OFFICE OF INSPECTOR GENERAL
City of Chicago

REPORT OF THE OFFICE OF INSPECTOR GENERAL:

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ADVISORY CONCERNING CLAIMS ANALYSIS AND RISK MANAGEMENT

JUNE 2016

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VIA ELECTRONIC MAIL

June 3, 2016

Eileen Mitchell
Chief of Staff
Office of the Mayor
121 North LaSalle Street
Chicago, Illinois 60602

Dear Chief of Staff Mitchell:

A City of Chicago Office of Inspector General (OIG) inquiry has determined that the City does not currently have a comprehensive risk management program and lacks the ability to analyze claims trends across the wide variety of claim types as is recommended best practice for local governments.[1] This is a matter of significant concern because the City spends many tens of millions of dollars annually to pay claims. Based on the limited data available, OIG estimates that in 2013 and 2014 the City paid over $457.8 million in claims—$203.1 million for workers' compensation, $146.3 million for police misconduct and other public safety claims, $54.9 million to settle a dispute with its parking meter contractor, and $53.5 million on other claims, such as property damage or personal injury due to vehicle accidents—averaging $4.4 million per week.[2] We have raised our concern about the City's lack of comprehensive risk management with the Department of Finance (DOF), which concurs that "regular analysis coupled with action taken as a result of that analysis may decrease claims and the associated liability."[3]

We address this advisory to the Mayor's Office because successful risk management depends on support and direction from the top. High-level support is also necessary because effective risk management requires coordination and cooperation across departments and direct access to all data and information needed for effective proactive claims analysis and risk management. We therefore urge the City to invest in a comprehensive approach to risk management that addresses all claim types. A successful approach will reduce the number and severity of personal injuries and property damage to the public and employees, and reduce the cost of claims, settlements, and judgments against the City.

I. Definition and Benefits of Risk Management

The City of Chicago faces a variety of risks as part of its daily operations, including loss and harm to the public, to City employees, and to property. These risks range widely, encompassing

[1] In this advisory the word "claim" means any claim, settlement, or judgment against the City.
[2] For the sources of these figures see section II.C. below.
[3] See page three of the memorandum from DOF to OIG dated March 15, 2016 in Appendix C.

potential liability arising from, among other sources, property damage (e.g., vehicle damage due to potholes), the conduct of public safety officers (e.g., excessive force by police), and claims advanced by City employees themselves (e.g., workplace discrimination).

Effective risk management[4] reduces the number and severity of personal injuries and property damage to the public and employees, thereby reducing the dollar amount of claims paid. To successfully manage risk, the Government Finance Officers Association (GFOA) "recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees."[5] According to GFOA, an effective risk management program requires an organization to do the following:

1. Identify risks in the government's physical, legal, operational, political, social, economic, and internal environments.
2. Evaluate the risks by monitoring and reporting on the frequency, severity, and cost of claims.
3. Adopt a balanced combination of preventive, corrective, and other measures to reduce, retain, transfer, share, and avoid risks.
    a. Risk reduction measures include loss prevention training and inspections.
    b. Risk retention measures include self-insurance, while risk transfer and sharing measures include third-party insurance and contractual provisions.
    c. Risk avoidance means ceasing to provide certain services if risk management costs exceed benefits.
4. Implement a risk management program including policies and procedures that incorporate the government's mission and goals, establish decision-making guidelines, and designate responsible parties.
5. Review on a regular basis the effectiveness and efficiency of the risk management program, and make changes as necessary.[6]

Three common metrics used by local governments to measure risk management performance are "cost of risk," incident rate, and estimated amount of money saved by settling claims. "Cost of risk" is the "sum of items such as the cost of risk management operation, insurance premiums, claims and legal expenses and other costs related to controlling the impact of adverse events."[7] Excellent risk management can provide a sizable public benefit. For example, Maricopa County,

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[4] "Risk management" is "a strategy developed to reduce or control the chance of harm or loss; the process of identifying, evaluating, selecting, and implementing actions to eliminate or reduce harm." Public Risk Management Association, "Glossary," accessed May 12, 2016, http://www.primacentral.org/content.cfm?sectionid=137#r.
[5] Government Finance Officers Association, "Best Practice: Creating a Comprehensive Risk Management Program," (March 2009), accessed May 12, 2016, http://www.gfoa.org/creating-comprehensive-risk-management-program.
[6] Paraphrased from Government Finance Officers Association, "Best Practice: Creating a Comprehensive Risk Management Program," (March 2009), accessed May 12, 2016, http://www.gfoa.org/creating-comprehensive-risk-management-program.
[7] Public Risk Management Association, "Glossary," accessed May 12, 2016, http://www.primacentral.org/content.cfm?sectionid=133#c.

Arizona reduced its preventable vehicle collision rate by 47.4% over three years, from 8.86 in FY2013 to 4.66 in FY2015,[8] and attributed the reduction to its collision avoidance training.[9] The New York City Comptroller's Office estimated that in FY2014 it saved New Yorkers "more than $27.2 million in future payouts on personal injury and property damage claims"[10] by performing a detailed analysis of its historical claims and settlements and using the results to proactively identify and settle potentially meritorious claims.

II. STATUS OF RISK MANAGEMENT IN CHICAGO

Currently, the City has no comprehensive risk management program taking into account the multitude of risks and claims it faces. As a result, the City cannot analyze the total universe of its claims experience to reveal trends, and it takes no coordinated or proactive approach to reducing the frequency and severity of events leading to claims. OIG has identified two key areas of concern to conducting claims analysis: fragmented responsibility for risk and claims-related activity and the lack of complete and accurate data.

A. Responsibility for Undertaking Risk and Claims-Related Activity is Fragmented

No single department is responsible for collecting and managing all claims and risk-related information, or driving a Citywide risk management strategy. Risk and claims-related responsibilities are dispersed among DOF, Department of Law (DOL), and the City Council Committee on Finance. Secondarily, departments such as Water Management and Fleet and Facility Management conduct safety-related trainings within their departments, and some departments prioritize correcting conditions that pose the greatest risks to the public, such as broken tree limbs or water mains.

Municipal Code of Chicago (MCC) § 2-32-092 authorizes the Comptroller to procure insurance for the City. The 2016 Appropriation Ordinance funds six risk management positions in DOF, but their duties relate primarily to insurance procurement.[11]

MCC § 2-152-420 and § 2-152-430 establish the "Bureau of Workman's Compensation," appointed by the chairman of the Committee on Finance. Sections 2-152-440 and 2-152-450 authorize the Comptroller to pay claims for workers' compensation, medical expenses, and related charges approved by the Committee chairman. In addition, MCC § 3-8-200 authorizes the Committee on Finance to administer the duty disability program for police and firefighters, who, by state statute (820 ILCS 305/1), are not covered by the Illinois Workers' Compensation Act.[12]

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[8] The preventable vehicle collision rate = the number of collisions multiplied by 1,000,000, divided by the actual miles driven.

[9] Maricopa County, *Risk Management Annual Report: Fiscal Year Ended June 30, 2015*, III-2, accessed May 12, 2016, http://www.maricopa.gov/riskmgt/pdf/Annual%20Report%20FY%2014-15.pdf.

[10] Office of the New York City Office Comptroller, *Claims Report: Fiscal Years 2013 and 2014*, (August 2015): 1-2, accessed May 12, 2016, http://comptroller.nyc.gov/wp-content/uploads/documents/Claims_Report_FY13_and_FY14.pdf.

[11] The positions are Risk Manager, Assistant Comptroller, Senior Risk Analyst, two Risk Analysts, and a Staff Assistant. City of Chicago, "2016 Annual Appropriation Ordinance," 58, 364, and 394, accessed May 12, 2016, http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2016Budget/2016_BUDGET_BOOK_Ordinance.pdf.

[12] There is one exception. Pursuant to 820 ILCS 305/8(c), firefighters who are seriously or permanently disfigured by burns are eligible for workers' compensation.

This authority includes the power to approve payments for medical care (with the caveat that claims over $1,000 must go to the full City Council for approval) and to administer a vocational retraining program for public safety employees who are unable to return to active service as a result of work-related injuries. The rules for the retraining program, including eligibility and expenditure limits, are set by the chairman of the Committee on Finance. The 2016 Appropriation Ordinance funds eight positions in the Worker's Compensation and Police and Fire Disability section of the Committee on Finance.[13]

MCC § 2-12-060 requires the City Clerk to promptly deliver to the Committee on Finance all statements of claims made by the public against the City. In practice, however, claims are collected by multiple departments. Electronic claim forms specific to vehicle or property damage are available on the Committee on Finance web site;[14] similar forms are available for download on the Clerk's web site.[15] DOL's web site also invites users to report claims for vehicle accidents, personal injury, and property damage directly to DOL.[16] Although MCC § 2-60-020 requires the Corporation Counsel to "appear for and protect the rights and interests of the city in all actions, suits and proceedings brought by or against it," there is no mention in the MCC of DOL's role in receiving claims.

B. Lack of Complete and Accurate Claims Data Prevents Comprehensive Analysis

In response to OIG inquiries in late 2014, DOF stated that some limited-scope analyses had been done in the past, but acknowledged that the City has no comprehensive program in place to examine claims against the City (including small claims, settlements, and judgments). OIG therefore proposed, contingent on the availability of the necessary data, to conduct a pilot analysis to evaluate the potential value of undertaking a more comprehensive review.

After meeting several times with DOL regarding claims data needed to conduct a pilot analysis, DOF and OIG concluded that the data needed for a comprehensive analysis resided in at least three separate databases: DOL's case management system; the data system of DOL's third-party claims administrator; and the City Council Committee on Finance's data system, to which neither DOL nor DOF had direct access. Data from these systems would then need to be matched to the City's payment records to determine what payments the City actually made.

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[13] The positions are: Legislative Aide (two positions); Legislative Research Analyst, Administrative Staff Investigator (two positions); Disability Claims Investigator; Chief Investigator; and Director of Workers Compensation. City of Chicago, "2016 Annual Appropriation Ordinance," 42, accessed May 12, 2016, http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2016Budget/2016_BUDGET_BOOK_Ordinance.pdf.
[14] The Chicago City Council Committee on Finance, "Claims," accessed May 12, 2016, http://www.committeeonfinance.org/claims/index.asp.
[15] City of Chicago Office of the City Clerk, "Claims," accessed May 12, 2016, http://www.chicityclerk.com/community-affairs/claims.
[16] City of Chicago Department of Law, "Claims," accessed May 12, 2016, http://www.cityofchicago.org/city/en/depts/dol/provdrs/claims.html.

OIG ran preliminary reports from DOL's case management system, but concluded it did not provide sufficiently complete or accurate information to conduct a pilot analysis.[17] At a meeting on March 5, 2015, OIG and DOF concluded that DOF may be better positioned to complete an analysis more quickly due to its less constricted access to information about payments and claims in different departments. OIG provided its observations about the data problems in a March 20, 2015 memo to DOF (see Appendix B).

C. DOF's Limited Analysis Excluded Police Misconduct and Workers' Compensation Claims

DOF undertook a "broad-scale review of the claims paid data for the years 2013 and 2014 combined," and reported its results in a March 15, 2016 memo to OIG (see Appendix C). The memo compiles data on 3,358 claims totaling $53.5 million into six categories: vehicle accidents; street condition; tree debris; sidewalk, signage, and lighting; utility; and other. It provides one table summarizing the claims by the categories above, and a second table breaking out the largest dollar amount category (vehicle accidents, $27.1 million) by City department. DOF stated that the categories presented are "areas where continued, regular analysis coupled with action taken as a result of that analysis may decrease claims and the associated liability," and expressed the intention to convene working groups with relevant departments to review claims data for the top three expense categories: vehicle accidents, street condition, and "other". While this intention to address the problem is laudable, it shows that such analysis, communication, and strategic action does not already take place.

Notably, the DOF memo excludes "contractually obligated parking meter payments and non-vehicle accident public safety claims," characterizing these two categories as "unique and dissimilar from claim types that are common across departments." In other words, the memo excludes police excessive force and misconduct claims—some of the most expensive and high-profile claims against the City. OIG estimates that in 2013 and 2014 the City spent $146.3 million, including attorneys' fees, on "non-vehicle accident public safety claims."[18] It also leaves out a $54.9 million payment the City made to Chicago Parking Meters LLC in 2013—the "contractually obligated parking meter payments" DOF's memo refers to. These payments were made to settle a dispute over the City's obligation to compensate the LLC for a reduction in the number of metered spaces due to factors such as street closures and parking by exempt persons (e.g., persons with disabilities).[19]

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[17] For example, there was incomplete and inconsistent data entry for incident locations and allegation types. Required data for baseline analysis would include incident date, location, type, department responsible, and total payment for several years' worth of claims.

[18] OIG's estimate is based on the 2013 and 2014 "Judgment & Settlement Payment Requests" spreadsheets available on DOL's home page, http://www.cityofchicago.org/city/en/depts/dol.html. OIG selected the public safety departments listed (Police, Fire, and Office of Emergency Communications) and excluded any claims for which the "primary cause" clearly indicated a vehicle-related incident.

[19] The City also paid a $62.4 million judgment in 2015 related to a dispute with the LLC operating City-owned underground parking garages. The payment to LMG2, LLC for this case (13 CH 13381) is on DOL's list of settlements and judgments paid in 2015, accessed May 12, 2016, http://www.cityofchicago.org/content/dam/city/depts/dol/JudgementAndSettlementRequests/2015expendituresthrough12312015.xlsx.

DOF's analysis also omits another critical and particularly expensive category of claims—workers' compensation. According to the City's 2015 Annual Financial Analysis, workers' compensation expenditures in 2013 and 2014 totaled $103.1 million and $100.0 million, respectively. These amounts include "medical expenses, payments for lost time, and the costs of case resolution associated with employees who are injured while on duty working for the City."[20]

While OIG is mindful of, and appreciates, the contextual and technical obstacles that DOF describes, comprehensive risk management as recommended by GFOA—and as conducted in other jurisdictions—includes analysis of non-vehicular public safety and workers' compensation claims.

III. COMPREHENSIVE RISK MANAGEMENT IN OTHER JURISDICTIONS

OIG examined four local governments that utilize much more proactive and transparent approaches to risk management than the City of Chicago.[21] They range in size from very large (New York City and Los Angeles County), to similarly-sized (Maricopa County), to small relative to Chicago (City of Sacramento).

Each of the jurisdictions we examined has comprehensively managed risk and publicly reported on claims analysis for at least ten years, and serves as an example of how risk management can and should be managed across the full scope of government operations and services. The New York City Office of the Comptroller has published Annual Claims Reports, containing claims analysis and recommendations for corrective action, since at least 2001, when it recommended that the New York Police Department integrate claims information into its CompStat program.[22] In 2003, Los Angeles created the Los Angeles County Chief Executive Office Risk Management Branch (RMB), fulfilling the Board of Supervisors's commitment to establish a "state-of-the-art risk management program" to replace the city's fragmented risk-related activities, and to curb growing losses from workers' compensation, medical malpractice, and general liability claims.[23] In its latest annual report, the Maricopa County Risk Management Department marked its 34th anniversary, announcing that the County's cost of risk dropped from 2.6% of its overall budget in FY2012-2013 to only 1.2% of the budget in FY2014-2015.[24] Finally, the City of Sacramento Risk Management Division (RMD) reports on ten-year claims trends and, in its FY2015 report, stated that the number of vehicle liability claims had declined by 46.0% over the prior ten-year period. RMD also reported that it continues to target the most common type of employee

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[20] City of Chicago, "Annual Financial Analysis 2015," 44, accessed May 12, 2016, http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2016Budget/AFA%20-%202015%20(with%20Press%20Release).pdf.
[21] See Appendix A for a summary of each jurisdiction's risk management function.
[22] New York City Office of the Comptroller, "Annual Claims Report: Fiscal Year 2000," (August 2001), 3-4, accessed May 12, 2016, http://comptroller.nyc.gov/wp-content/uploads/documents/BLA_2000_Annual_Report.pdf.
[23] County of Los Angeles Chief Administrative Office February 4, 2002 communication to the Board of Supervisors, with attachments, (see pages 1 and 4 of the .pdf), accessed May 12, 2016, http://www2.co.la.ca.us/supdocs/sops2002/SD10774.pdf
[24] Maricopa County Risk Management Department, "Risk Management Annual Report: Fiscal Year 2014-2015," I-1 and I-3, accessed May 12, 2016, https://www.maricopa.gov/riskmgt/pdf/Annual%20Report%20FY%2014-15.pdf.

injury—strains and sprains—for department-specific training and programing aimed at reducing injury.[25]

We examined these models in conjunction with the GFOA best practice guidance and other risk management literature. Our review identified the following key features common to effective risk management programs.

1. Support from Highest Level of the Organization and Centralization

In an instructive 2007 article on barriers to effective public sector risk management, the author—a risk manager for a large urban school district—observed that "government risk management programs are either too remote from the 'seat of power' or too decentralized." He continued,

> For a risk program to succeed you must have buy-in at the highest level…. The simple truth is that while more and more businesses are creating the position of chief risk officer, many government entities have yet to even define a proper risk management mission, or having done so, have failed to invest the program with sufficient resources, primary amongst them being sufficient authority to initiate a coordinated risk program throughout the entire governmental enterprise. Until this systemic change takes place, government risk management programs will be reactive claims management programs instead of proactive risk management programs.[26]

The sort of high-level support described in this passage is manifest not only in the allocation of sufficient resources, but also in the frequency and manner of communications about risk management across the organization. Risk management staff from the jurisdictions described above told us that their effectiveness depends heavily on the degree to which the legislative body and top executive request and review risk management reports and hold department leaders accountable for their risk-mitigation efforts. High-level support is also necessary because successful risk management requires coordination and cooperation across departments, a difficult project for a risk management staff to sustain in the absence of a top-down commitment to the mission.

A Los Angeles County RMB manager explained that consolidating control and analysis of data by centralizing the County's formerly siloed risk management activities resulted in much more effective communication with departments and the Board, drove professionalization of risk management staff, and brought a "big picture" approach to risk mitigation. According to a deputy in the New York City Office of the Comptroller, the Office's ability to conduct sophisticated data analysis hinges on its control of the claims data. Because the Office receives all claims when filed and ultimately approves all payments, it has complete data for the lifecycle of a claim, and can therefore take responsibility for the data's accuracy and maintenance. At the City of Sacramento, all occupational safety specialists are centralized in the RMD, from where they liaise with departments to provide training and loss prevention guidance. At Los Angeles

[25] City of Sacramento Department of Human Resources, "Division of Risk Management Annual Report: Fiscal Year Ending June 30, 2015," 1 and 13, accessed May 12, 2016, http://sacramento.granicus.com/MetaViewer.php?view_id=21&event_id=2761&meta_id=460625.
[26] Jeff Marshall, "If ERM is So Good, Why Isn't Government Using It?" *Risk Management Magazine* 54 (October 2007): 18, 19.

County—a much larger government—RMB has found it more effective to utilize its small staff of highly professionalized risk managers to consult with and train the over 650 safety and return-to-work specialists housed in various departments across the County.

2. Adequate Human and Technological Resources for Analysis and Action

Effective risk management requires sufficient human and technological resources to analyze data and draw meaningful, actionable conclusions. Managing risk requires the specialized knowledge and expertise found across a variety of disciplines, including law, occupational health and safety, insurance, human resources, loss prevention, and data analysis. Los Angeles County emphasized to us the importance of a highly professional staff with strong combined technical and communication skills to developing a countywide culture of proactive risk management. Representatives of both New York City and Los Angeles County said that the cornerstone of their efforts to reduce claims exposure was the ability to conduct decision-useful data analysis and create risk dashboards that are accessible and user-friendly to other departments. Both jurisdictions are also focusing on developing predictive analytics models to inform their risk management decisions.

3. Communication within the Government and with the Public

Public reporting of risk management efforts plays the crucial role of focusing the attention of governing bodies, executive leadership, department heads, and the public on the importance of risk management, thereby driving accountability. Each of the jurisdictions described above reports publicly on the full spectrum of claims types, utilizing measurements such as cost of risk, injury rate by hours worked, vehicle collisions per million miles driven, workers' compensation claims per $100 of payroll, and prevention program activities and results.[27] In 2014, The New York City Comptroller's Office launched a new "ClaimStat" initiative that features publicly accessible interactive maps of claims locations and alerts about claims activity trends.[28] Representatives of the four jurisdictions told us that regular meetings with department heads and loss prevention staff to review trends and develop corrective action plans have substantially increased the efficacy of their risk management efforts. The New York City Comptroller's Office, for example, holds weekly meetings with the New York Police Department to review claims trends and discuss any spikes in complaints against particular officers. Along the same lines, the City of Sacramento meets annually with department heads to review their rolling five-year loss experiences and help them develop targeted risk initiatives for the next year, while Los Angeles County holds quarterly risk meetings with leadership from multiple departments and gives all departments access to real-time claims data through an electronic dashboard.

IV. OIG SUGGESTIONS FOR A COMPREHENSIVE RISK MANAGEMENT PROGRAM

The risk management efforts of the jurisdictions described above provide just a few examples of the important reforms and safeguards local governments, including Chicago, can achieve in this realm. OIG suggests that the City invest in a modern, comprehensive risk management program

[27] New York's analysis does not include workers' compensation because it does not administer the program, which is administered by the Law Department.
[28] New York City Office of the Comptroller, "ClaimStat," accessed May 12, 2016at http://comptroller.nyc.gov/reports/claimstat/.

with the key components of centralization, investment, and transparency. Specifically, the Mayor's Office and City Council should,

- invest in the City's capacity to collect and retain data in a manner that allows for optimal analysis;
- develop and implement a comprehensive risk management program, and take responsibility for the program's results; and
- publicly report relevant data in a format that promotes accountability for risk management.

The City's risk management activities are currently performed, in isolation, by DOF, DOL, the Committee on Finance, and in the form of certain departments' internal employee safety efforts. Consolidating, refining, and augmenting this fractured system will require the Mayor and City Council to centralize and empower a risk management function at a high level of City government. Specifically, the City needs a new official position endowed with sufficient authority and resources to drive a risk management culture City-wide. For the sake of discussion, we will refer to this new official the Chief Risk Officer (CRO).

Once empowered, the CRO would require access to complete and accurate data for all claims. In its March 15, 2016 memo, DOF acknowledged that "high-level data resides in multiple separate databases, which presents obstacles to routine comprehensive analysis. In addition to those databases, detailed information on the nature of individual claims is maintained in case files within departments, furthering the challenge of conducting coordinated in-depth analysis." DOF expended considerable effort to merge and clean information from disparate data sources for the limited analysis that it undertook in 2015. DOF recognized that improving claims data quality is key to enabling comprehensive claims analysis, and said it "will work with all necessary stakeholders to explore options for modifying the existing systems." Without developing the fundamental ability to analyze trends across claims types, the City will continue flying blind while other municipalities proactively use predictive analytics to manage risk.

Furthermore, because comprehensive risk management includes taking action to mitigate risks, individual City departments should be held accountable for improving the risk outcomes of their operations. DOF's limited analysis explicitly excluded both police misconduct and contractually required parking meter payments, and did not mention worker's compensation. A truly comprehensive risk management program cannot overlook these particularly expensive categories of exposure. Other jurisdictions have extensive public reporting that includes risk management measurements and loss prevention strategies across all claim types, and their governing bodies play an active part in holding departments accountable for their risk management efforts. The role of a fully empowered CRO should include robust data analysis and public reporting requirements, and routine communication and collaboration with departments. Finally, to drive accountability, the work of the CRO should be subject to periodic review by City Council.

V. CONCLUSION

Creating a modern risk management program in the City will be a multi-year effort requiring a sustained commitment from the Mayor and City Council. However, this endeavor is critical to the City's current and future ability to provide a safer environment for the public and employees, and is eminently achievable given the examples in other jurisdictions.

OIG invites the City to respond in writing before June 20, 2016. Any such response will be made public together with this OIG advisory.

Respectfully,

Joseph M. Ferguson
Inspector General
City of Chicago

cc: Erin Keane, Acting Comptroller

VI. APPENDIX A: OTHER JURISDICTIONS' RISK MANAGEMENT PROGRAMS

A. New York City Office of the Comptroller

The New York City[29] Charter empowers the Office of the Comptroller to "settle and adjust all claims in favor of or against the city."[30] The Office publishes Annual Claims Reports[31] that present data on personal injury, property damage, and other claims. In these reports, the Office provides analysis of claims activity, draws conclusions about causes of trends, describes actions and initiatives the Office will take to reduce claims, and makes recommendations for action by other departments. For example, the fiscal year 2000 report recommended that the New York Police Department integrate claims information into its CompStat program in order to "have the data needed to assign individual accountability for potential losses that may be incurred for certain police actions" including "police misconduct, workplace conditions, employment practices, and motor vehicle operations."[32]

In 2014, the Office of the Comptroller launched ClaimStat, a "new, data-driven approach to claims management,"[33] with a July 2014 report and dedicated website. The ClaimStat website includes interactive maps of claims locations and alerts regarding specific claims activity trends.[34] ClaimStat has revealed some interesting trends, such as a spike in claims related to injury and damage from tree limbs following a cut in the tree-trimming budget.[35] The Office is currently developing a predictive analytics platform to improve its ability to identify claims that are more likely to be meritorious and thus good candidates for pre-litigation settlement.

B. Los Angeles County Chief Executive Office Risk Management Branch

The mission of the Los Angeles County[36] Chief Executive Office Risk Management Branch (RMB) is "to evaluate significant Countywide risks, hazards and exposures; develop and implement risk management methodologies to fund, minimize or eliminate loss; and, advise the Board of Supervisors and Departments of risk control strategies to mitigate unanticipated financial losses."[37] RMB was created in 2003 after the Board of Supervisors requested the

[29] New York City is the largest U.S. city by population, with approximately 8.5 million residents, and 277,173 full-time employees in the city government.
[30] New York City Charter § 93.i, accessed May 12, 2016, http://library.amlegal.com/nxt/gateway.dll/New%20York/charter/newyorkcitycharter/chapter5comptroller?f=templates$fn=default.htm$3.0$vid=amlegal:newyork_ny$anc=JD_93. The Comptroller's Office does not handle worker's compensation claims, which are administered by the New York City Law Department.
[31] New York City Office of the Comptroller, "Annual Claims Reports," accessed May 12, 2016 http://comptroller.nyc.gov/reports/annual-claims-report/.
[32] New York City Office of the Comptroller, "Annual Claims Report: Fiscal Year 2000," (August 2001: 3-4), accessed May 12, 2016, http://comptroller.nyc.gov/wp-content/uploads/documents/BLA_2000_Annual_Report.pdf.
[33] New York City Office of the Comptroller, "ClaimStat: Protecting Citizens and Saving Taxpayer Dollars," (July 2014: 1), accessed May 12, 2016, http://comptroller.nyc.gov/reports/claimstat/.
[34] New York City Office of the Comptroller, "ClaimStat," accessed May 12, 2016, at http://comptroller.nyc.gov/reports/claimstat/.
[35] New York City Office of the Comptroller, "ClaimStat: Protecting Citizens and Saving Taxpayer Dollars," (July 2014: 2), accessed May 12, 2016, http://comptroller.nyc.gov/reports/claimstat/.
[36] Los Angeles County is the largest U.S. county by population, with over 10.1 million residents, and 108,093 budgeted positions in the county government.
[37] County of Los Angeles Chief Executive Office, "Risk Management Branch," accessed May 12, 2016, http://ceo.lacounty.gov/RMB/.

establishment of a "state-of-the-art risk management program" to curb growing losses from workers' compensation, medical malpractice, and general liability claims.[38] A review by outside consultants "concluded that the overall risk management program is fragmented and lacks central direction, coordination or leadership. This fragmentation has led to a risk management environment that does not encourage the teamwork, communications and coordination needed to effectively control [the County's] overall cost of risk." The Board followed the consultant's recommendation to "consolidate risk management functions and responsibilities under the direction of a highly experienced and competent risk manager reporting to the CAO."[39]

RMB publishes an annual report analyzing claims activity for vehicle liability, general liability, medical malpractice, and workers' compensation.[40] The trend analysis includes law enforcement liability claims and notes that "over detention" and "property seizure" were the most prevalent claims of this type, but "excessive force" is the main cost driver of law enforcement claims.[41] RMB uses a variety of metrics to evaluate the effectiveness of the County's risk management activities. The primary metric is total cost of risk—the ratio of total claims expenditures including insurance premiums and administration to total operating budget—reported by claim type and department.[42] The FY 2013-2014 report notes that total cost of risk declined from 2.17% in FY 2011-2012 to 2.10% in FY 2013-2014 and highlights top performing departments. It also describes RMB's efforts to reduce cost of risk through loss and injury prevention, department-specific corrective action plans, and training.

The FY 2013-2014 report identified workers' compensation as the primary risk cost driver for the County[43] and RMB is currently in the process of implementing predictive analytic techniques to assist in the detection and prevention of workers' compensation fraud.

C. Maricopa County Risk Management Department

The mission of the Maricopa County[44] Risk Management Department (RMD) is to "provide safety and loss control programs, insurance, environmental, and claims management services to the Board of Supervisors, Maricopa County departments, Districts, and Trust members so they can reduce or eliminate loss."[45] The Department's vision is to "be recognized as a leader in Risk

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[38] County of Los Angeles Chief Administrative Office February 4, 2002 communication to the Board of Supervisors, with attachments, (see pages 1 and 4 of the .pdf), accessed May 12, 2016, http://www2.co.la.ca.us/supdocs/sops2002/SD10774.pdf.

[39] County of Los Angeles Chief Administrative Office February 4, 2002 communication to the Board of Supervisors, with attachments, (see page 11 of the pdf.), accessed May 12, 2016, http://www2.co.la.ca.us/supdocs/sops2002/SD10774.pdf.

[40] County of Los Angeles Chief Executive Office, "Risk Management Annual Report, Fiscal Year 2013-2014," accessed May 12, 2016, http://ceo.lacounty.gov/RMB/pdf/AnnRpt/13-14.pdf.

[41] County of Los Angeles Chief Executive Office, "Risk Management Annual Report, Fiscal Year 2013-2014," 31, accessed May 12, 2016, http://ceo.lacounty.gov/RMB/pdf/AnnRpt/13-14.pdf.

[42] County of Los Angeles Chief Executive Office, "Risk Management Annual Report, Fiscal Year 2013-2014," 5, accessed May 12, 2016, http://ceo.lacounty.gov/RMB/pdf/AnnRpt/13-14.pdf.

[43] County of Los Angeles Chief Executive Office, "Risk Management Annual Report, Fiscal Year 2013-2014," 1, accessed May 12, 2016, http://ceo.lacounty.gov/RMB/pdf/AnnRpt/13-14.pdf.

[44] Maricopa County, AZ is the fourth-largest U.S. county by population, with 4.2 million residents, and 14,172 full-time positions in the county government.

[45] Maricopa County, "Risk Management," accessed May 12, 2016, https://www.maricopa.gov/riskmgt/.

Management, and relied upon for a County-wide risk management philosophy and culture."[46] RMD's web page states the department's two goals:

- By 2018, the cost of risk will be 2.0% or less of County expenditures.
- The injury incident rate for FY2012 was 3.37. By 2018, the injury incident rate will be reduced to at least 3.35 based on industry standard calculation.[47]

RMD produces annual reports and quarterly reports sent to County departments "intended to assist departments in recognizing the nature and extent of their losses to implement and improve their loss control and prevention program."[48] RMD's annual report includes metrics and trends on claims experience in many categories including vehicle liability and damage, general liability, environmental liability, medical malpractice, workers' compensation, and professional liability. It also describes the safety, training, and loss prevention programs RMD has provided for and with other County departments.

D. City of Sacramento Department of Human Resources Risk Management Division

The City of Sacramento[49] Department of Human Resources Risk Management Division (RMD) produces an annual report "designed to provide City leadership and managers with information regarding departmental exposures and losses with the intent of implementing effective loss prevention activities to eliminate or reduce future losses."[50] It provides summary analysis of workers' compensation, general liability, and vehicle liability claims trends. The report includes a variety of measures, such as cost per claim, workers' compensation claims and losses per $100 of payroll, and vehicle collision rate per million miles driven. The report also connects the claims analysis to loss-prevention activities that RMD has undertaken in response. For example, upon finding that strain and sprain injuries were the most common type of injury, the Division reported that it provided department-specific training on reducing those types of injuries.[51] RMD also reports on its claims experience as compared to benchmark cities, using data that self-insured public entities are required to report to the California Department of Industrial Relations.

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[46] Maricopa County Risk Management Department, "Risk Management Annual Report: Fiscal Year 2014-2015," I-1, accessed May 12, 2016, https://www.maricopa.gov/riskmgt/pdf/Annual%20Report%20FY%2014-15.pdf.
[47] Maricopa County, "Risk Management," accessed May 12, 2016, https://www.maricopa.gov/riskmgt/.
[48] Maricopa County Risk Management Department, "Risk Management Annual Report: Fiscal Year 2014-2015," I-1, accessed May 12, 2016, https://www.maricopa.gov/riskmgt/pdf/Annual%20Report%20FY%2014-15.pdf.
[49] Sacramento is the thirty-fifth-largest U.S. city by population, with 485,199 residents, and 4,300 budgeted full-time positions in the city government.
[50] City of Sacramento Department of Human Resources, "Division of Risk Management Annual Report: Fiscal Year Ending June 30, 2015," 1, accessed May 12, 2016, http://sacramento.granicus.com/MetaViewer.php?view_id=21&event_id=2761&meta_id=460625.
[51] City of Sacramento Department of Human Resources, "Division of Risk Management Annual Report: Fiscal Year Ending June 30, 2015," 1 and 13, accessed May 12, 2016, http://sacramento.granicus.com/MetaViewer.php?view_id=21&event_id=2761&meta_id=460625.

VII. Appendix B: OIG Memo to DOF March 20, 2015

OIG wrote this memo to DOF after having explored with DOF and DOL the City's capacity for claims analysis.

OFFICE OF INSPECTOR GENERAL
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TO: Erin Keane, First Deputy Comptroller, Department of Finance (DOF)

FROM: Lise Valentine, Deputy Inspector General for Audit & Program Review, Office of Inspector General (OIG)

DATE: March 20, 2015

RE: Claims Analysis Project
Summary of OIG work to date and considerations for DOF

Background

In October 2014, OIG contacted DOF to determine if the City conducted routine trend analysis of claims against the City (including small claims, settlements, and judgments) in order to actively manage risks.[1] DOF stated that some limited-scope analyses had been done in the past but there is no comprehensive program in place. OIG proposed to conduct a pilot analysis, contingent on data availability, to demonstrate the potential value of more comprehensive analysis.

DOF and OIG met several times with Department of Law (DOL) regarding data needed to conduct a pilot analysis. DOF and OIG concluded that claims data needed for a comprehensive analysis resides in at least three separate databases:

- TeamConnect (DOL's case management system)
- CorVel (i.e., the database maintained by CorVel, DOL's third party claims administrator)
- City Council Committee on Finance (unknown database)

OIG obtained access to the TeamConnect application and Business Objects universe. We ran some preliminary reports but concluded that they did not provide sufficiently complete or accurate information to conduct a pilot analysis at this time. We met with DOF on March 5, 2015 and determined that DOF was better positioned to complete a pilot analysis more quickly than OIG because it has easier access to the knowledge and data required. DOF estimated that it could complete a pilot analysis by June 2015. OIG agreed to assist in any way possible by, for example, providing the summary of data needs and challenges it has identified, below.

[1] In this memo the word "claim" means any claim, settlement, or judgment against the City.

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OIG Summary of Pilot Analysis Data Needs and Challenges

A useful pilot analysis will require: 1) selection of an appropriate dataset; and 2) a complete and accurate dataset.

1) An appropriate dataset

   OIG had intended to select a discrete claim type with a sufficiently large volume of claims not dominated by one or two unique cases (or those cases could be identified and excluded). We had considered motor vehicle damage claims or similar property damage (e.g., pothole damage claims).

2) Complete and accurate data

   Complete

   - The dataset must include **all claims of the type selected for analysis** (e.g., all motor vehicle damage claims).

     Potential Challenge: An analysis of pothole damage claims would require access to and merging of data across TeamConnect, CorVel, and the Committee on Finance database.

   - The dataset must include **all fields required for analysis, and those fields must not be null**.

     Baseline required fields include:

     a. incident date
     b. incident location (precise enough to be translated into GIS)
     c. incident type
     d. department responsible
     e. total payment (including multiple payees or multiple payments)
     f. several years of data

     Potential Challenge: There may be data entry anomalies. For example, an initial examination of TeamConnect revealed incomplete and inconsistent incident location, and potentially inconsistent incident type ("allegation" and "category").

   Accurate

   All of the above data fields must have sufficiently accurate data from which to draw reliable conclusions. To the extent that data is not entered for the purpose of comprehensive claims analysis, it may not be entered consistently enough to be reliable.

Other Considerations

1) It appears that the City does not currently have a process to detect if someone files a claim with both DOL and the Committee on Finance, thus the City may be exposed to duplicate claims.
2) It appears that there is no easy way to electronically match claim data from TeamConnect or CorVel (Committee on Finance data is unknown) to payment data (FMPS). Therefore, there is no way to comprehensively match actual final payments in FMPS to the claims data. This is especially relevant for certain judgments for which the final interest amounts are calculated by DOF, so the amounts listed in TeamConnect do not reflect total final payments.
3) It appears that there is no easy way to track total payments (past and future) on claims for which there are multiple payees or multiple payments over time.
4) The three data sources that we are aware of (TeamConnect, CorVel, Committee on Finance) were designed to meet the needs of their users, not to facilitate entity-wide claims experience and analysis. The new RMIS system may be able to merge data from these systems, but the City may also want to consider whether modifications to the source systems are needed in order to ensure that it has complete and accurate claims data for effective ongoing monitoring.
5) We do not know how the Committee on Finance database is organized, but we know that, unlike DOL, Committee on Finance permits claimants to use their claim awards to settle existing debt with the City. Therefore, it would be important to ensure that the data analysis of Committee on Finance data captures the full amount of the claim even if the claim amount is paid back to the City rather than the claimant.

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IX. APPENDIX C: DOF MEMO TO OIG MARCH 15, 2016

DOF responded to OIG's March 20, 2015 memo with this memo.

DEPARTMENT OF FINANCE
CITY OF CHICAGO

To: Lise Valentine
Deputy Inspector General for Audit and Program Review
Office of the Inspector General (OIG)

From: Erin Keane
First Deputy Comptroller
Department of Finance (DOF)

Date: March 15, 2016

Re: Claims Analysis Project

We appreciate the Office of the Inspector General (OIG) raising the issue of routine claims analysis. Following our discussions, the Department of Finance (DOF) undertook a broad-scale review of the claims[1] paid data for the years 2013 and 2014 combined.

As the OIG noted, the high-level data resides in multiple separate databases, which presents obstacles to routine comprehensive analysis. In addition to those databases, detailed information on the nature of individual claims is maintained in case files within departments, furthering the challenge of conducting coordinated in-depth analysis.

As such, DOF determined that the most efficient and effective course of action would be as follows:

- Merge and clean-up the high level data and analyze this data to see which types of claims were recurring across departments and identify categories of claims where in-depth analysis is needed (the "DOF Analysis").
- Use this information to coordinate working groups of relevant departments for each category of claims; as departments hold the background knowledge and detailed information related to specific claims necessary for in-depth analysis (the "Working Group Strategy").
- Conduct further analysis by working groups for each category of claims, target current policies and practices to address underlying issues with the goal of reducing the number of claims and cost of damages.

This memorandum outlines the results of the DOF Analysis, sets forth the framework for the Working Group Strategy, and closes by addressing other issues that the OIG raised related to routine claims analysis by the City.

[1] In this memorandum, the term "claim" refers to any claim, settlement or judgment against the City of Chicago.

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DOF ANALYSIS

The claims data is collected and entered into databases by multiple individuals in several departments, which has led to inconsistent terminology and variations in data quality. In order to begin its review, DOF cleaned up the data by adjusting entries to reflect common, consistent terms, allowing the data to be sorted. DOF then merged the data, eliminated duplicate claims, and organized the compiled data according to the cause of each claim and the type of damage that triggered the claim.

As shown in Table 1, the majority of analyzed claims fit into one of five general categories with a final grouping composed of several less frequently occurring claim types. These analyzed claims exclude contractually obligated parking meter payments and non-vehicle accident public safety claims as the two categories are unique and dissimilar from claim types that are common across departments.

Table 1

Claims Summary[2]: 2013-2014				
Primary Cause	**Payments[2] (in millions)**		**Number**	
Vehicle accidents	$27.1	50.7%	870	25.9%
Street condition	$8.6	16.1%	1,483	44.2%
Tree debris	$6.0	11.2%	96	2.9%
Sidewalks, signage, and lighting	$1.6	3.0%	143	4.3%
Utility	$0.9	1.7%	388	11.6%
Other	$9.3	17.4%	378	11.3%
Total	**$53.5**		**3,358**	

Vehicle Accidents

The largest expense, accounting for $27M or 50% of paid claims analyzed, is the result of vehicle accidents where a City-owned vehicle caused damage to another vehicle, damaged personal property or caused personal injury. A breakdown of vehicle related cases by department is provided in Table 2. Most of the cost is driven by DSS, DWM, CPD, and CFD. Note, however, that the DWM data includes one case from 2006 that was settled for $7.9M. If the DWM claims are filtered out of the data, the average cost per claim associated with the top 3 departments (DSS, CPD and CFD) is approximately $27,000.

Table 2

Vehicle Accident Related Claims by Department: 2013-2014				
	Payment (in millions)		**Number**	
DSS	$9,752,047	36.0%	252	29.0%
DWM	$8,197,533	30.2%	71	8.2%
CPD	$7,399,814	27.3%	377	43.3%
CFD	$1,386,806	5.1%	67	7.7%

[2] The term "payment" encompasses reimbursements, settlements and verdicts.

CDOT	$132,606	0.5%	58	6.7%
2FM	$71,298	0.3%	25	2.9%
Finance	$62,492	0.2%	10	1.1%
OEMC	$62,720	0.2%	2	0.2%
CPL	$22,672	0.1%	2	0.2%
Animal Care & Control	$8,764	0.0%	3	0.3%
BACP	$8,000	0.0%	1	0.1%
Public Health	$1,339	0.0%	2	0.2%
Total	**$27,106,091**		**870**	

Street Conditions
The cost associated with claims resulting from street conditions is approximately $9M or 16% of analyzed claim expense. Street condition claims include damage to automobiles or personal injuries that result from accidents caused by potholes, sink holes, exposed manhole covers or other roadway conditions – often due to construction. Despite a much lower total cost than vehicle accident claims, these claims are far more numerous, with almost twice as many claims paid over the two-year period.

Tree Debris
The third largest claim expense, totaling $6M, is the result of falling tree limbs or tree debris. This total expense, however, includes a settlement of approximately $5.8M for one incident that occurred in 2011. When that individual settlement is extracted from the data, the average cost per claim of this type is reduced to $2,600.

Other Claims
The 'other' grouping includes a variety of claim types that do not appear to fit into one of the broader categories and will need further analysis to determine or verify the primary cause. For example, the data suggests that the largest type of claim expense within the 'other' category stems from bicycle accident claims, of which two major incidents account for $3.4M of the $3.6M expense. However, given the limitations of the data, it is possible that the primary cause of these accidents was the condition of the street rather than bicycle activity and therefore should be part of the street condition claims analysis.

WORKING GROUP STRATEGY

The data refined by DOF and presented above highlights areas where continued, regular analysis coupled with action taken as a result of that analysis may decrease claims and the associated liability. The specific details behind individual claims reside within departments rather than in the collective databases, making it critical that relevant subject matter experts within the departments are part of this analysis and provide recommendations for risk management.

In addition to these operational experts, DOL, OBM and DOF should participate in any working groups to provide other information and support throughout the analysis. A proposed working group strategy for the three leading categories of expense - vehicle accidents, street conditions and 'other' - is discussed briefly below. The working groups will analyze the facts and circumstances of each claim to determine both the root causes and contributing factors and then develop, assess and revise policies and procedures in order to reduce claims and damages going forward.

Vehicle Accidents

The claims associated with vehicle accidents account for the majority of the overall claim expense but only a quarter of the number of claims. For this reason, DOF suggests a vehicle claims working group comprised of representatives from DSS, CPD, CFD and FFM. The group will analyze the data to determine whether there are common issues across departments that have led to certain types of claims or if the nature of the work of each department is a leading cause of the incidents.

Street Conditions

Street conditions are impacted by a number of factors including: weather, time of year, use and location of the roadway, construction materials, project management, safety barriers, etc. Representatives from CDOT and DWM are best suited to be part a street condition working group in order to identify areas of risk and exposure that may be mitigated by changes in policies and procedures related to roadway maintenance, repair and construction.

Other

This combined category of claims includes a diverse set of causes for which further analysis is required prior to determining subject matter experts. For that reason, the support departments listed in the beginning of this memorandum should be the first to begin the analysis of this group and determine the strategy for the next steps.

OTHER CONSIDERATIONS

The OIG had concerns about several specific issues which DOF will address in closing. The first issue is whether the City is exposed to duplicate claims, primarily property damage, given that both DOL and the Committee on Finance (COF) handle such claims without a clear delineation of responsibility. After investigation, DOF found that the two entities have a process for identifying duplicate claims but that it is done informally. While the approach appears to work in its current form, DOF agrees that this is a concern and will ask DOL and COF to pursue a formal and permanent process for such communications.

The OIG was also concerned about the City's ability to track total payments and claims for which there are multiple payees or payments over time. DOF does not believe that this is a concern as it has a process in place to connect case numbers to payments and payees. A voucher is created for every payment associated with a judgment and it includes the name of the case, the case number, the date payment is due and the department involved. The voucher also includes the vendor code which indicates the party to whom the check is payable. After preparing the voucher, the information is entered into FMPS with the case number associated with that payment. If payments are made to several parties for the same case, those vouchers are numbered sequentially. If multiple payments are made over time for the same case, each payment has a different voucher number, but is listed in FMPS under the same case number on the voucher.

In addition, the OIG suggested that the City consider IT modifications to the claims data source systems to ensure that it has complete and accurate data from the various source systems, including the IT system used by COF. As noted, DOF is currently using the RMIS system as a repository for the claims data from the various systems but its value is limited by the accuracy of the data from the source systems. DOF will work with all necessary stakeholders to explore options for modifying the existing systems.

CITY OF CHICAGO OFFICE OF THE INSPECTOR GENERAL

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