

**Performance Audit:
Department of Watershed Management
Claims Review**

March 2011

**City Auditor's Office
City of Atlanta**

File #10.05



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
404.330.6452

March 2011

Why We Did This Audit

We undertook this audit because our December 2007 performance audit, *Automated Meter Reading Program*, identified potential liability related to open meter boxes with lids that were missing, broken, or were ill-fitted. The Department of Law and City Council approve claims on a case-by-case basis. A systematic review of the number and magnitude of claims could help the city better manage risks.

What We Recommended

In order to provide reliable data for risk management, the city attorney should:

- Compile comprehensive claims and litigation data electronically, including, at a minimum, loss date, type of claim, cause of claim, disposition, and settlement amount
- Regularly provide relevant claims and litigation data to risk management

To implement an effective risk management program that minimizes the city's loss exposure, the chief financial officer should:

- Develop a comprehensive risk management program that includes tort claims analysis, consistent with city code requirements and best practices
- Ensure that all city departments are notified of and comply with the risk management program requirements, and regularly receive data on claims and litigation risk analysis

For more information regarding this report, please contact Stephanie Jackson at 404.330.6678 or sjackson@atlantaga.gov

Performance Audit:

Department of Watershed Management Claims Review

What We Found

The city paid \$11 million between January 2006 and June 2010 to settle injury and damage claims made against the Department of Watershed Management. We were unable to evaluate the severity and frequency of different types of claims because the law department has not consistently recorded the cause of damage leading to the claim, or the settlement amount for each claim in its electronic files. The number of claims filed has decreased since about March 2008, but the proportion settled, number of cases litigated, and total settlements paid per year have increased.

While the city code establishes a risk management function responsible for minimizing loss exposure, the city's recently hired risk manager has focused primarily on workplace safety, worker's compensation and insurance, and contract review, and has yet to establish a risk management program that includes analysis of third-party claims. The code requires the city's risk manager to develop and implement procedures to measure the frequency and severity of citywide losses and establish goals to help departments develop risk management plans to achieve acceptable loss levels.

Effective risk management requires complete and reliable loss data, including frequency, severity, cause, and financial consequences. The law department compiles data that would be useful to identify and evaluate loss exposure, but until recently the law department did not provide the information to risk management or any city department. Law recently shared some claims data with the city's risk manager. However, based on our analysis, the claims data is incomplete, tracked in multiple systems, and inconsistently categorized.

The risk manager should develop and implement a risk management program consistent with code requirements. The city attorney should share relevant claims information and ensure that tracked data is complete and accurate.

Management Responses to Audit Recommendations

Summary of the Department of Law's Management Responses

Recommendation #1:	The City Attorney should compile comprehensive claims and litigation data electronically, including, at a minimum, loss date, type of claim, cause of claim, disposition, and settlement amount.	
Response & Proposed Action:	The Department of Law will update the information requested.	Agree
Timeframe:	October 1, 2011	
Recommendation #2:	The City Attorney should regularly provide relevant claims and litigation data to risk management.	
Response & Proposed Action:	The Department of Law will respond to requests for data information as requested from Risk Management, but at a minimum on a quarterly basis.	Agree
Timeframe:	July 1, 2011	

Summary of the Department of Finance's Management Responses

Recommendation #3:	The Chief Financial Officer should develop a comprehensive risk management program that includes tort claims analysis, consistent with city code requirements and best practices.	
Response & Proposed Action:	Restore and enhance the City's Risk Management function by (re)creating the Office of Enterprise Risk Management within the Department of Finance. The focus of the Office of Enterprise Risk Management will be to identify, assess and address all risks the City faces.	Agree
Timeframe:	12/31/2011	
Recommendation #4:	The Chief Financial Officer should ensure that all city departments are notified of and comply with the risk management program requirements and regularly receive data on claims and litigation risk analysis.	
Response & Proposed Action:	Restore and enhance the City's Risk Management function by (re)creating the Office of Enterprise Risk Management within the Department of Finance. The focus of the Office of Enterprise Risk Management will be to identify, assess and address all risks the City faces.	Agree
Timeframe:	12/31/2011	



CITY OF ATLANTA

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March 7, 2011

Honorable Mayor and Members of the City Council:

We initiated this audit of claims made against the Department of Watershed Management because we identified potential liability related to meters in a previous audit. Since then, we became aware of personal injury lawsuits filed against the city as a result of citizens falling into uncovered water meter pits. Because the Department of Law and City Council approve claims on a case-by-case basis, we decided to undertake a systematic review of watershed-related claims data.

The city paid \$11 million between January 2006 and June 2010 to settle water related claims. Most claims were related to property damage; however, watershed has paid to settle litigation in an increasing number of cases, and at least three personal injury suits settled in 2010 related to open meter boxes. The law department's electronic claims data is incomplete and inconsistently compiled, and until recently, the department did not share the data with the city's risk manager, who is required by city code to develop and implement a citywide risk management program. Effective risk management requires complete and reliable loss data, including frequency, severity, cause, and financial consequences.

Our recommendations focus on providing reliable data for risk management and implementing an effective risk management program that minimizes the city's loss exposure. The Departments of Law and Finance agree with our recommendations. Their full responses to our recommendations are appended to the report.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Melissa Davis, Sterling Thomas, and Stephanie Jackson.

Handwritten signature of Leslie Ward in cursive.

Leslie Ward
City Auditor

Handwritten signature of Fred Williams in cursive.

Fred Williams
Audit Committee Chair

Report Title

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Introduction

We conducted this performance audit of claims for damages made against the Department of Watershed Management pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties. The Audit Committee reviewed our audit scope in September 2010.

A performance audit is an objective analysis of sufficient, appropriate evidence to assess the performance of an organization, program, activity, or function. Performance audits provide assurance or conclusions to help management and those charged with governance improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.¹

We undertook this audit because our December 2007 performance audit, *Automated Meter Reading Program*, identified potential liability related to open meter boxes with lids that were missing, broken, or did not fit. We were also aware of personal injury lawsuits filed as a result of citizens falling into uncovered water meter pits. The City Council and Department of Law approve claims on a case-by-case basis. A systematic analysis of the number and magnitude of claims could help the city better identify and manage risks. We focused our review on claims and litigation related to Department of Watershed Management from January 2006 through June 2010.

Background

If an individual sustains bodily injury or property damage and believes the city is at fault, state law requires the injured party to provide notice to the governing authority by filing a written claim

¹Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. Government Accountability Office, 2007, p. 17-18.

within six months of the incident.² The claim must state the time, place, and extent of injury, and the negligence that caused the injury.

The Department of Law investigates claims. Claimants can file claims with the City Council, the Office of the Municipal Clerk, or directly with the responsible department. Regardless of where a claim is filed, it is forwarded to the Department of Law. The claims are handled by three investigators, and reviewed by a claims manager and a supervising attorney in the department's Litigation and Employment unit.

State law requires the city to respond within 30 days once a claim is filed.³ During this time, the claims investigator collects and reviews evidence to determine whether the city is liable. If the unit determines that the city is liable, investigators negotiate a settlement with the claimant. The city attorney reviews all settlement recommendations. If the unit determines that the city is not liable for the damage or injury, it recommends denial of the claim – called an adverse report – for City Council consideration and approval.

The City Council and Mayor approve settlement amounts over \$500 and all denied claims. All settlement amounts greater than \$500 and all adverse recommendations go before the City Council. Law staff prepares a resolution recommending favorable and unfavorable claim dispositions with a brief description of each claim, which is placed on the council's consent agenda for approval. The City Council's Public Safety and Legal Administration Committee reviews the claims before their approval by full council and mayor.

The city attorney approves settlement amounts of \$500 or less. Sec. 2-404 of the City Code authorizes the Department of Law to settle claims \$500 or less without City Council approval. Law department staff told us that the department's authority to approve claims is too low and slows down claims processing. The median time for the department to close a claim was 131 days. The median time to close a denied claim was about one week shorter than the median time to close a paid claim. Claims that required Council review were closed a median of 12 days later than claims that were administratively settled by the Department of Law.

² O.C.G.A. § 36-33-5

³ O.C.G.A. § 36-33-5 (c)

Between fiscal years 2006 and 2010, the City Council reviewed 81% of the 1,499 closed claims for damages against the Department of Watershed Management. About half of these claims were denied and about a third resulted in settlement amounts greater than \$500. The city attorney approved slightly less than 20% of the claims (see Exhibit 1). More than 200 claims filed for incidents occurring in fiscal year 2010 were still open as of September 2010.

Exhibit 1 Number of Closed Claims against Watershed Management Fiscal Year 2006 - 2010

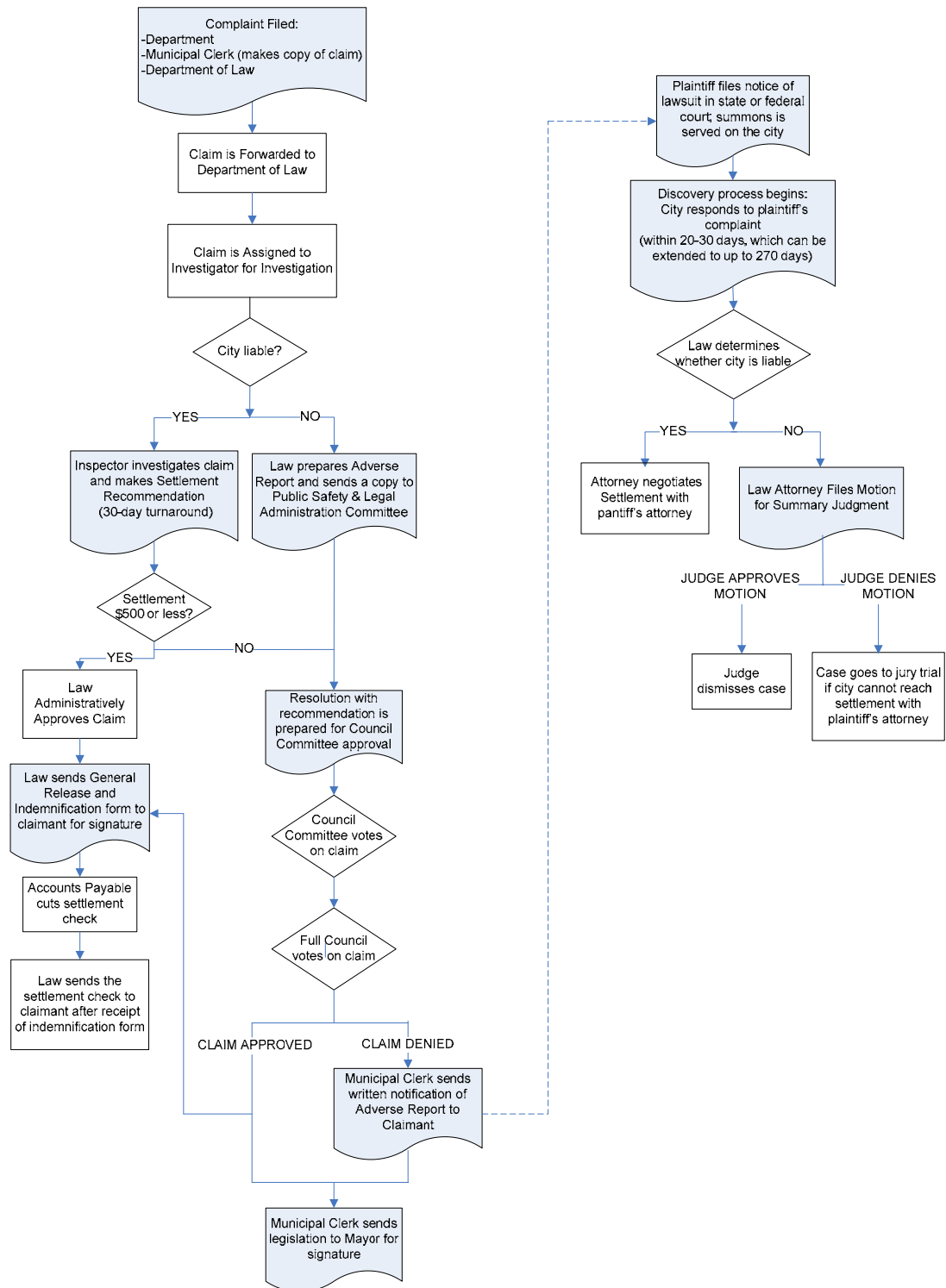
Claim Disposition	Number	Percent of Settled Claims
Denied	727	48%
Approved		
➤ Settlements \$500 and Below	284	19%
➤ Settlements Above \$500	488	32%
Total Settled	1,499*	
Reviewed by City Council	1215	81%
Settled by Law Department	284	19%

Note: *The 1,499 total claims settled excludes 8 claims for which we could not identify the disposition.

Source: Department of Law's Time Matters claims tracking database as of September 2010, covering closed claims with loss dates from January 2006 through June 2010; does not include litigation.

Once a negotiated settlement is approved, the claimant must sign an indemnification form releasing the city from any future liability related to the claim before receiving payment. If the city denies the claim, either because the city attorney determined the city is not liable or the parties cannot agree on a settlement, the Municipal Clerk notifies the claimant in writing that the claim has been denied. The claimant then has the option of filing a lawsuit in a state court. Claimants may file suit in federal court without first filing a damage claim with the city. Once a suit is filed, the city attorney may reach a settlement before the case goes to trial. According to staff, the Department of Law takes fewer than ten cases to trial each year. This process is described in Exhibit 2 on the following page.

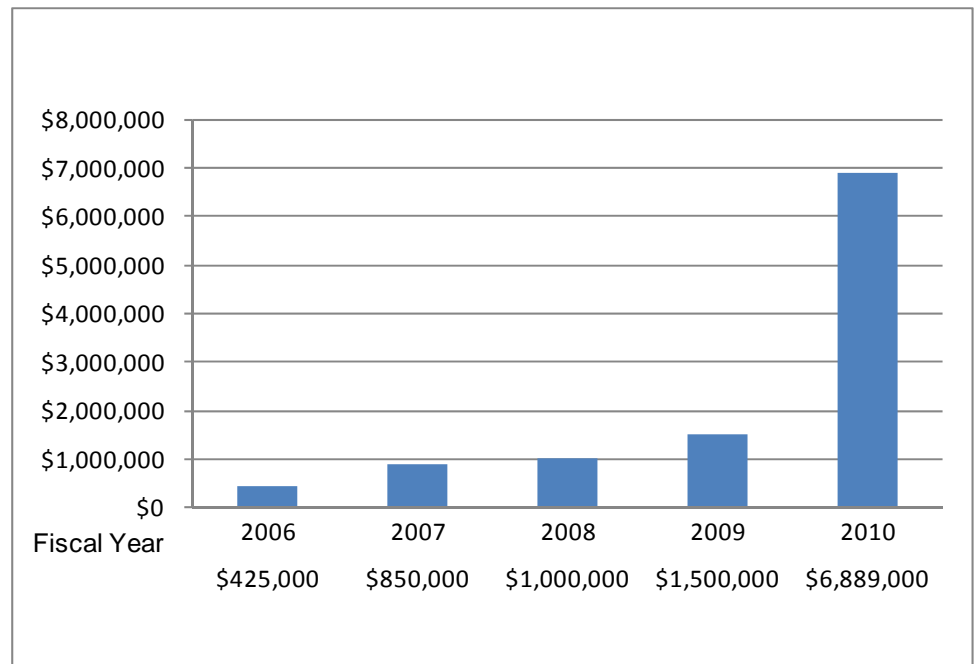
Exhibit 2 Claims and Litigation Process



Sources: City Code; Interviews with staff

Water and sewer fund pays for watershed claims. The Department of Watershed Management’s claims reserve is part of its operating budget. The department budgeted nearly \$7 million for claims in fiscal year 2010 (see Exhibit 3). This figure includes only amounts for paid claims; it does not include other operating costs, such as personnel. According to watershed staff, watershed management’s claims reserve budget increased in fiscal year 2010 because of deferred and pending lawsuit settlements.

Exhibit 3 Watershed Claims Reserve Budget FY 2006 - 2010



Source: Oracle and MARS/G, Fiscal Years 2006 through 2010 budget documents; Fiscal Year 2006 was January through June only

The law department tracks claims and litigation in an internal database. The department records information about claims and litigation into a database program called Time Matters. Database fields include identifying information about the claimant, the date the damage or loss occurred, the location where the damage or loss occurred, the type of claim, the cause of the damage or loss, the date the city was notified, the city department responsible, whether the claim was settled or denied, settlement amount, and the date the claim was closed. Both administrative and legal staff enters data into the system.

While the law department referred to Time Matters as its system of record for claims and litigation data, the department compiles performance data for the mayor's office ATLStat scorecard in a separate spreadsheet. The ATLStat scorecard data includes information on claims settlement totals, the number of pending claims and suits, and the number of claims denied resulting in a lawsuit. The law department also prepares quarterly and annual reports that list the number and amounts of claims and lawsuits settled by department and cause of injury or damage. Law staff produces these reports from its spreadsheet supplemented with litigation data obtained directly from attorneys. Staff told us that Time Matters is not used for these reports.

Council members expressed concerns about claims. Members of the City Council's Public Safety and Legal Administration committee members told us that they are generally satisfied with the information they receive regarding individual claims. Some expressed interest in obtaining additional information about how the city handles claims. Some members were also concerned about repeatedly seeing the same types of claims and were interested in risk mitigation efforts by city departments and/or risk management. Some council members also said they perceived that law routinely denied claims and that some lawsuits could be avoided if they had been handled appropriately at the claim level. None of the council members we spoke with supported increasing the threshold for the city attorney to approve settlements.

Audit Objectives

This report addresses the following objectives:

- What is the distribution of Watershed Management claims? How does it vary by type, cause, disposition, settlement amount, and other factors?
- Does the Law Department's claims-tracking database contain reliable data that will allow the city to mitigate risks?
- Are city departments' activities sufficient to manage risks in accordance with code requirements?
- What is the basis for city council review of claims, including:
 - All adverse claims
 - All favorable claims over \$500?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our analysis of claims and litigation data mostly focuses on claims made against the Department of Watershed Management for incidents occurring from January 2006 through June 2010.

Our audit methods included:

- interviewing staff from the Department of Law and the Office of the Municipal Clerk to understand the claims process
- interviewing staff from the Departments of Law, Finance, and Watershed Management to understand their risk management activities related to water meters
- interviewing members of City Council's Public Safety and Legal Administration Committee
- reviewing relevant city code provisions
- researching risk management best practices
- compiling claims data and analyzing trends

We used three sources from the law department to compile claims and litigation data:

- the claims tracking database, Time Matters
- the claims manager's internal spreadsheets
- annual reports

We relied on Time Matters as the official source to identify the claims population, loss date, type, and disposition. We used the department's internal spreadsheets to supplement the Time Matters data, including identifying the claim causation (not included in Time Matters) and verifying the disposition data. The spreadsheets only contained information on closed claims; it did not contain any open cases or litigation data. Additionally, we used the annual reports to identify litigation data, which was not included in the internal spreadsheets and was incomplete in Time Matters. For all financial analysis, we relied on the city's financial systems of record, Oracle and MARS/G, including the paid invoice reports and general ledger data.

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings and Analysis

City Lacks Risk Management Structure and Coordination to Reduce Claims Exposure

The city paid \$11 million between January 2006 and June 2010 to settle injury and damage claims made against the Department of Watershed Management. Most claims were for property damage. We were unable to evaluate the severity and frequency of different types of claims because the law department has not consistently recorded the cause of damage leading to the claim or the settlement amount for each claim in its electronic files. The number of claims filed has decreased since about March 2008, but the proportion settled, number of cases litigated, and total settlements paid per year have increased.

While the city code establishes a risk management function responsible for minimizing loss exposure, the city's recently hired risk manager has focused primarily on workplace safety, worker's compensation and insurance and contract review, and has yet to establish a risk management program that includes analysis of third party claims. The code requires the city's risk manager to develop and implement procedures to measure the frequency and severity of citywide losses and establish goals to help departments develop risk management plans to achieve acceptable loss levels. Each department is responsible for enforcing the city's risk management policy.

Effective risk management requires complete and reliable loss data, including frequency, severity, cause, and financial consequences. The Department of Law compiles data that would be useful to identify and evaluate loss exposure, but until recently the law department did not provide the information to risk management or any city department. The law department recently shared some claims data with the city's risk manager. However, based on our analysis, the claims data is incomplete, tracked in multiple systems, and inconsistently categorized.

The risk manager should develop and implement a risk management program consistent with code requirements. The city attorney should assist the risk manager by sharing relevant claims information. The city attorney should also ensure that data

compiled in the department's claims tracking database is complete and accurate.

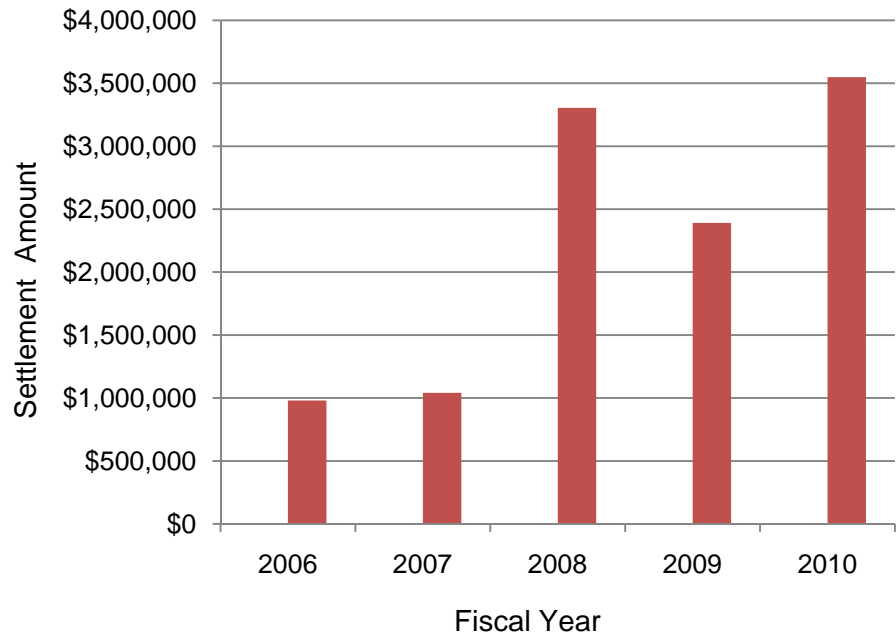
Watershed Claim Settlements Cost \$11 Million Since 2006

The city paid \$11.3 million for injury and damage claims made against the Department of Watershed Management from fiscal year 2006 through fiscal year 2010. Watershed management's claim settlements exceeded the budgeted amount by at least 20% in four of the last five fiscal years. The total number of claims filed has decreased since 2008; however, a higher proportion of claims have been settled since 2007. About 15% of all claims over the period reviewed have yet to be resolved; none of these are related to water meters. Nearly half of these claims are six months and older, suggesting remaining exposure.

The number of meter-related claims increased from fiscal year 2006, when the city began its automated meter reading implementation, through fiscal year 2008; however, meter-related claims represented a small percentage of all claims filed against watershed management. Watershed management has paid to settle litigation in an increasing number of cases, and at least three personal injury suits settled in 2010 related to open meter boxes. The majority of claims were for property damage. We were unable to evaluate the severity and frequency of different types of claims because the law department has not consistently recorded the cause of damage leading to the claim or the settlement amount for each claim in its electronic files.

Watershed payments continue to rise. The city made about 900 payments totaling \$11.3 million to settle claims and litigation related to watershed management from fiscal years 2006 through 2010. The median payment amount over the period was about \$980 (see Exhibit 4).

Exhibit 4 Paid Watershed Claims and Litigation Fiscal Years 2006 - 2010



Sources: Oracle and MARS/G – Paid Invoice Report and general ledger Fiscal Years 2006 through 2010; based on payment date; includes claims and litigation; Fiscal Year 2006 was January through June only

Watershed management claim settlements exceeded budgeted amounts in four of the last five fiscal years. Budgeted amounts for watershed management’s claims accounts increased each year from 2006 to 2010 (see Exhibit 5). Payments made to settle claims and litigation exceeded budgeted amounts from fiscal year 2006 until 2010, when the budget increased substantially to cover deferred and pending lawsuit settlements.

Exhibit 5 Watershed Claims and Litigation Payments Compared to Budgeted Amounts Fiscal Year 2006 through Fiscal Year 2010

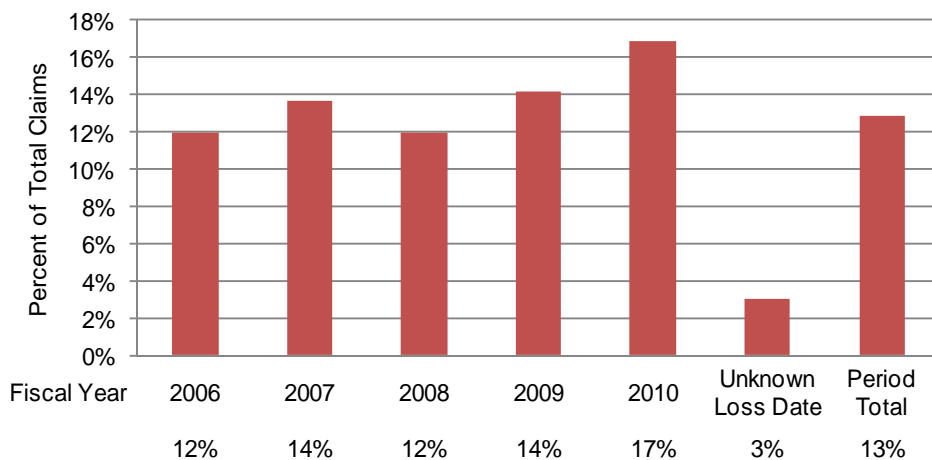
Watershed Claim Settlements			
Fiscal Year	Actual	Budgeted	Difference
2006 (January-June)	\$980,493	\$425,000	\$(555,493)
2007	\$1,040,419	\$850,000	\$(190,419)
2008	\$3,304,679	\$1,000,000	\$(2,304,679)
2009	\$2,390,402	\$1,500,000	\$(890,402)
2010	\$3,549,337	\$6,989,000	\$3,439,663
TOTAL	\$11,265,330		

Sources: MARS/G and Oracle – Paid Invoice Report and general ledger, Fiscal Years 2006 through 2010; includes claims and litigation

Settlements for meter related claims have increased, but represent a small percentage of watershed management claims. We wanted to assess whether the number of claims and lawsuits related to meters has increased since the beginning of the AMR program because we identified increased risk in our 2007 performance audit of the AMR installation. While meter-related claims have increased since 2006 as a percentage of closed claims, meter-related claims represented no more than 17% of the total claims closed during the period we reviewed (see Exhibit 6).

Similarly, the number of litigation settlements related to meters increased from none in 2006 to 3 in 2010, totaling \$497,500. The total number of lawsuits paid related to watershed management in general increased from 2 to 15 over the same period.

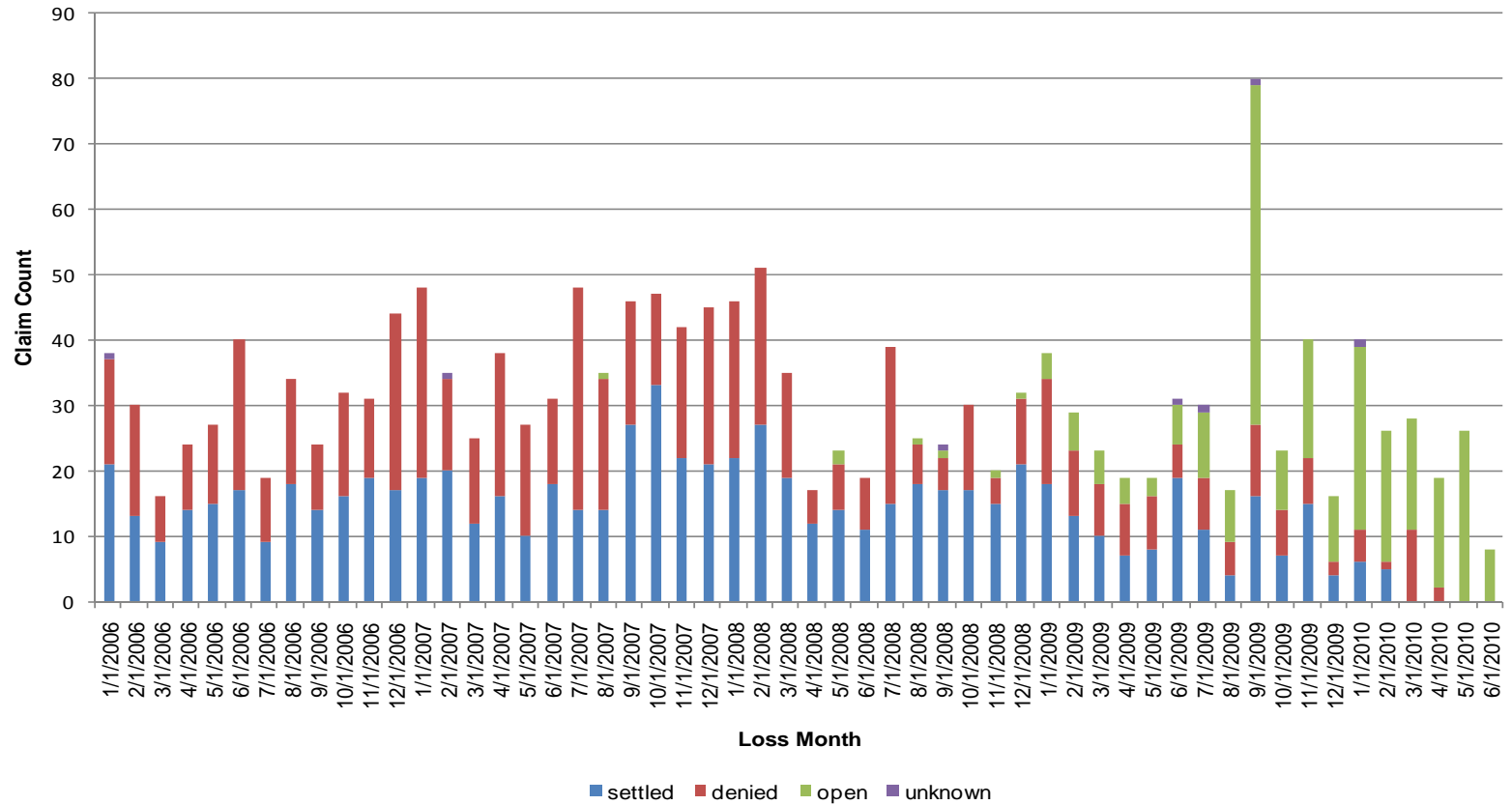
Exhibit 6 Meter-Related Claims as a Percent of Closed Claims against Watershed Management



Sources: Department of Law's Time Matters Claims Tracking Database; Claims Manager's Spreadsheet, Fiscal Years 2006 through 2010, based on date of loss; does not include litigation

Although the total number of claims filed has decreased, a higher proportion has been settled since 2008. Claimants filed 1,782 claims for damages against the Department of Watershed Management for incidents occurring from January 2006 through June 2010. The total number of claims filed per month has decreased since the beginning of 2008, except for a jump in claims likely related to storm water flooding in September 2009 (see Exhibit 7). The proportion of claims paid appears to have increased since fall 2007, but 275 claims are still open – 15% of all claims over the period reviewed – and it is not possible to estimate the extent to which these open cases will result in settlements. Open claims go back as far as August 2007 and 114 open claims have loss dates before November 2009. About 5% of the claims recorded in the law department's database had a blank date of loss.

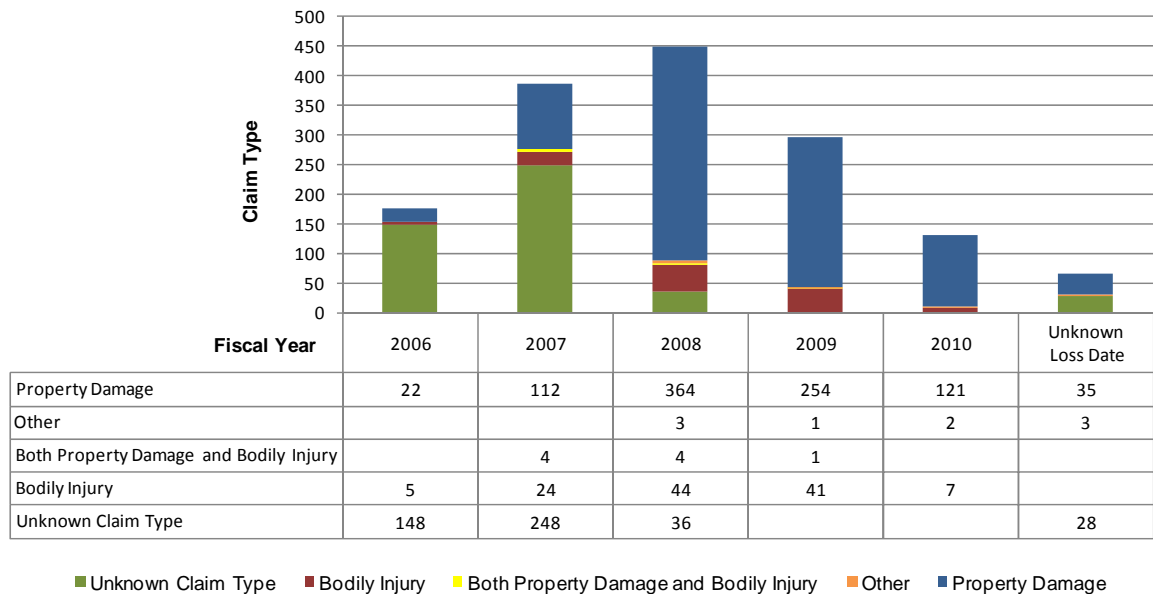
Exhibit 7 Total Watershed Claims Disposition by Loss Month, Including Open Claims



Sources: Department of Law's Time Matters Claims Tracking Database; Claims Manager's Spreadsheet Fiscal Years 2006 through 2010, based on date of loss; does not include litigation

Most claims were for property damage. As shown in Exhibit 8, the majority of settled claims filed between 2008 and 2010 were for property damage. The law department did not consistently record the type of claim in its database before 2008. Bodily injury claims were the second most frequent, accounting for about 12% of the claims where type was identified. The type of claim was blank for about 30% of the claims recorded in the law department’s database.

Exhibit 8 Closed Watershed Claims by Claim Type per Fiscal Year



Source: Department of Law’s Time Matters Claims Tracking Database, Fiscal Years 2006 through 2010, based on date of loss; does not include litigation

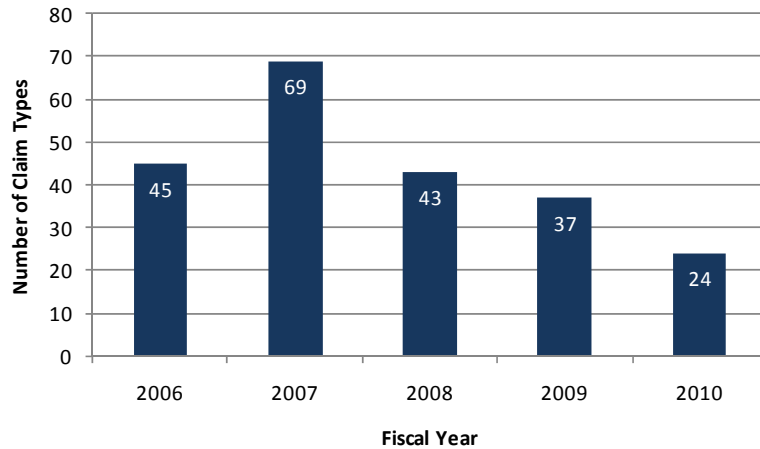
Missing data hampers analysis. The law department has not consistently recorded the cause of damage or the settlement amount for each claim in its electronic records. We were therefore unable to evaluate the frequency and severity of types of claims. About 32% of the closed claims in the law department’s database that we reviewed had no cause recorded. We were able to identify cause by using the data from the department’s internal spreadsheet. We were unable to match all individual claims from the law department’s database with settlement payments in Oracle. We were able to match 64% of settled claims with payments; this accounted for about only \$4 million of the \$11 million total payments shown in the Oracle and MARS/G paid invoice reports. It was not always possible to match the financial systems’ invoice

numbers to law's claim numbers, particularly with lawsuits; there are also time gaps between loss dates and payment dates.

Information on the cause of damage is recorded in the law department's spreadsheet used to compile data for ATLStat and the annual report. The cause information is categorized inconsistently, making analysis difficult. The spreadsheet lists 125 separate causes over the five fiscal years with different categories used in different years for similar events (see Exhibit 9). The spreadsheet indicates that the top five causes for claims over the period we reviewed were:

- construction cut
- vehicular accident
- sewer back up
- metal plate
- water meter leak/defect/repair

Exhibit 9 Number of Cause Categories Listed per Fiscal Year for Closed Watershed Claims



Sources: Department of Law's Time Matters Claims Tracking Database; Claims Manager's Spreadsheet Fiscal Years 2006 through 2010, based on date of loss; does not include litigation

City Needs More Comprehensive Risk Management

City code establishes a risk management function in the Department of Finance to minimize loss exposure. The city's risk manager has focused primarily on preventing employee injuries and accidents. While employee safety is a worthy goal, it is only one part of risk management. City code requires the risk manager to develop and maintain a comprehensive information network, including all accidents that could result in financial loss to the city, and to track loss data for effective risk management.

Effective risk management requires complete and reliable loss data. The Department of Law tracks claims and litigation, but records data in multiple systems and not always captured in a way that facilitates analysis. Data are incomplete in some cases. Also, the department does not analyze or use the data for risk management. In the last several months, risk management staff has requested claims data and law has provided some data to them. Law should compile complete claims and litigation data and share all relevant data with the risk manager.

City code requires citywide coordination of risk management activities. The city's existing risk management policy outlined in Article XIII, Sec. 2-1744 is aligned with best practices. According to the International City/County Management Association, risk management should be practiced by all employees, and interdepartmental cooperation is essential for a successful program. City policy states all employees be responsible for carrying out risk management procedures, practicing safe work habits, and reporting unsafe conditions or actions to prevent accidental loss to any person or property. Further, department managers are responsible for supporting and enforcing the city's risk management policy.

The risk management function, currently in the controller's office, is charged with protecting the assets and operations of the city. The city's chief financial officer employs the risk manager, who is responsible for developing and maintaining procedures to conduct risk management reviews and to minimize loss exposures. Four employees carry out the risk management function - a risk manager, contract compliance and insurance manager, safety analyst, and claims investigator, who handles property damage claims for which the city is not liable. While risk management is not

new to the city, the current staff has carried out the function for one year or less. City code requires the risk manager to:

- develop and implement procedures for risk management reviews and measure the rate of losses
- assist in establishing goals and timetables for achieving acceptable levels of loss
- handle all workers' compensation claims
- develop, maintain, and distribute a risk management policy and procedure manual
- develop and maintain a comprehensive, computerized risk management and claims information network

Risk management has focused on employee-related claims. The risk manager primarily tracks and maintains workers' compensation claims data, including employee safety issues related to on-the-job injuries. The risk manager recently began receiving some claims data from the Department of Law and plans to analyze the data and begin conducting information meetings with departments. The risk manager is also developing risk assessment matrices to prioritize risks and mitigate exposure and also plans to develop a risk management information system (data repository) to centralize the city's claims records.

Effective risk management requires analysis of complete and reliable loss data. Effective risk management is a system of controlling an organization's resources and activities to minimize the adverse effects of accidental losses. According to best practices, sound risk management decision-making should include identifying loss exposures, analyzing data, examining and selecting appropriate risk management techniques to control risks, and monitoring results.

Reliable data are needed to analyze, forecast and control future losses. According to industry standards, risk management data should be: accessible, comprehensive, accurate, appropriate, timely, verifiable, flexible, clear, quantifiable and free from bias. Effective risk management requires complete and reliable loss data, including frequency, severity, cause, and financial consequences.⁴

⁴ Etti G. Baranoff, et al., *Risk Assessment*, 1st edition. (Malvern, Pennsylvania: American Institute for Chartered Property Casualty Underwriters/Insurance Institute of America, 2007), p. 1.24, 2.29, 11.39.

Claims data are tracked in multiple systems and are not shared with the risk manager. The Department of Law tracks claims and litigation, but records data in multiple systems and does not always capture data in a way that facilitates analysis. Data are incomplete in some cases. The law department reports claims and litigation data to the city council and departments responsible for the losses, but does not analyze or use the data for risk management. We recommend the Department of Law compile, analyze, and share complete claims data with risk management and other city departments to identify and reduce repeat incidents. Law should also work with the risk manager and other department heads to expand the city's program to more specifically address risk management priorities.

Law tracks claims and litigation data in multiple systems – its Time Matters database, a claims management spreadsheet and individual hardcopy files. The department compiles information from the claims management spreadsheet and obtained directly from attorneys to produce its annual report. Staff members told us that they do not review data entry for accuracy or reconcile claims data with other sources. All law employees have the same level of access to Time Matters.

We reviewed four sources of information related to watershed claims: Time Matters, the claims manager's spreadsheet, annual reports for fiscal years 2006 through 2010, and the city's MARS/G and Oracle financial management systems (ledger and paid invoice reports). No individual source contained complete information regarding all claim and lawsuit activity over our time period. All four sources lacked key data needed for analysis and contained different settlement amounts.

- Time Matters, the law department's system of record, contains inconsistent or incomplete data for key values including notice date, type of claim, cause of claim, settlement amount, lawsuit filing date, and lawsuit answering date. Archived files contained only six litigation records and none of these included settlement amounts.
- The claims management spreadsheet excludes the loss date of claims, open claims, and all cases of litigation.
- Annual reports summarize claims and litigation causes and settlement amounts but exclude loss dates.

- Oracle identifies payments made to settle claims and litigation, but because it does not include loss dates, it was difficult to associate payments with specific claims when analyzing by loss date.

Law should compile complete claims and litigation data and share relevant data with the risk manager. Risk management staff is responsible for analyzing loss exposures and managing risks. City officials and the risk manager should share reliable risk data and work together to establish a citywide risk management plan and should assist each department in implementing appropriate risk controls to protect the city and public against losses.

Recommendations

In order to provide reliable data for risk management, the city attorney should:

1. Compile comprehensive claims and litigation data electronically, including, at a minimum, loss date, type of claim, cause of claim, disposition, and settlement amount.
2. Regularly provide relevant claims and litigation data to risk management.

To implement an effective risk management program that minimizes the city's loss exposure, the chief financial officer should:

3. Develop a comprehensive risk management program that includes tort claims analysis, consistent with city code requirements and best practices.
4. Ensure that all city departments are notified of and comply with the risk management program requirements and regularly receive data on claims and litigation risk analysis.

Appendices

Appendix A
Management Review and Response to Audit Recommendations

Report # 10.05	Report Title: Department of Watershed Management Claims Review	Date: 2/8/2011
Recommendation Responses - Department of Law		
Rec. #1	The City Attorney should compile comprehensive claims and litigation data electronically, including, at a minimum, loss date, type of claim, cause of claim, disposition, and settlement amount.	Agree
<u>Proposed Action:</u> The Department of Law will update the information requested. <u>Implementation Timeframe:</u> October 1, 2011 <u>Responsible Person:</u> Deputy City Attorney for Litigation and Employment and Claims Manager		
Rec. #2	The City Attorney should regularly provide relevant claims and litigation data to risk management.	Agree
<u>Proposed Action:</u> The Department of Law will respond to requests for data information as requested from Risk Management, but at a minimum on a quarterly basis. <u>Implementation Timeframe:</u> July 1, 2011 <u>Responsible Person:</u> Deputy City Attorney for Litigation and Employment and Claims Manager		

Report # 10.05

Report Title: Department of Watershed Management Claims Review

Date: 3/2/2011

Recommendation Responses - Department of Finance

Rec. #3	The Chief Financial Officer should develop a comprehensive risk management program that includes tort claims analysis, consistent with city code requirements and best practices.	Agree
<p><u>Proposed Action:</u></p> <p><u>Implementation Timeframe:</u></p> <p><u>Responsible Person:</u></p>	<p>Restore and enhance the City's Risk Management function by (re)creating the Office of Enterprise Risk Management within the Department of Finance. The focus of the Office of Enterprise Risk Management will be to identify, assess and address all risks the City faces.</p> <p>12/31/2011</p> <p>CFO and DCFO</p>	
Rec. #4	The Chief Financial Officer should ensure that all city departments are notified of and comply with the risk management program requirements and regularly receive data on claims and litigation risk analysis.	Agree
<p><u>Proposed Action:</u></p> <p><u>Implementation Timeframe:</u></p> <p><u>Responsible Person:</u></p>	<p>Restore and enhance the City's Risk Management function by (re)creating the Office of Enterprise Risk Management within the Department of Finance. The focus of the Office of Enterprise Risk Management will be to identify, assess and address all risks the City faces.</p> <p>12/31/2011</p> <p>CFO and DCFO</p>	

Appendix B
Department of Law Response



CITY OF ATLANTA

KASIM REED
MAYOR

DEPARTMENT OF LAW
SUITE 4100 CITY HALL TOWER
68 MITCHELL STREET, S.W.
Atlanta, Georgia 30303-3520
(404) 330-6400 TELEPHONE
(404) 658-6894 FACSIMILE

CATHY D. HAMPTON
CITY ATTORNEY

MEMORANDUM

To: Leslie Ward, Internal Auditor

From: Cathy D. Hampton, City Attorney

A handwritten signature in blue ink, appearing to be "Cathy D. Hampton".

Date: February 8, 2011

The Department of Law ("Law") reviewed the report titled "Performance Audit: Department of Watershed Management Claims Review" and submits the following response.

All records and reports provided to the auditors were created for internal record keeping purposes and not intended to support the risk management function. The database used by Law has evolved over the years, and many data fields have been revised over time. In addition, due to budget restrictions, Law made management decisions related to limited resources. This included, but was not limited to, a decision to forgo data input and instead provide administrative support for legal issues. It is the goal and objective of Law to be in full compliance with the recommendations of the Internal Auditor by October 1, 2011.

/jld

Appendix C
Department of Finance Response



CITY OF ATLANTA

KASIM REED
MAYOR

DEPARTMENT OF FINANCE
68 MITCHELL STREET, S.W., SUITE 11100
ATLANTA, GEORGIA 30303-0312
TEL (404) 330-8430 - FAX (404) 658-6667

JOYA C. DE FOOR, CGFM, CTP
CHIEF FINANCIAL OFFICER
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February 17, 2011

STEFAN JASKULAK, CTP
DEPUTY CHIEF FINANCIAL OFFICER
sjaskulak@atlantaga.gov

Ms. Leslie Ward, Auditor
City of Atlanta
55 Trinity Avenue, SW
Suite 12100
Atlanta, Georgia 30303

Subject: Performance Audit: Department of Watershed Management, Claims Review

Dear Leslie,

The Department of Finance concurs with the Audit's recommendations.

The Audit report and its recommendations to the Department of Finance are consistent to our request to restore and enhance the risk management function to an enterprise focus.

Best regards,

A handwritten signature in black ink that reads "Joya C. De Foor".

Joya C. De Foor, CGFM, CTP
Chief Financial Officer

cc: Stefan Jaskulak, Deputy Chief Financial Officer
Greg Richardson, Controller
John Gaffney, Director
Chron

"The Department of Finance ... because customer service is important to us."