other supervisory duties as the Coordinator's time is fully occupied managing claimant files. The scrutinization of the WCB reports is left to the WCB clerks in the departments. The loss of the analyst position limits the Branch's ability to monitor trends in claims and claims management as well as WCB administration fees which have increased 32.6 percent over a five year period. This reliance on one person only to manage claims has resulted in a significant amount of key person risk. There is only one person in the Risk Management Division, let alone the Workers Compensation Branch with any significant knowledge of WCB practices and procedures and the Workers Compensation Act. This coupled with the fact that the Coordinator is currently eligible to retire and the procedures manual in place needs to be reviewed and updated, poses a significant risk of loss of crucial business knowledge.   Currently, there is no succession plan in place to address this issue.

Recommendation 15:
The Corporate Risk Manager should develop a succession plan for the Workers Compensation Branch, with a focus on the Workers Compensation Coordinator position. A review and update of the current policies and procedures manual should be included in this plan.

Management Response

A succession plan for the Workers Compensation Coordinator has been developed and the procedures/policy manual will be reviewed and updated as required.

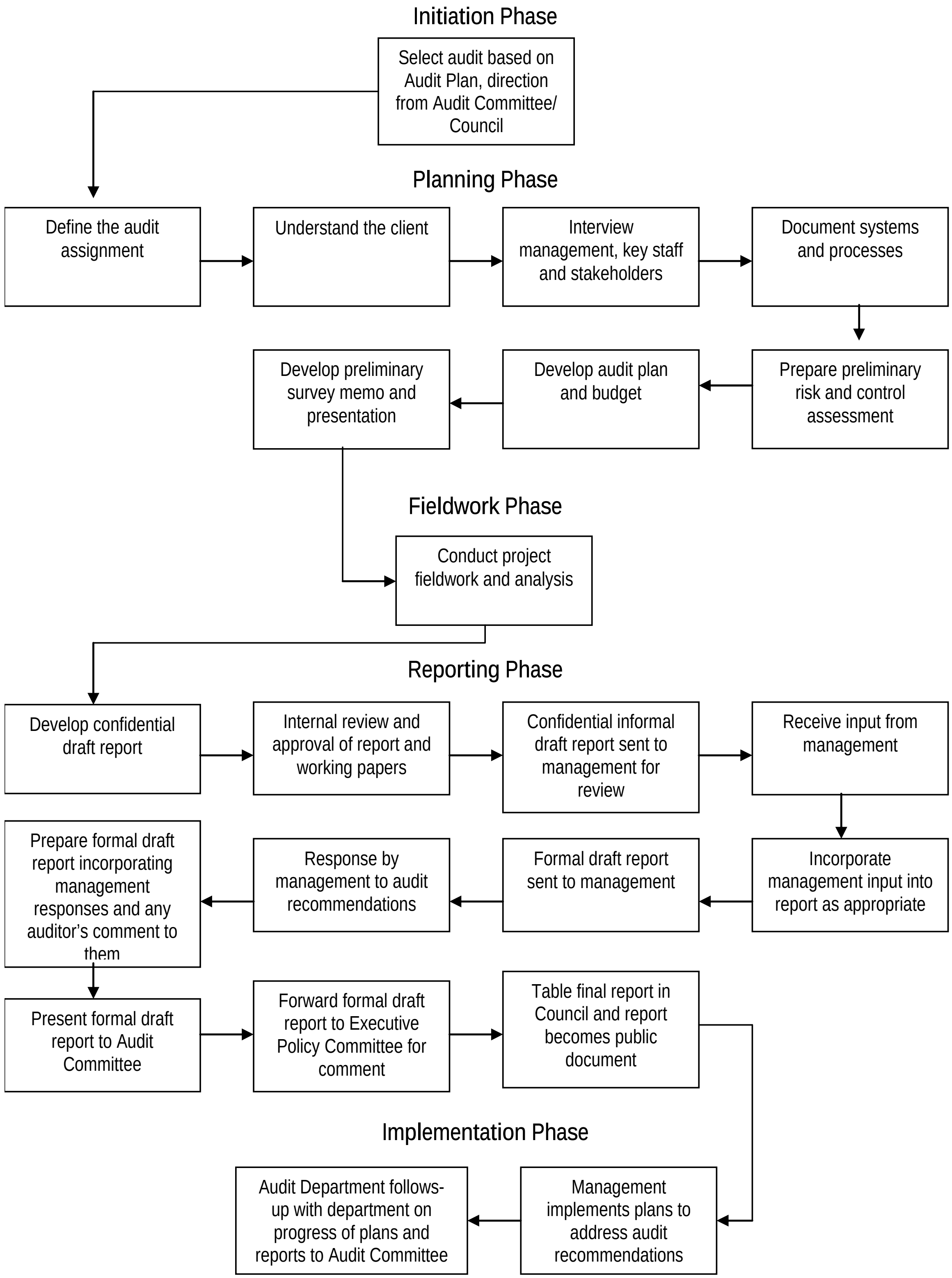
Adequacy of the Workers Compensation Reserve should be revisited

The Workers Compensation Reserve is set up to pay for the costs associated with a fatality of a worker. In 2006 the Workers Compensation Reserve had a balance of $7,705,000 and in 2009 the balance was $3,173,000. This is a significant reduction (58.8%) and despite the results of a 2005 report from Eckler Partners Ltd which analyzed the adequacy of the reserve and determined that a reserve level of $2.5 million is adequate, there is a concern that this could easily be depleted by a few large claims. This is of particular concern given the fact that the presumptive clause in the Workers Compensation Act could be further expanded to include more types of cancers for firefighters. Should this happen, the number of fatality claims related to work related diseases could increase significantly and could deplete the reserve.

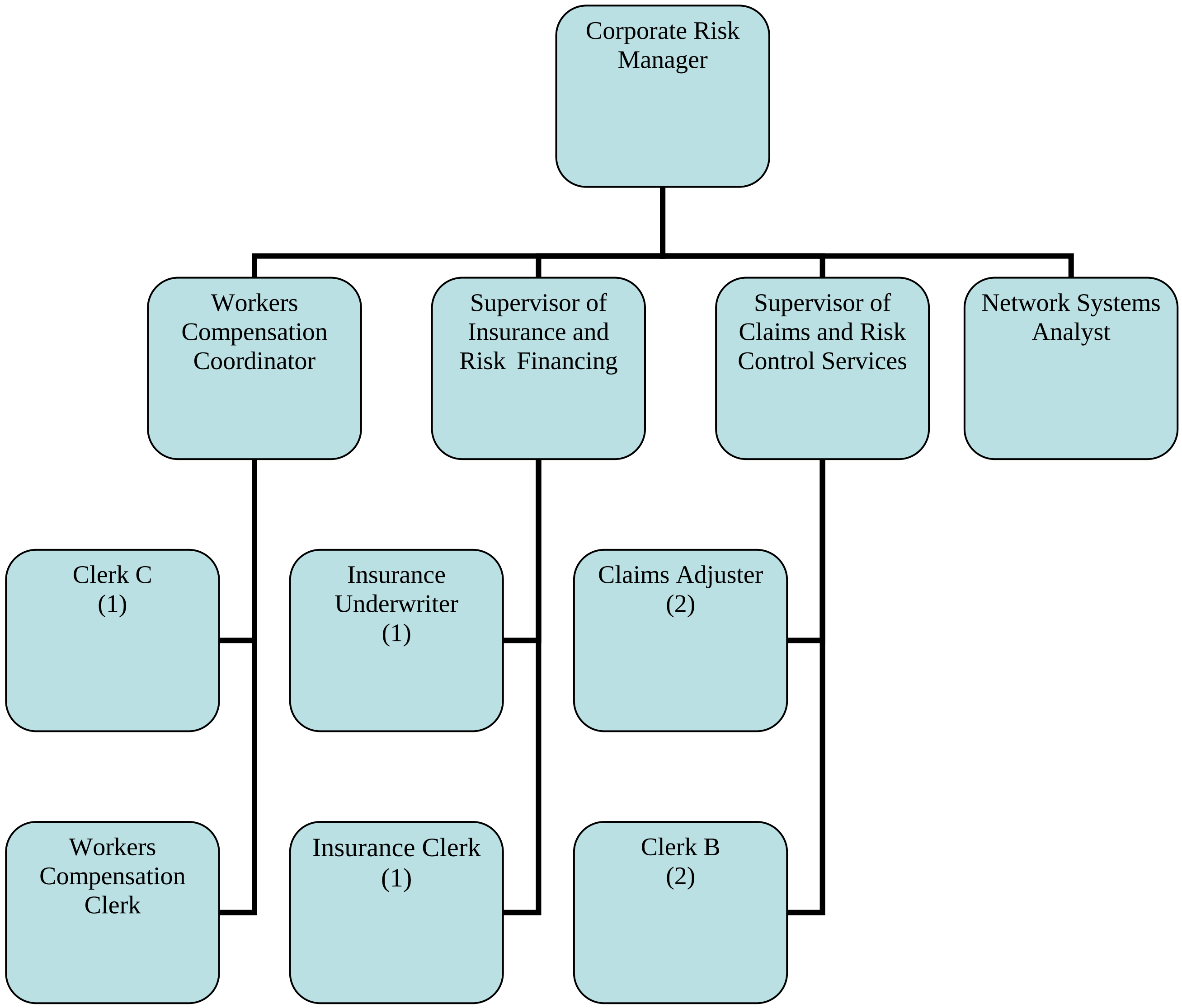
Recommendation 16:
The Corporate Risk Manager should conduct a review of the adequacy of the Workers Compensation Reserve. We further recommend that a formal review be performed at least every five years or when any significant changes are made to the Workers Compensation Act.

Management Response
The Workers Compensation Reserve was independently reviewed in 2004 and the balance in the reserve was sufficient at that time. Amendments to the Firefighters Presumptive Clause was announced by the provincial government. Specifically, in the latter part of 2010, the Firefighters Presumptive clause was amended to include multiple myeloma, primary site prostate, breast cancer and skin cancer. The Risk Manager will undertake a review as to the adequacy of the Workers Compensation Reserve Fund given this new factor. An independent analysis will be done prior to December 31, 2013, subject to Council approval of a budget for this review.

APPENDIX 1 - AUDIT PROCESS



APPENDIX 2 – ORGANIZATIONAL CHART - MARCH 2011



APPENDIX 3 – SUMMARY OF RECOMMENDATIONS

Recommendation 1:
The Corporate Risk Manager needs to develop an operational plan for the Risk Management Division that includes the following:

- a clearly defined mission,
- clearly defined and measurable goals and strategies designed to fulfill the mission,
- a risk assessment to identify the key risks that could prevent the achievement of goals and strategies, and
- action plans to manage these risks.

The operational plan should be revisited and adjusted annually to reflect the dynamic environment the City operates within. We further recommend that the division hold a facilitated planning session to ensure all Risk Management staff are involved in the planning process and use this as a venue to help identify any underlying risks, internally and externally, that could impede the achievement of the Division's objectives.

Recommendation 2:
The Risk Management Division should develop and report on, a comprehensive set of performance measures for each key area of the business. Examples of key measures include claims processing time, staff productivity, etc. The performance information should provide insight into whether the Division is efficiently and effectively achieving its goals and objectives. The Risk Management Division should also establish a set of service standards, in particular for its Claims Branch. Ideally, service standards should be established and approved by Council as well as full consideration of resources available to the Branch.

Recommendation 3:
The Corporate Risk Manager should conduct a workflow and workload analysis for the positions within the Claims Branch and prepare a formal operational plan on how to address any potential staffing shortages affecting service delivery.

Recommendation 4:
The Corporate Risk Manager should ensure there are adequate processes in place to manage the use of overtime and the use of external adjusters. These processes should include, at a minimum, formal approval of overtime, managing to the budget and a standard contract for adjusters and a pre-qualified contractor listing for external adjusters.

Recommendation 5:
The Corporate Risk Manager should ensure that the key practices, procedures and policies for the Claims Branch are updated in the Loss Procedures Manual. The Corporate Risk Manager should review the feasibility of establishing settlement guidelines by type of claim and by the amount of the claim where possible with an aim to streamline the claims adjusting and settlement process.

Appendix 3 – Summary of Recommendations Continued

Recommendation 6:
The Corporate Risk Manager should ensure there is adequate segregation of duties for the processing of payments to claimants.

Recommendation 7:
The Chief Financial Officer (CFO) should revaluate the claims settlement authorization limits with a mind to further delegating some of the CFO's authority to the Corporate Risk Manager and City Solicitor. We further recommend that the Corporate Risk Manager authorization limit should be increased to at least $25,000. The Corporate Risk Manager should reevaluate claims settlement limits within the division with a mind to further delegating a portion of his settlement authority to the Supervisor Claims The CFO should take the necessary actions to affect these changes.

Recommendation 8:
The Corporate Risk Manager should ensure that a process is established to track and report on the handling of appeals. At minimum, the number of appeals, the type, the result and processing time to resolution of each appeal should be monitored.

Recommendation 9:
The Corporate Risk Manager should ensure responsibility for recoveries is assigned and the process for managing recoveries is reviewed and communicated to staff involved in the process.

Recommendation 10:
The Corporate Risk Manager should ensure a full analysis is performed to support decisions with respect to deductible levels and the extent and type of insurance coverage, especially the noted omissions in the annual broker's report, which includes: Environmental Impairment Liability, Employment Practices Liability, Municipal Error's and Omissions, and Public Officials Liability. This analysis should include an evaluation of the City's exposure, the likelihood of occurrence and the cost of insuring the risk.

Recommendation 11:
The Corporate Risk Manager should ensure the Supervisor Insurance and Risk Financing position's major practices and the Insurance Branch policies are codified and the Insurance Underwriter and Insurance Clerk procedures are kept up to date.

Recommendation 12:
The Corporate Controller should establish clear responsibility for the day to day management of the IRF. We recommend that the Corporate Risk Manager be given the responsibility to manage the IRF on behalf of the Corporate Controller.

Recommendation 13:
The Corporate Risk Manager should conduct a review to determine the appropriate fund balance for the Insurance Reserve Fund and develop a plan to take the steps necessary to ensure it is funded at the appropriate level. We further recommend that a review of the fund be performed at least every five years. As part of this review the Corporate Risk Manager should re-evaluate the funding mechanism for the IRF to ensure that it encourages departments to implement and/or sustain good risk management practices.

APPENDIX 3 – SUMMARY OF RECOMMENDATIONS CONTINUED

Recommendation 14:
The Corporate Risk Manager should review the accounting and oversight practices for the IRF both departmentally and corporately with a mind in eliminating non-value added accounting practices and establishing clear lines of responsibility for the entries made to the IRF.

Recommendation 15:
The Corporate Risk Manager should develop a succession plan for the Workers Compensation Branch, with a focus on the Workers Compensation Coordinator position. A review and update of the current policies and procedures manual should be included in this plan.

Recommendation 16:
The Corporate Risk Manager should conduct a review of the adequacy of the Workers Compensation Reserve. We further recommend that a formal review be performed at least every five years or when any significant changes are made to the Workers Compensation Act.