

**DEPARTMENT OF HUMAN RESOURCES
RISK MANAGEMENT DIVISION
INSURANCE AND CLAIMS
AUDIT 05-13
DECEMBER 16, 2005**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Wayne Boytim, Acting Internal Audit Director

December 16, 2005

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Insurance and Claims, Audit 05-13

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Insurance and Claims

The Risk Management Division has already taken positive actions in response to our recommendations. We thank the management and staff of Risk Management for their cooperation and assistance during this audit.

Sincerely,



Wayne Boytim
Acting Internal Audit Director

cc: Darrell Smith, Chief of Staff
Kimberly R. Crum, Acting Director of Human Resources
Michael McNabb, Risk Manager

**DEPARTMENT OF HUMAN RESOURCES
RISK MANAGEMENT & CENTRAL SERVICES DIVISION
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INTRODUCTION

The City's Risk Management program operates as a Division of the Department of Human Resources.

Major shifts in the insurance market occurred following the terrorist attacks of September 11, which resulted to the City assuming greater risk. The market has stabilized in the following years, and the City has been able to reestablish some of the coverage that had been lost.

The City currently insures assets totaling \$1.8 billion. In the event of a catastrophic loss, a maximum of \$500 million would be payable.

With some exceptions, the City self-insures:

- The first \$100,000 of any property loss (5% for flood and 3% for wind losses, if greater)¹
- Automobiles and trucks.
- The first \$750,000 of any liability claim (if not limited by sovereign immunity).
- No insurance is carried for losses from acts of terrorism.

Other types of Insurance include:

- Aviation
- Fireboats
- Special Events
- Public Official Bond
- Crime Policy

Risk Management is responsible for adjusting claims against the City for any reason and for collecting payment from others who damage City property (subrogations).

In most circumstances, Certificates of Insurance are required from third parties which lease or otherwise utilizing City facilities, or have entered into certain types of contractual agreements. The Division administers some of these certificates, but most are administered by the department which is responsible for oversight of the activity or property. Coordination between Risk Management and other departments administering certificates is limited largely to requests by the departments for assistance.

The City self-insures general liability up to the limits of FS 768.28 (sovereign immunity, \$200,000 as well as Police Professional Liability, Public Official Liability and other federal laws.

¹ Other deductibles apply to certain types of coverage

STATISTICS

Authorized Personnel-Risk Management Division

Full Time 14

Claims Processed²

Liability claims filed 667

Subrogations opened 322

Liability Claims paid³ \$1,578,050

Subrogations collected³ \$339,018

Annual Insurance Premiums \$3.6 million

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY05 Audit Agenda. The objectives of this audit were to determine if:

1. Certificates of Insurance are obtained from other parties when required and are current;
2. The Statement of Values, which lists City property insured against various perils, is current and the values are reasonable;
3. Claims by the City against other parties (subrogations) are pursued in a reasonable manner; and
4. Claims against the City are processed in a reasonable manner.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit period will cover the operations of Risk Management from May 1, 2004 to April 30, 2005. Insurance related to employee benefits (workers comp, unemployment, health, life, etc.) were not within the scope of this audit.

² During audit period

³ October 2004-August 2005

STATEMENT OF METHODOLOGY

Source documentation was obtained from the Division. Original records as well as copies were used as evidence and verified through physical examination. Direct observation of insured properties and interviews with staff at all levels, and the City's Insurance Agent, were also employed.

The only computerized data used were records maintained on Excel® Spreadsheets. These were used only for record keeping and basic arithmetic, and are not considered computer process data.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audits. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we reached the following conclusions:

1. Certificates of Insurance are not monitored in a timely manner;
2. Coordination with other Departments regarding insured values of property is not fully effective, resulting in misstated values;
3. Subrogations were processed in a reasonable manner, however, standard costs for damage to City property should be updated in order to fully recover costs; and
4. Claims against the City were processed in a reasonable manner.

CERTIFICATES OF INSURANCE

The City enters into numerous contractual arrangements which require the counterparty to provide insurance. This is intended to protect the City in the event of a liability claim, or a loss of City property. The insurance coverage is typically evidenced by a Certificate of Insurance. Different departments have varying roles in the process. Risk Management is available for guidance when requested. Insurance for single-day and short term events are usually administered by the sponsoring department (e.g., Parks and Recreation or the Convention Center). Usually, insurance was obtained for these events. The Purchasing Department confirms insurance when bids are awarded or renewed. The Solid Waste Department administers at least three contracts requiring insurance⁴. They were unable to produce certificates related to two of these contracts.

Some types of contracts are not related with any specific City Department, although a risk exists since the City owns the property. These include:

- Florida Aquarium
- University of Tampa-(Plant Hall)
- Tampa Bay Performing Arts Center
- Tampa Museum of Art

None of these entities had all of the necessary current certificates on file with Risk Management. The certificates were obtained only after requested during the course of this audit.

The exposure to loss at these facilities could be substantial if there were an uninsured loss. Although the certificates state that the insurer will endeavor to notify the City if a policy is cancelled, there is no such requirement if the policy simply is not renewed.

RECOMMENDATION 1

Certificates of Insurance should be controlled at a central point. The only agency with the expertise to do this is Risk Management. Monitoring of some contracts may be delegated to operating departments, but this should be clearly delineated in a written procedure and agreed to by the operating department. General oversight by Risk Management should be retained.

⁴ Refuse to Energy Plant, Contracted Residential and Contracted Commercial Collection.

AUDITEE RESPONSE

Agree. The Risk Management office currently reviews about 2,400 insurance certificates yearly, and does not have the capability to monitor every lease, agreement, and contract that City departments administer. Training in insurance certificates was provided to the Purchasing Department (3 sessions) and Parks & Recreation (2 sessions). The Purchasing Department is considering the purchase of software to monitor insurance certificate renewals and Risk Management is on the review committee.

INSURED VALUES

A Statement of Values listing all assets covered by property insurance is used to establish what is insured and how the premium is calculated. We obtained a number of asset values from other sources and compared them to the statements. Some assets appeared to be improperly valued.

- Some values were not in agreement with the amount determined by the Department responsible for the asset.
- Fire apparatus (engines, rescue vehicles and boats) valued at approximately \$20 million was improperly included as contents in the various Fire Stations. Such equipment is self insured.
- Several Recreation facilities (mostly new construction) were not stated at current value. Also, a facility no longer owned by the City was included on the Statement of Values. The Parks & Recreation Department apparently failed to notice these errors when they reviewed the listing.

It was represented that unintentional failure to include or properly value property would not be a cause to deny a claim, but a good faith effort to properly value assets would be prudent. Overvalued assets and the inclusion of non-eligible assets may increase premiums unnecessarily.

We noted little, if any, recent communications with the City's Property Control Section, Contracting Office or the Purchasing Department. All of these units are in a position to advise Risk Management of newly acquired property.

RECOMMENDATION 2

Better communication should be established with departments that are in a position to report acquisitions. These include the offices noted above. They have indicated a willingness to provide assistance if requested.

It is the responsibility of the departments to review the values of the assets under their control. However, Risk Management should check the department's submission for reasonableness, especially when there are material changes in values

AUDITEE RESPONSE

Agree. We feel that regular communication exists between the Risk Management office and the operating departments, particularly Purchasing, Real Estate, Legal, and Public Works, however we will ask each of these departments, as well as Property Control, to designate a contact individual familiar with acquisitions and disposal of City property. There are over 1,000 real properties, vessels, vehicles, aircraft, and artworks that are commercially insured and the information required by insurance underwriters has increased every year since 9/11 and the onset of hurricane seasons. It may be necessary to retain the services of a certified real estate appraiser in the future to value some of the larger City properties. We recognize that City departments are not always accurate in valuing their properties, and their estimates are sometimes adjusted before the insurance schedule is submitted to our broker. We will endeavor to make the final schedule of assets as complete as possible for the April 15, 2006 renewal.

CLAIMS PROCESSING

Damage to some types of City property, such as hydrants or traffic signs, is sometimes based upon a flat schedule-which has not been updated in many years and may not be reasonable. We noted one case that involved 70 labor hours, some at overtime rates, City equipment usage and materials for which the total charge was \$1,250. In other cases, only the cost of materials plus a \$15 charge for labor and administrative costs was billed.

RECOMMENDATION 3

Rates should be adjusted to reflect real costs of materials, labor and overhead. Flat rates may be acceptable for some types of damages, but actual costs of materials and labor should be used for more substantial losses.

AUDITEE RESPONSE

Agree. Updated rates for City labor and materials have been requested from the various departments that submit damage reports.