



Risk Management Program:
Improve training and use data to control costs

January 2013
A Report by the Office of the Auditor

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MEMORANDUM

January 10, 2013

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, Councilor, District 2
Craig Dirksen, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Sam Chase, Councilor, District 5
Bob Stacey, Councilor, District 6

From: Suzanne Flynn, Metro Auditor 

Re: Audit of Risk Management Program

The attached report covers our audit of Metro's risk management program. This audit was included in our FY 2012-13 Audit Schedule.

We conducted this audit to determine the effectiveness of Metro's risk management program. Specifically, we wanted to know if the program used available resources to control costs and manage the number of incidents. We determined that there were two sources of information that could be used to identify hazards and develop action plans to reduce risks. The quality of departmental safety programs has been evolving to a more coordinated effort. We believe that increasing analytical capabilities and continuing to strengthen the safety programs will result in cost savings and increased safety.

We have discussed our findings and recommendations with Martha Bennett, COO; Scott Robinson, Deputy COO; Teri Dresler, General Manager, Visitor Venues; Tim Collier, Interim Director, Finance and Regulatory Services; Paul Ehinger, Director, Solid Waste Operations; Craig Stroud, Deputy Director Operations, Oregon Zoo; and Bill Jemison, Risk Manager. My office will schedule a formal follow-up to this audit within 1-2 years.

We would like to acknowledge and thank the management and staff in the risk management program and other departments at Metro who assisted us in completing this audit.

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Summary

A well-run risk management system should identify, analyze and assess risks. Once a risk is identified, a plan of action should be developed. Finally, a process to monitor and review the effectiveness of the action taken should be in place. The purpose of this audit was to assess whether Metro's risk management program was effectively using its data resources to reduce workers compensation claims.

Metro services are very diverse, for example, they range from the Oregon Zoo to trash disposal. As a result, the agency's risk management program plays an important role in ensuring that Metro's properties, visitors and employees remain safe and are cared for if an accident occurs.

The risk management program is located in the Finance and Regulatory Services Department. It includes a risk manager, a safety specialist and a workers' compensation specialist. The program:

- makes recommendations on how to resolve property and liability claims,
- administers Metro's self-insurance program,
- maintains Metro's health and safety programs,
- processes workers' compensation claims,
- organizes return-to-work efforts, and
- creates accident trend reports.

Risk management has access to two important sources of information: incident reports and workers' compensation claims. While many incidents never result in a workers' compensation claim, they can be an important source of information and lead to preventative action. Similarly, reoccurring claims provide an additional opportunity. We found that better use of both types of reports could result in cost savings.

Developing a strong safety training program is another way to reduce the frequency of injuries and costs. We found that the cost of workers' compensation claims varied with the quality of the safety programs in the departments. Metro's safety efforts evolved over the past years. Earlier approaches were to delegate the responsibility to departments while more recently, some departments' safety programs were restructured and standardized. We did not find best practices for the organization of a safety program but our findings reveal a need for improvements in two areas: 1) the analysis and use of available data to address risks, and 2) the need to strengthen all safety programs in each department.

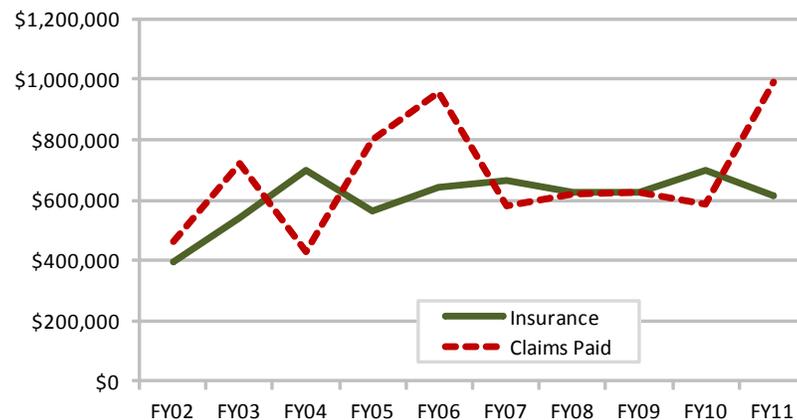
Background

Metro is a regional government engaged in a wide spectrum of business activities. From the Oregon Zoo to trash disposal, Metro's employees work in diverse environments with a variety of risks. The agency's risk management program plays an important role in effectively ensuring that Metro's property, visitors and workers remain safe and are cared for if an accident occurs.

The risk management program uses three tools to accomplish this. First, the program is responsible for ensuring that Metro maintains appropriate levels of property and liability insurance. This insurance pays to repair damaged equipment or buildings and pays for any medical care provided to injured visitors. Second, the program manages Metro's workers' compensation system. Workers' compensation pays to treat and rehabilitate workers who are injured on the job. Finally, the program is responsible for overseeing Metro's safety programs. The safety programs provide training to employees on safe work practices in an effort to reduce workers' compensation claims.

The risk management program's primary expense is the cost of insurance and claims (which includes workers' compensation, property and liability). On average, these two categories accounted for about 85% of program expenses over the last ten years. Over the same period, the cost of insurance remained relatively stable at around \$600,000 per year. In contrast, the cost of claims varied from year to year and reached a ten year high of \$987,000 in FY 2010-11 (Exhibit 1).

Exhibit 1
Insurance and claim costs
FY 2001-02 to FY 2010-11



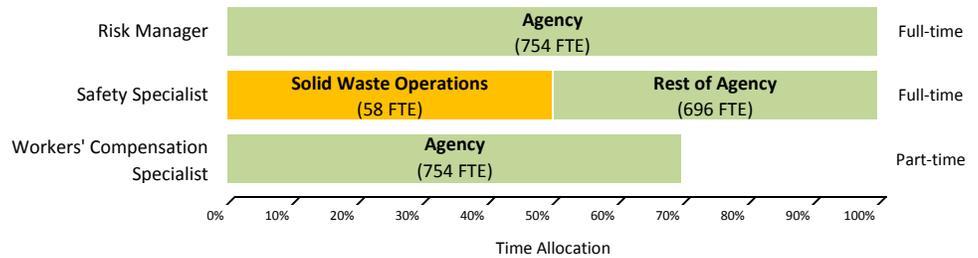
Source: Metro Auditor's Office analysis of Peoplesoft data

The risk management program, which is located in Finance and Regulatory Services, includes a risk manager, a safety specialist, and a workers' compensation specialist. The risk manager makes recommendations on how to resolve property and liability claims, administers Metro's self-insurance program, and oversees the two specialists. The safety specialist is responsible for

implementing and maintaining Metro's health and safety programs. The workers' compensation specialist processes workers' compensation claims, organizes return-to-work efforts and creates accident trend reports.

The risk manager and workers' compensation specialist are agency-wide resources and are not restricted to supporting any one department in the agency. In contrast, half of the safety specialist's time is devoted to addressing safety issues for around 58 employees in the solid waste operations of the Parks and Environmental Services Department. This leaves the other half of the safety specialist's time for agency-wide matters for the remaining 696 employees (Exhibit 2).

Exhibit 2
Risk Management employee
time allocation



Source: Metro Auditor's Office analysis

Scope and methodology

The purpose of this audit was to determine if risk management was effective at using its data resources to reduce workers' compensation claims. There were three objectives for the audit:

1. Determine what departments have the most workers' compensation claims.
2. Determine what types of safety risks and safety training strategies exist in departments with large numbers of claims.
3. Determine if the safety training strategies for departments with large numbers of claims adequately address worker safety risks.

To accomplish our objectives, we created a methodology to identify departments and positions with the greatest number of workers' compensation claims. We applied our methodology to a workers' compensation database maintained by risk management. This methodology was used to narrow the audit's focus to positions and departments with a higher history of claims. Once the positions were identified, we reviewed a sample of workers' compensation claim files and reviewed insurance claim data from the company Metro used to process workers' compensation claims.

To determine if safety training strategies addressed worker safety issues, we selected a sample of key training courses taken by employees working in positions with a history of claims. A significant portion of the audit was dedicated to reviewing and evaluating training records and materials used for safety training classes at Metro.

We reviewed budgets and performance measure summaries to understand program finances, and conducted a literature review to understand best practices. We interviewed key management and staff at Metro and interviewed the risk managers at Multnomah, Clackamas and Washington Counties.

This audit was included in the FY 2012-13 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

Results

A well-run risk management system should apply to every department in an organization. The system should identify, analyze and assess risks. Once a risk is identified, a treatment plan should be devised. Finally, a process for monitoring and reviewing the treatment should be implemented and feed back into the risk identification phase. Our review of Metro's risk management program found that opportunities were being missed to control costs. The program had two underutilized data sources that could be used to identify and address risks.

Metro can save money by focusing safety efforts

Risk management had access to two important sources of information, incident reports and workers' compensation claims. Incident reports documented injuries to employees and visitors and property damage. These reports were filled out by department staff. An incident report, which can be several pages long, included a narrative section and frequently included pictures and interview notes. A workers' compensation claim was a one page insurance form that an injured employee fills out before seeking medical treatment. Risk management was not utilizing all the data in the incident reports and workers' compensation claims to identify injury trends.

Many incidents never resulted in a workers' compensation claim. For example, in FY 2010-11 the Oregon Zoo received around 330 incident reports for incidents involving the general public, employees, and volunteers yet only 33 workers compensation claims were filed. Incident reports can illuminate risk areas that may not be apparent from looking solely at the workers' compensation data.

As an example, in FY 2010-11, an employee slipped in the bat exhibit at the Zoo and received a head injury. In the 16 months since that claim, there have been at least three other slips in the bat exhibit that generated an incident report. While the average cost of a slip or fall at the Zoo is around \$6,200, none of these incidents resulted in a workers' compensation claim. Incident reports contain valuable information that may help identify potential risk areas before a workers' compensation claim is filed. Systematically tracking and reviewing this information could help Metro contain claim costs.

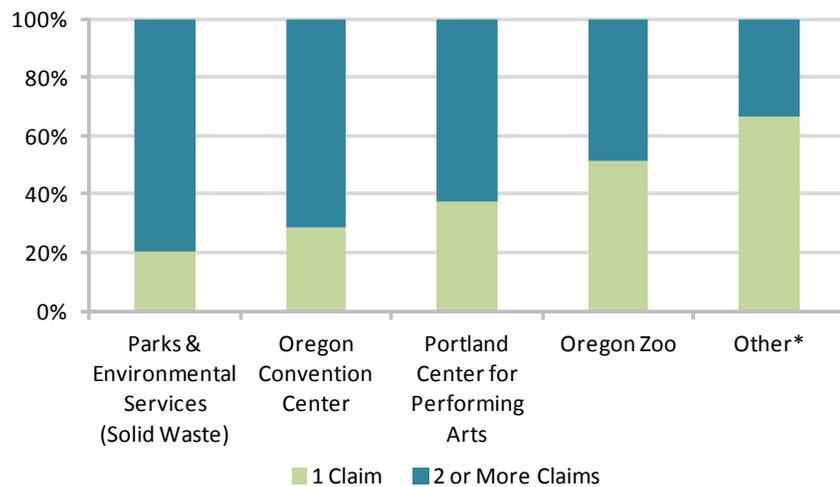
Workers compensation claims provide a similar opportunity to identify unresolved safety problems. One possible indicator of a recurring safety problem is an employee who files more than one claim. We calculated the number of claims filed by each employee and looked at how employees who filed multiple claims (those with two or more claims) were distributed across departments and positions. From FY 2006-07 to FY 2010-11, 56% of all claims originated from employees who filed more than one claim.

Employees who have filed multiple claims might be an indicator of an untreated safety problem. First, employees that file a claim are more likely to file another claim. For example, 29% of employees who filed one workers'

compensation claim filed a second claim, and more than half of the employees who have filed two claims go on to file a third. Second, average claim costs tended to increase with additional claims. The average cost of a first time claim was \$2,800 and the average cost a subsequent claim was \$4,644.

Employees who filed multiple claims were concentrated in a small number of departments and positions within those departments. The majority of these claims were in four parts of Metro’s operations: Parks & Environmental Services (Solid Waste), Oregon Zoo, Oregon Convention Center and the Portland Center for Performing Arts (Exhibit 3). These areas accounted for 49% of Metro’s workforce, but 92% of employees who filed two or more claims originated within these departments. Most of the employees who have filed multiple workers’ compensation claims worked in a small number of positions within these departments. The risk management program may save money by providing these departments and positions with additional safety training.

Exhibit 3
Concentration of claims
within departments
FY 2006-07 to FY 2010-11



Source: Metro Auditor’s Office analysis of risk management workers’ compensation database.

* Includes Metro Auditor, Metro Attorney, Metro Council, Communications, Planning & Development, Research Center, Parks & Environmental Services (Parks), Portland Expo Center, Sustainability Center, Finance, Human Resources, and Information Services.

Employees who filed two or more claims accounted for a disproportionate share of total workers’ compensation claim costs. Over the last five years, average claim costs for employees who have filed two or more claims was around \$6,500, compared to about \$2,300 for employees who filed one claim. A small reduction in the number of claims filed by employees who filed multiple claims could have a meaningful impact on annual claim costs. Based on historical trends, if there were three to four fewer claims per year, Metro could have saved between \$6,500 and \$23,000 in workers’ compensation claim costs per year.

Risk management did not track the number of claims or report injury statistics for positions. Reports from the program described accident rates by department, cause of injury and body part injured. However, the reports lacked enough detail to allow managers to identify safety problems that may have required additional training. Rather, some managers relied on their own informal tracking systems to identify emerging safety risks and implement safety trainings.

Training uneven between departments

Developing a safety program that effectively manages risk is one way to reduce the frequency and cost of workers' compensation claims. Such a program would apply across the organization, clearly define safety training roles and responsibilities between risk management and each department, and use incident and accident data to improve the program. We found that program effectiveness varied. Generally speaking, the total cost of claims went down as the quality of the safety program improved (Exhibit 4).

Exhibit 4
Total Workers' Compensation costs for departments FY 2006-07 to FY 2010-11

Department	Total Cost of Claims	Total Number of Claims	Safety Program
Portland Center for Performing Arts	\$558,819	40	In Development
Oregon Zoo	\$549,224	188	Under Developed
Oregon Convention Center	\$335,588	67	In Development
Parks & Environmental Services (Solid Waste)	\$261,461	60	Developed
All Other Departments*	\$221,848	57	Not Evaluated
Total	\$1,926,940	412	N/A

Source: Metro Auditor's Office analysis of risk management workers' compensation database.

* Includes Metro Auditor, Metro Attorney, Metro Council, Communications, Planning & Development, Research Center, Parks & Environmental Services (Parks), Portland Expo Center, Sustainability Center, Finance, Human Resources, and Information Services.

The cost of workers' compensation claims varied with the quality of the safety programs in the departments. As the quality of the safety program increased, the total claim costs tended to decrease. From FY 2006-07 to FY 2010-11, the Oregon Zoo and Portland Center for Performing Arts each accounted for 29% of the total cost of workers' compensation claims. This is followed by the Oregon Convention Center and Parks & Environmental Services (Solid Waste), who each respectively accounted for 17% and 14% of the total cost of worker's compensation claims during that period. Together, these four departments accounted for 88% of the cost of workers' compensation claims at Metro.

We chose to look at the safety programs in the four departments with the largest share of claims. These departments also reflected key steps in the evolution of Metro's safety efforts. Metro's original approach to safety can be seen at the Portland Center for Performing Arts and the Oregon Convention Center where safety program responsibilities are delegated to the departments. These departments do not have any staff with work place safety experience,

rely on informal job safety training, and rely on risk management's informal safety advice to improve their safety programs.

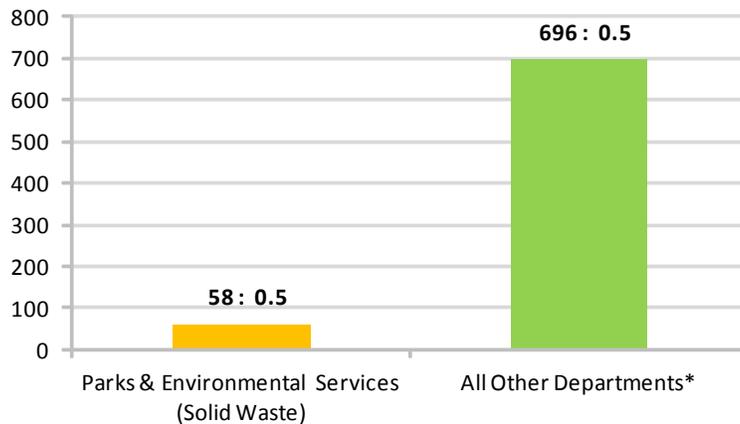
Metro's more recent approach to safety can be found in Parks & Environmental Services (Solid Waste) and the Oregon Zoo. The Solid Waste safety program was an example of a strong program. The department paid a safety specialist to develop and operate the safety program which can implement safety improvements and provide formal job safety training. In contrast to Solid Waste, the Oregon Zoo needed improvement. The department had a safety employee, but this person lacked industrial safety experience and had limited participation in implementing changes at the zoo.

Responsibility for safety training was shared between Risk Management and the departments. Risk management was responsible for developing and implementing health and safety programs. Risk management also attended safety committee meetings and provided safety consulting services. Individual departments were responsible for job specific safety training and ensuring that employees use safe work practices.

The content of safety training also varied. Safety training materials for Parks & Environmental Services (Solid Waste) covered Occupational Safety and Health Administration (OSHA) topics and also addressed specific job related safety issues. For example, Solid Waste training materials discussed how to properly read and interpret radiation alarms. On the other hand, safety training materials for the Zoo, Portland Center for Performing Arts, and Convention Center focused solely on satisfying OSHA training requirements. Department managers were responsible for job specific training.

The level of integration between risk management and individual departments varied. Integration was strongest in the Solid Waste program within Parks & Environmental Services. Half of the safety specialist's time was dedicated to managing the Solid Waste safety program. This was significant, given the small size of the department and was equivalent to 58 staff per 0.5 safety specialist (Exhibit 5). The safety specialist was considered to be partially embedded in Solid Waste and worked closely with management to find solutions to safety problems

Exhibit 5
Ratio of Safety Specialist FTE
to department
FY 2006-07 to FY 2010-11



Source: Metro Auditor's Office analysis of risk management program and safety training materials..

* Includes Metro Auditor, Metro Attorney, Metro Council, Communications, Planning & Development, Research Center, Parks & Environmental Services (Parks), Portland Expo Center, Sustainability Center, Finance, Human Resources, and Information Services.

This level of integration is not present in the other departments. The safety specialist is only dedicated half-time to providing safety consulting services to the departments. This was equivalent to a 696 staff per 0.5 safety specialist (Exhibit 5).

As a consultant, the safety specialist provided a recommendation when the department specifically requested help. The department chose whether to implement the change, often with little feedback to the safety specialist. For example, several employees slipped in the bat exhibit at the Oregon Zoo. After the first slip in the exhibit, the safety specialist was asked to provide a safety consultation to the animal keepers. The safety specialist proposed a solution and the animal keepers used it for a while. However, the solution created other problems and the keepers ultimately stopped using it. No one told the safety specialist about these problems. As a result, when another slip occurred in the bat exhibit, the same solution was offered again to solve the problem.

Risk management program not clearly managed

A well run risk management program needs enough trained staff to allow the manager to effectively run the program. We contacted the risk management departments at Multnomah, Clackamas and Washington Counties to see how they are organized and staffed. We learned two things:

- There is no common organizational form. At Multnomah County, risk management was located in the finance department. In Clackamas County, risk management was housed within human resources and in Washington County, risk management was independent of, and coequal to, human resources and finance.

- There was no consistent staffing pattern. The ratio of risk management staff to agency staff varied significantly between the three counties.

Metro cannot look to the risk management programs of local municipalities for organizational and staffing guidance. However, two factors played an important role in the development of Metro's risk management program.

First, there was a legacy of dispersed safety training duties in the risk management program. Before 2009, the program had two staff, a full-time manager and a part-time workers' compensation specialist. The manager was responsible for managing the program and processing property and liability insurance claims. In 2009, Metro hired its first safety specialist to organize Metro's training efforts. The safety specialist organized Metro's health and safety training program, but the responsibility for ensuring employees receive job-related safety training remained dispersed and informal.

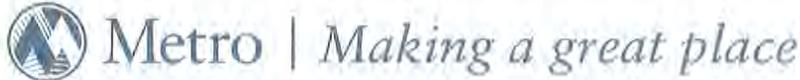
Second, the program does not provide adequate information to allow management to effectively address problem areas. The program had two underutilized data sources, its own workers' compensation database and department incident reports. These resources contained information that can guide safety training efforts. Utilizing and systematically analyzing existing data sources would help the program identify risk areas. This information could then be used to design training to proactively mitigate risk areas.

Recommendations

In order to improve safety in Metro's facilities and control costs, Metro should:

1. Strengthen the design and management of department safety programs.
2. Regularly review and analyze incident reports and workers' compensation claims data to identify potential safety concerns.
 - a. Work with departments to identify safety issues using this analysis.
 - b. Once a safety issue is identified, work with departments to develop strategies to improve safety.

Management response



Date: January 7, 2013

To: Suzanne Flynn, Metro Auditor

From: Scott Robinson, Deputy COO *SR*
Tim Collier, Interim Director of Finance and Regulatory Services *TC*
William Jemison, Risk Manager *WJ*

Subject: Response to Risk Management Audit

Thank you for the opportunity to respond to your recent audit regarding risk management at Metro. We appreciate the time and effort that you and your staff spent in conducting this audit. Overall, management agrees with your recommendations and as a public agency recognizes the importance of focusing on improving the efficiency and effectiveness of our operational practices. In particular, use of data to better inform practices and improve safety performance is an important focus of our risk management program. With that in mind, specific responses to the recommendations provided through the audit are provided below.

Recommendation #1
Strengthen the design and management of department safety programs.

Response: Risk Management is nearing completion of a two year program to roll out the following items: 1) a training matrix which identifies regulatory and training requirements for all facilities and departments, 2) written programs 3) awareness training for all operational employees identified in the training matrix and 4) a reminder and tracking system to report against the training requirements.

Risk Management will complete the minimum level of awareness training for all department operational employees by December 2013. "Operational employees" generally include most employees throughout the agency with the exception of administrative or office staff.

Further, Risk Management plans to develop and implement a scheduled audit program to provide additional validation regarding overall program performance. The audits will evaluate the facility needs (based on hazards and activities), written program, status of training for employees, evidence that programs are applied or functioning and the overall function of safety committee.

Recommendation #2
Regularly review and analyze incident reports and workers' compensation claims data to identify potential safety concerns.

- a. **Work with departments to identify safety issues using this analysis.**
- b. **Once a safety issue is identified, work with departments to develop strategies to improve safety.**

Response: Risk Management currently conducts an annual analysis of work comp claims and identifies recommendations that apply to all departments. Risk Management will enhance this analysis by adding a review by job title to facilitate departments identifying recurring injuries.

Additionally, Risk Management will conduct annual meetings with OCC, the Zoo , PES and OCC to review the agency wide analysis and provide department specific analysis and provide the analysis to safety committees for review. Further, Risk Management has initiated a pilot project with OCC in an attempt to develop a more thorough accident investigation process.

Last, Risk Management is currently moving the work comp database from its current platform to PeopleSoft HR to assist in the development of more robust centralized incident reporting capability. Individual departments will participate in the development and implementation of the system. With enhanced centralized reporting, Risk Management will be better positioned to use the incident information to for both analysis and preventative recommendations.

Conclusion

Again, we want to thank the auditor and her staff for this work. We appreciate the collaborative effort to improve Metro operations through reflection on best practices.



METRO

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