



CITY AUDITOR'S OFFICE

Risk Management Services

November 03, 2023

AUDIT NO. 2306

CITY COUNCIL

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Vice Mayor Solange Whitehead



November 03, 2023

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Risk Management Services*, which was included on the Council-approved FY 2022/23 Audit Plan. This audit was conducted to evaluate controls over and effectiveness of Risk Management operations. Audit work primarily focused on safety and loss prevention programs and included a review of the workers' compensation program as part of worker safety.

Our audit found that identification of safety risk exposures could be improved by formalizing a facility inspection program and ensuring more comprehensive reviews of job hazards. Processes for workers' compensation claims can be strengthened and improvements made to emergency planning and employee engagement. Additionally, data could be better leveraged to further assess the effectiveness of safety programs and allocation of resources.

If you need additional information or have any questions, please contact me at (480) 312-7851.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lai Cluff".

Lai Cluff, CIA
Acting City Auditor

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AUDIT HIGHLIGHTS

Risk Management Services

November 03, 2023

Audit No. 2306

WHY WE DID THIS AUDIT

The Risk Management Services audit was included in the City Council-approved fiscal year (FY) 2022/23 Audit Plan. The audit objective was to evaluate controls over and effectiveness of Risk Management operations. Audit work primarily focused on safety and loss prevention programs and included a review of the workers' compensation program as part of worker safety.

BACKGROUND

Safety & Risk Management (Risk), a department within the City Attorney's Office, manages the City's self-insurance fund (Loss Trust Fund), and administers safety, loss prevention, insurance, contractual risk transfer, and claims administration programs. As outlined by City Administrative Regulation, Risk exists to organizationally reduce and mitigate the human and financial impact of operational and employee accidents and losses.

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WHAT WE FOUND

Identification of safety risk exposures could be improved by formalizing a facility inspection program and more comprehensive reviews of job hazards.

- Given increasing number of city facilities and limited resources, Risk needs to develop a risk-based plan for the prioritization of facility safety inspections and establish a schedule for completing them.
- Additional guidance and monitoring are needed to ensure that monthly workplace safety inspections are consistently performed and job-related hazards are adequately assessed.

Improvements to workers' compensation claims processes, emergency planning, and employee engagement could strengthen employee safety programs.

- A structured approach to root-cause analysis and injury review is needed to ensure they are consistently performed.
- Policies and procedures for workers' compensation claims handling have not been formalized, and a process for ensuring completeness of ICA claim number data is needed.
- Policy guidance for emergency action planning has not been established and engagement of the City Safety Committee would strengthen employee safety programs.

Data could be leveraged to further assess the effectiveness of safety programs and allocation of resources.

Risk should calculate OSHA Incident Rates by department and monitor workers' compensation claims denial rates. Additionally, high injury rates in the Police Department indicate the need for a dedicated safety officer.

WHAT WE RECOMMEND

We recommend the Risk Management Director:

- Adopt a risk-based inspection plan for completing periodic facility safety inspections, provide additional guidance and oversight to departments on monthly inspections, and establish quality reviews for Job Safety Analyses.
- For workers' compensation claims, adopt a structured approach for root cause analysis, verify the completeness of claim number data, and formalize policies and procedures. Also, establish a citywide emergency plan and increase engagement with the City Safety Committee.
- Apply OSHA incident rates by department, identify and monitor workers' compensation claim denial rates, and work with the Police Department on assigning a dedicated safety officer.

MANAGEMENT RESPONSE

Risk agreed with the recommendations and plans to implement them by November 2024.

BACKGROUND

Safety & Risk Management (Risk), a department within the City Attorney’s Office, manages the City’s self-insurance fund (Loss Trust Fund), and administers safety, loss prevention, insurance, contractual risk transfer and claims programs. As outlined by City Administrative Regulation, Risk exists to organizationally reduce and mitigate the human and financial impact of operational and employee accidents and losses.

A.R.S. §11-981 authorizes the City to establish a self-insurance program and requires placing its self-insurance funds into a trust for the purpose of administering and managing direct payment of benefits losses or claims. Risk manages the City’s Loss Trust Fund, which is used for operating expenses, claims administration, defense services, losses, and insurance premiums. The Loss Trust Fund receives revenues through charges from insured city departments based on their exposure and loss history.

Safety and Loss Prevention

Risk provides oversight and coordination for safety and loss prevention programs citywide, across varied business operations and municipal functions. The department staffs a Safety Manager and two Safety and Training Coordinators. Safety and loss prevention programs and responsibilities include:

- **City Safety and Health Plan**—Managed by Risk to ensure compliance with Occupational Safety and Health Act (OSHA) standards. The Plan establishes a framework for providing a safe work environment, identification of responsibility and safety related duties, supplementing existing worksite procedures and addressing continual improvement on safety procedures.
- **Citywide Safety Committee**—Risk coordinates this committee to discuss safety and injury trends, have employees actively involved in safety programs, and support department specific safety efforts.
- **Accident Review Board**—Coordinated by Risk, this Board reviews vehicle and equipment accidents to advise on how similar incidents can be avoided in the future.
- **Safety and hazard inspections** of City facilities and work areas—Risk is responsible for performing annual inspections and monitoring monthly departmental facility inspections to identify potential workplace hazards.
- **Job Safety Analysis (JSAs)**—Risk works with departments to identify job hazards, determine corrections, and identify safety training needs.
- **Commercial Driver’s License requirements**—For employees that are required to maintain a CDL license, Risk monitors compliance.
- **Safety Grants**—Risk assists departments with funding for purchase of safety and security equipment, minor hazard remediation, and loss prevention training. For fiscal year 2022/23, Risk awarded 82 grants totaling about \$108,000 for office ergonomics equipment and 29 grants totaling approximately \$160,000 for items such as employee training and safety equipment.

FY 2023/24 Department Objectives

- Continue to refocus on safety and loss prevention.
- Work with city manager and executive team to address major safety and risk exposure concerns.
- Continue building and promoting safety “Blue Walls”.

Source: Volume 2 Division Operating Budget Book FY 23/24.

Claims Administration

Risk is also responsible for the administration of workers' compensation and liability claims, which are managed by in-house claims adjusters. Workers' compensation claims, resulting from employee injuries on the job, are regulated by the Industrial Commission of Arizona (ICA). The Commission manages the state workers' compensation program. Liability claims are primarily injury or property damage claims filed against the City by external parties and follow specific requirements set out in state law and City ordinances. The Risk Management Director and three staff members are licensed claims adjusters. Two adjusters are assigned to manage workers' compensation claims and one is assigned to general and vehicle liability claims, with one additional workers' compensation specialist. Depending upon the type of claim, Risk responsibilities include:

Workers' Compensation	Liability
<ul style="list-style-type: none"> • Provide employees with program information, including a list of preferred medical care providers and general instructions. • Record and report on injuries as required by OSHA, ADOSH and the ICA. • Authorize wage benefits as well as other medical and compensation benefits. • Authorize payment of medical expenses related to the injury. • File all applicable notices with the ICA. 	<ul style="list-style-type: none"> • Investigate allegations and gather documentation. • Evaluate the legal basis and merit of claims. • Negotiate settlements. • Work with defense counsel. • Control litigation costs. • Coordinate with affected city departments.

SOURCE: City Administrative Regulation 371 and Risk internal website information.

According to the department, after changes in leadership in 2020, Risk's focus has been to help reduce the financial cost of workers' compensation claims and address concerns from the Industrial Commission regarding high incident and experience modification rates.¹ Risk has taken the following actions:

- Contracted with a nurse case management vendor to provide 24 hour/7 day a week telemedicine services to employees and volunteers who have an accident or injury at work. Services include assessment of injuries, recommend appropriate course of action ranging from referrals to hospitals to self-care advice, answer questions regarding the injury, and provide instructions for follow up care.
- Solicited and procured a new medical bill review provider with the goal of reducing billed medical charges.
- In May 2021, entered into a 3-year Public Entity Partnership Agreement with the Arizona Division of Occupational Safety and Health (ADOSH) to work with the City to reduce worker injury and illness.
- Implemented and currently promoting a citywide "See Something, Say Something" campaign aimed at identification of hazards.

¹ An experience modification rating is based on the frequency and severity of claims and claims history, compared to similar insured entities.

Contract Reviews

Risk works with the Legal and Purchasing departments to ensure that City contracts include the adequate insurance coverage requirements. The Risk Management Director also reviews and signs City contracts to confirm that the contractor has met all applicable insurance and indemnity terms and conditions. One of the department's fiscal year 2022/23 objectives was to improve the process of receipt and tracking of required additional insurance certificates and endorsements through the use of newly implemented software.

Operating Expenses

As summarized in Table 1, Risk expenses increased from \$10.5 million in FY 2018/19 to \$14.6 million in FY 2022/23. Most contractual services are payments for workers' compensation and liability claims, and these costs may fluctuate from year to year. However, the cost for insurance and bond premiums has steadily increased. These costs include excess liability, property, hazard, cybersecurity, and other insurance coverage, as well as the establishment of the Municipal Firefighters Cancer Reimbursement Fund in FY 2021/22. The department had noted that the increase in insurance premiums resulted from market changes due to civil unrest, increases in government liability payments from lawsuits, coverage for new City facilities, and overall rising costs of claims.

Table 1. Risk Management Expenses by Fiscal Year

	2018/19	2019/20	2020/21	2021/22	2022/23
Contractual Services:					
Workers' Compensation	\$4,737,702	\$3,413,949	\$3,982,137	\$4,712,688	\$4,652,091
Liability	1,494,081	3,386,063	1,638,552	3,675,168	2,078,100
Insurance and bond premiums	1,969,017	2,242,427	2,692,325	3,309,406	4,281,033
Physical damage	894,692	1,189,573	2,366,427	747,044	1,207,047
Risk Management operations	192,378	178,803	246,425	272,704	390,380
Safety grants	625	-	-	6,900	13,039
Unemployment	<u>25,427</u>	<u>27,874</u>	<u>136,265</u>	<u>12,079</u>	<u>740</u>
Contractual Services sub-total	\$9,313,922	\$10,438,689	\$11,062,131	\$12,735,989	\$12,622,430
Personnel Services	1,116,525	1,143,923	953,189	1,384,845	1,564,559
Commodities	27,346	34,529	41,580	134,441	441,218
Capital Outlays	680	2,657	2,166	6,576	4,912
Total Expenses	\$10,458,473	\$11,619,798	\$12,059,066	\$14,261,851	\$14,633,119
Recoveries ^a	(\$1,071,101)	(\$1,130,761)	(\$2,404,535)	(\$589,071)	(\$1,217,266)

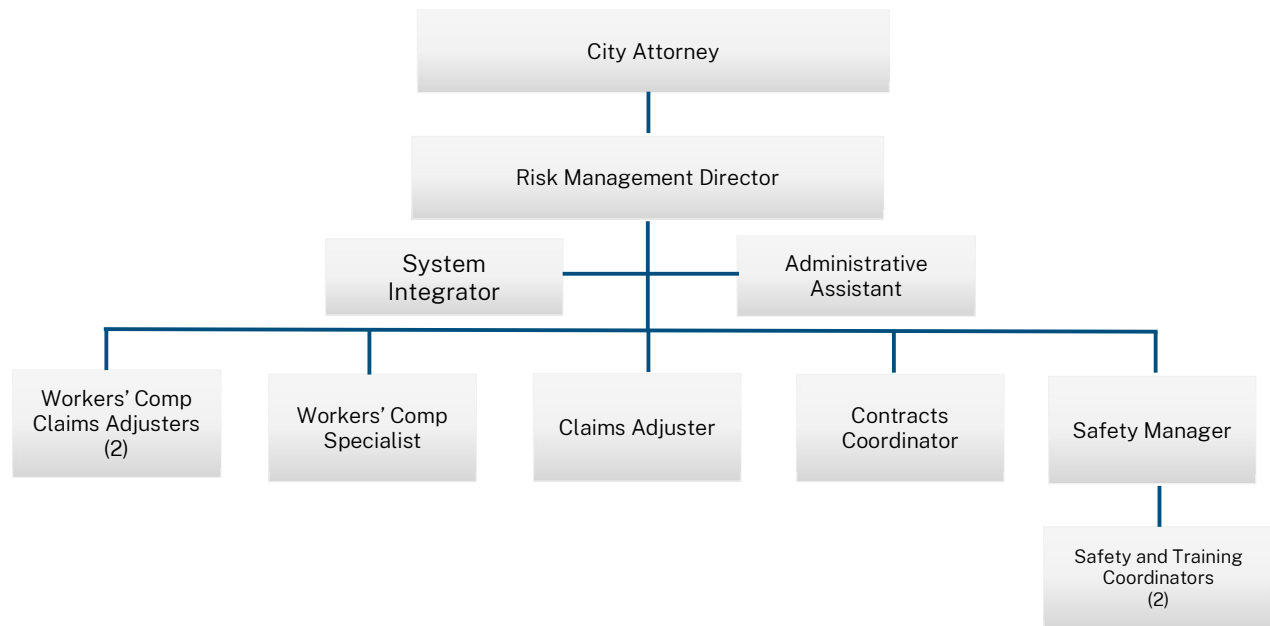
^a Recoveries include insurance reimbursements, third-party recoveries, and miscellaneous expense recoveries.

SOURCE: Auditor analysis of SmartStream reports from FY 2018/19 through FY 2022/23.

Risk Personnel Services expenses have increased from \$1.1 million in FY 2018/19 to \$1.6 million in FY 2022/23, primarily due to the addition of 2 FTE positions in FY 2021/22, changes

in accounting method, pay for performance and market adjustments to eligible employees. As shown in the organization chart in Figure 1, Risk Management is staffed by 11 full-time employees, including the Risk Management Director. FY 2022/23 increases in commodities spending are primarily for the purchase of ergonomic furniture and centralized first aid kits through the Safety Grants program.

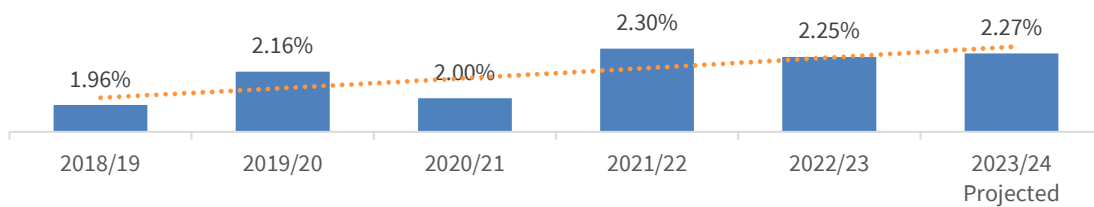
Figure 1. FY 2023/24 Risk Management organization chart.



SOURCE: Risk Management organization chart dated July 2023.

The Cost of Risk, shown in Figure 2, is the primary performance measure used by the department, and shows an increase over the past five fiscal years. This is a measure of the city’s total cost of claims, insurance premiums, and risk management administration expenses as a percentage of the city’s total operating cost. In January 2023, the department’s goal of maintaining cost of risk at 2% or lower was approved to increase to 2.3% by the Loss Trust Fund Board due to rising costs for medical care and property damage expenses.

Figure 2. Cost of Risk has trended upwards over the last five fiscal years.

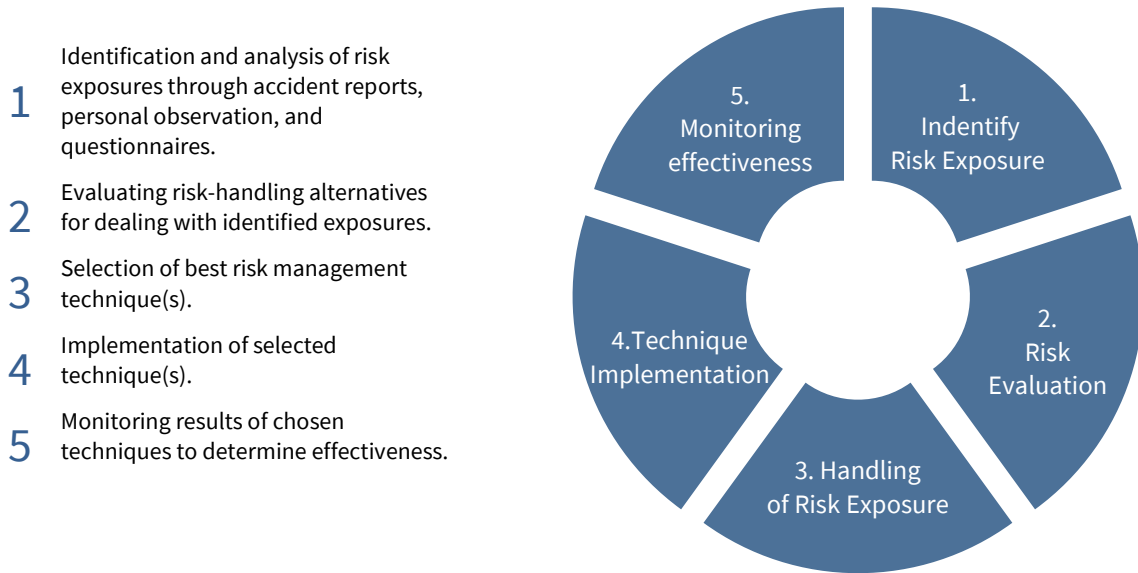


SOURCE: Auditor analysis of department performance measures reported in Volume 2 Division Operating Budgets for FY 2020/21 thru FY 2023/24.

Risk Management Process

Several standards-setting organizations have published recommended risk management program activities or steps with common elements. Recommended risk management steps that apply to the City's operations are illustrated in Figure 3.

Figure 3. Steps in a recommended Risk Management process.



SOURCE: Auditor analysis of National Fire Protection Associated, Recommended Practices in Fire and Emergency Service Organization.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of Risk Management Services was included on the City Council-approved fiscal year (FY) 2022/23 Audit Plan. The audit objective was to evaluate controls over and effectiveness of Risk Management operations. Audit work primarily focused on safety and loss prevention programs and included a review of the workers' compensation program as part of worker safety.

To gain an understanding of Risk Management processes and controls, auditors interviewed the Risk Management Director, Safety Manager, and Risk Management Systems Integrator. Auditors also conducted structured interviews with safety officers from four departments, (Fire, Community Services, Solid Waste, Water), and the Police Operations Support Area Manager in charge of safety. We also reviewed:

- Prior related City Auditor's Report No. 1411 *Claims Management* and recent similar audits conducted by other county and city audit organizations.
- Risk financial information, including the Budget Book for FY 2022/23 and FY 2023/24 and SmartStream reports for FY 2018/19 through 2022/23.
- Applicable laws, regulations and procedures including:
 - Arizona Revised Statutes Title 20 Insurance and Title 11 Section 11-981 related to payment of benefits, losses and claims and self-insurance trust funds; and regulatory guidance from the Industrial Commission of Arizona, which administers and enforces state laws relating to Workers' Compensation and the protection of life, health, safety, and welfare of Arizona employees.
 - Arizona Administrative Code, Title 20, Chapter 5, *Industrial Commission of Arizona*.
 - The City's Administrative Regulations (AR) 244 – Risk Management and Safety Functions and Practices, 245 – Risk Management Review Board, 280 – Safety Inspections, and 371 – Workers' Compensation.
 - The City's Code of Ordinance, *Risk Management and Loss Control Grants Program*. Scottsdale Revised Code, Division 3 - *Risk Management*, related to the Declaration of Trust for the uniform administration of risk management services.
 - City Safety and Health Plan, last updated November 2020.
- Documents prepared by Risk, including the Annual Report for FY 2021/22, internal training materials, manuals, and procedures.
- Contracts for medical claims review and processing and telemedicine for workers' compensation.
- Informational materials available from the Industrial Commission of Arizona.

To evaluate controls over and the effectiveness of Risk's safety and loss prevention programs, we:

- Reviewed ADOSH and Risk inspection reports, as well as OSHA inspection fact sheets and ADOSH Public Entity Partnership Program agreement with the City. Also, reviewed departments' routine inspection tools, as well as a tool used by another Maricopa County municipality.
- Reviewed available agendas or related documents for City Safety Committee for fiscal year 2022/23.

- Analyzed Job Safety Analysis forms provided by Risk to determine if departments completed the assessments of hazardous jobs/positions, including analysis of training and PPE requirements, and whether the documents were updated in a timely manner.
- Evaluated timeliness of incident reporting and department review, as well as compliance with regulatory reporting requirements. To further evaluate potential timeliness concerns, we judgmentally selected 20 worker's compensation claim files for review.
- Evaluated program performance measures, including reviewing the Cost of Risk and calculated relevant incident rates to determine incident trending history.

The audit found that identification of safety risk exposures could be improved by formalizing a facility inspection program and ensuring more comprehensive reviews of job hazards. As well, processes for workers' compensation claims can be strengthened and improvements made to emergency planning and employee engagement. Additionally, data could be better leveraged to further assess the effectiveness of safety programs and allocation of resources.

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. Audit work took place from April to October of 2023.

FINDINGS AND ANALYSIS

1. Identification of safety risk exposures could be improved by formalizing a facility inspection program and more comprehensive reviews of job hazards.

The City's Safety and Health Plan (City Safety Plan) and City Administrative Regulation require regular facility inspections for the identification of fire hazards, unsafe conditions and practices, and overall security. Given the increasing number of city facilities and limited staff resources, Risk needs to develop a plan to prioritize its efforts to complete these inspections. Also, Risk has not established minimum standards or monitoring procedures to ensure that departments are completing monthly safety inspections consistently and adequately assessing job-related hazards.

A. Risk has not adopted a risk-based plan to maximize its inspection efforts.

The City Safety Plan establishes that Risk will periodically inspect city facilities for fire hazards, unsafe conditions and practices, and overall security, and *Administrative Regulation 280 – Safety Inspections* states that this should be completed annually. Given the number of facilities citywide and limited staff resources, Risk has not been able to inspect all facilities. However, it has also not adopted a formal plan to prioritize facilities based by risk factors or established a schedule for completing the inspections.

- Risk has not formalized the risk assessment process for identification of facilities selected for inspection. As shown in Table 2 on page 12, from July 2020 through June 2023, Risk inspected 12 city facilities out of the approximately 140 municipal locations across the city. Most of these inspections were conducted in conjunction with the Arizona Division of Occupational Safety and Health (ADOSH) through a partnership agreement. The department selected these initial facilities based on perceived risk but still needs to formalize the risk assessment process, including identifying all facilities needing safety inspections and the time interval for inspections. According to department management, it has been working on developing the safety inspection program as there was no formal program prior to 2020.

A risk-based inspection plan should consider availability of internal and external resources, historical incident data, known risk exposures, inspections conducted by other entities, past inspection results, as well as compliance with regular inspection requirements.

- Administrative Regulation and the City Safety Plan do not always align regarding frequency and ownership of this task. AR 280 only requires Risk to facilitate and coordinate the annual inspections, whereas the City Safety Plan requires Risk to periodically perform the inspections. The department reported being in process of reviewing and updating the Administrative Regulation.

(continued on next page)


Table 2. Facility safety inspections completed July 2020 through June 2023.

Facility Inspected	Inspection Year	Led by ADOSH and Risk
North Corporation Yard	2020	Yes
One Civic Center	2021	Yes
Police District 3	2021	Yes
Fire Station 608	2021	Yes
Via Linda Senior Center	2021	Yes
Mustang Library	2021	Yes
Fire Station 605	2022	Risk only
SCPA Cultural	2022	Yes
Scottsdale Stadium	2022	Yes
South Corporation Yard	2023	Yes
Civic Plaza Mall – exterior/outdoor space only	2023	Risk only
Justice Center, Courts	2023	Risk only

SOURCE: List of facility inspections provided by Risk Management Safety Manager.

- The department’s documentation of inspection results varies in form and lacks structured follow-up of remediation plans. For example, ADOSH provides a written inspection report that outlines the inspection methodology, identified hazards, criticality of the hazard and potential effect, and the recommended action. They also provide a form for management to report on remedial action taken. In contrast, Risk currently reports its inspection results in varying formats, such as PowerPoint slides or memos, and may not provide information about necessary corrective actions. Establishing more structured documentation of inspections would help ensure results are thoroughly communicated.

Figure 4. Examples of OSHA and Risk reporting of inspection results
ADOSH report on an identified hazard

Item Number	7	Hazard Type	Serious	# of Instances	1
Standard	1910.303(g)(2)(i)		Correction Due Date	August 19, 2021	
Description	4-way receptacle cover missing screws and not secured correctly in janitor closet				
Condition	Live parts of electric equipment operating at 50 volts or more was not guarded against accidental contact				
					
Interim Protection	Work practice/procedure discontinued until hazard controls are in place				
Potential Effect	Serious disabling injury and/or death				
Recommended Action	Securely and correctly fasten all outlet covers				

Risk report on identified hazards



SOURCE: ADOSH Compliance Assistance Report for City of Scottsdale One Civic Center dated July 2021, and Risk inspection report of Fire Station 605 dated June 2022.

- B. Additional guidance and monitoring are needed to ensure that monthly workplace safety inspections are consistently performed citywide and address key risk areas.

AR 280 Safety Inspections and the City Safety Plan require departments to conduct monthly workplace safety inspections and lists some basic inspection requirements, as shown in the textbox. Safety officers from several large departments we spoke to reported that their staff perform these inspections and provide checklists for the monthly inspections. However, the checklists' content may vary, and Risk has not provided additional guidance regarding minimum inspection requirements. Also, unless departments choose to share inspection results, Risk does not know whether inspections are performed.

Additionally, Risk recognizes that facilities housing multiple City departments, such as One Civic Center, are less likely to be routinely inspected due to lack of ownership over the facility. For example, the building exterior, plumbing, electrical, and shared spaces may not be inspected by any department. During audit discussions, the department also indicated they plan to update existing Administrative Regulations relating to monthly inspection responsibilities.

Examples of Monthly Inspection Requirements

- Identification of slip, trip, and fall hazards.
- Identification of unguarded floor opening.
- Identification of unguarded machines or equipment.
- Review of chemical storage and usage.
- Inspection of fire extinguishers.
- Identification of emergency lighting
- Make recommendations for remedial action.

SOURCE: Administrative Regulation 280 – Safety Inspections.

- C. Reviews of Job Safety Analyses should ensure departments perform a comprehensive and complete identification of job hazards.

Departments are required to complete Job Safety Analysis (JSA) to identify job hazards and recommended actions for reducing the risk of injury or illness, such as training or personal protective equipment (PPE). JSAs must be submitted to Risk and departments must review them at least every five years. Most department JSAs have not been updated in over five years, and some departments that should have JSAs have not submitted them to Risk for review. In the last couple of years, with the hiring of the current Safety Manager, the department has worked with departments to update their job safety analysis forms. As they continue and expand these efforts, we noted the following areas for improvement:

- Similar tasks and job hazards across different city departments are addressed differently. For example, forklift operation is performed by both Facilities and the Warehouse employees, but one contains specific safety operating procedures, such as maintaining three points of contact with the machine and checking weight limits, whereas the other JSA does not.
- JSAs do not align with recommended OSHA safety training for the assessed position indicating that some job hazards may not have been evaluated. As shown in Figure X, JSAs for a WestWorld Maintenance Worker I do not cover all the OSHA required training for a Maintenance Worker I position. While the OSHA training is still required to be completed, the related hazards and training were not clearly identified in the JSAs. As well, some tasks listed in the WestWorld Maintenance Worker I description, such as welding and torch cutting, are not aligned with the OSHA training requirements identified by Risk Management – welding and cutting safety training is not required for the Maintenance Worker I position, though it is required for the level II and III positions.

Figure 5. Job training and safety requirements in JSA may not align with OSHA requirements.

Job Safety Analysis – WW Maintenance Worker I		OSHA Requirements – Maintenance Worker I	
<input checked="" type="checkbox"/>	Ladder Safety	<input checked="" type="checkbox"/>	Ladder Safety
<input checked="" type="checkbox"/>	Power tools/hand tools	<input checked="" type="checkbox"/>	Power tool/Shop Tool Safety
	Hand tool use		Bloodborne Pathogens
	Bobcat		Driver Safety
	Dump Truck Operations		Evacuation Procedures
	Gas Blower and Weed eaters		Ergonomics
	Handheld grinding		Fire Safety/Extinguishers
	Lawn Mowing		Forklift Operations
	Operating a Toro or Gator		Gas Cylinder Safety
	Pressure Washer		Hazard Communication
	Torch Cutting		Hoist Operations, Slings, Chains
	Water Truck Operations		Lockout/Tagout
	Welding		Noise Exposure
	Wheel Loader		Workplace Safety
			Heavy Equipment Operation
			Heat Stress

Source: Auditor analysis of departments’ Job Safety Analyses and Risk Management’s matrix of OSHA requirements.

- Reviews and update of JSAs need to be emphasized to ensure that job hazards and recommended procedures are properly identified and documented. As shown in the table below, we observed that the majority of JSAs were last updated 7 to 10 years ago. Additionally, some areas, such as Inspection Services, Fire Department, Police Department, have not submitted JSAs to Risk for review, even though Fire and Police report most worker injuries.

Years since last JSA update	Count	Percentage
5 or less	26	7%
More than 5 to 7	49	13%
More than 7 to 10	290	77%
More than 10 to 20	2	1%
More than 20	7	2%
Total	374	100%

SOURCE: Auditor analysis of JSAs provided by Risk.

Recommendations:

The Risk Management Director should:

- A. Adopt a risk-based safety inspection plan that considers resource availability, risk exposures, third-party inspections, and historical trends. Make necessary updates to Administrative Regulations and the City Safety Plan to ensure consistent policies regarding ownership of periodic inspection responsibilities. Also, adopt documentation standards for reporting inspection results and post-inspection activities to address recommended remediation.
- B. Provide additional guidance to departments on monthly inspection requirements, including feedback on the quality of inspection tools/ checklists being used. Identify facilities with gaps in inspection coverage and work with departments to ensure routine inspections are completed. Establish monitoring procedures to routinely verify that inspections are being completed.
- C. Establish quality review procedures for Job Safety Analysis to ensure that 1) similar job hazards are consistently and adequately addressed across different city departments, 2) JSAs are aligned with the identified OSHA requirements for that position, 3) high-risk jobs have been identified, safety analyses have been completed and are regularly reviewed and updated.

2. Improvements to workers' compensation claims processes, emergency planning, and employee engagement could strengthen employee safety programs.

The workers' compensation program can be improved by establishing a structured approach to root-cause analysis and injury review, ensuring completeness of ICA claims numbers, and formalizing claims administration policies and procedures. As well, creating policies to govern emergency action planning, and increasing engagement with the City Safety Committee would strengthen employee safety programs.

- A. Structured approach to analysis of root-cause and review of workplace accidents is needed.

Two of the 20 workers' compensation claims files we reviewed had been flagged for root-cause analysis, but the analysis had not been completed by the employee's supervisor. According to Risk, the analyses may not be needed if there is sufficient information within the injury report.

Administrative Regulation 244 – Risk Management and Safety Functions and Practices requires a panel to review workers' compensation claims to identify whether the accident was preventable and remedial actions that can help prevent similar accidents from happening again. According to Risk, these reviews are being addressed through the departmental weekly or bi-weekly claims review meetings. However, these reviews are not documented and may require input from a department representative with specific program knowledge to complete root-cause analysis. Risk plans to update the AR requirements and have the workers' compensation claims reviews be performed by the Accident Review Board, which consists of representatives from various city departments. Currently, the Board conducts reviews of selected vehicle and equipment-related accidents, but Risk would like to expand its scope to include root-cause review on workers' compensation claims.

- B. A process for verifying completeness of ICA claim number data could help Risk identify active claims that may not have been properly reported by medical providers and/or employees.

Controls are needed to ensure completeness of ICA claim numbers within the Risk claims management system. For a legal claim to be initiated with the ICA, the treating physician or employee has to submit a report of the injury to the ICA. Within the claims data, we observed that about 16% of reported injuries with medical expenses did not have ICA claim numbers. According to the department, this is generally because the physician or employee did not report the injury to the ICA. However, it may also result if the claim number field was not updated by the department when the information was received.

The department does not have processes to check for potentially missing ICA claim numbers. During the audit, the department reported they are working to reconcile ICA claim numbers to verify data is complete and following up with medical providers that may not have submitted ICA reports.

- C. Formal policies and procedures for workers' compensation claims processing are needed to ensure consistent handling of claims. As well, quality reviews should be documented.

1. Internal department procedures are limited to claims set-up in the claims management system and procedures for initiating investigations. More comprehensive policies and procedures for required claims documentation and adjuster procedures have not been formalized. While the ICA has a comprehensive claim adjusting manual, it has not been incorporated into departmental procedures. Additionally, although the department has procedures for the investigation of claims, policies on how to handle the results of an investigation have not been clearly established.

2. Quality reviews of claims are performed ad hoc and not documented in case files. Claim administration processes range from contacting injured employees,

performing the initial claim investigation, monitoring and coordinating medical treatment plans, and setting reserves for expected costs. Individual claims are managed by claims adjusters and ongoing cases are discussed in weekly staff meetings. The Risk Management Director may perform periodic reviews of selected claims for file completeness and compliance with internal procedures, but these reviews are not documented in the claims files and many internal procedures are not formalized.

- D. A documented emergency action plan and continuous engagement with departments can strengthen current safety programs.

The City Safety Plan and OSHA standards require employers to maintain a written emergency action plan to have documented minimum procedures in case of an emergency and have the plan available to employees for review. Additionally, the City Safety Plan tasks a Safety Committee with the development of safety programs and strategies, training needs and assessments, and management of incentive programs.

1. **Emergency action plan.** Risk has departmental evacuation plans on its internal webpage, however, these individual plans contain outdated information, such as employee assignments. Additionally, the Safety Plan states that guidance for evacuation training and drills is found in the City Emergency Procedures Manual, but such a manual does not currently exist. OSHA standards require minimum elements such as procedures for reporting a fire, emergency evacuations, critical operations, accounting for all employees after an evacuation, and performing rescue or medical duties. The plan should also detail the preferred method for reporting emergencies, how to alert employees, and provide for initial and ongoing employee training.
2. **Safety Committee.** The Safety Committee is comprised of departmental safety coordinators and representatives from various major departments. Risk coordinates the monthly Committee meetings; however, meetings have been infrequently held, with only three documented meetings held during calendar years 2022 and 2023. Two department Safety Officers we spoke to commented on the need for Risk to hold these meetings to facilitate collaboration amongst departments and share best practices.

Other department-level safety committees referenced in Administrative Regulation have not been created and Risk is in process of establishing these workgroups to engage employees in safety programs.

Recommendations:

The Risk Management Director should:

- A. Adopt a structured approach for reviewing workers' compensation injuries, including ensuring that requested root-cause analysis are completed.
- B. Establish procedures to ensure complete ICA claim number data.
- C. Formalize policies and procedures for workers' compensation claims processing. Also, establish processes for routine quality reviews of claims and document the review.
- D. Establish a citywide emergency action plan based on OSHA standards and include guidance to department on evacuation procedures training and drills. Also, increase

engagement of the City Safety Committee by coordinating more frequent meetings to facilitate collaboration.

3. Data could be better leveraged to further assess the effectiveness of safety programs and allocation of resources.

Risk should calculate OSHA Incident Rates by department to help evaluate the effectiveness of safety programs. High injury rates in the Police Department indicates the need for a dedicated safety officer. As well, denial of workers' compensation claims is not captured in system data fields, making it difficult to monitor compliance with ICA thresholds.

- A. OSHA Incident Rates could be better leveraged to evaluate the effectiveness of safety programs.

Risk reported meeting with large departments to review injury trends. In addition to these analyses, Risk could leverage OSHA Incident Rates to evaluate the effectiveness of safety programs by department or division.

- **OSHA Incident Rates by department**— Annually, Risk collects and reports injury data such as the number of employee work hours and reported injuries by City Division to the US Department of Labor.² This data is used by the US Bureau of Labor Statistics to measure Total Case Rates (TCR) and Days Away Restricted Time (DART), as described in the textbox. The rates are a measure of how often a recordable injury or illness occurs, and OSHA considers these matrices an important tool for the evaluation of the effectiveness of risk programs. These rates are used by ADOSH to evaluate the effectiveness of its consulting partnership with the City.

Total Case Rate: The number of work-related injuries per 200,000 hours worked (or injuries per 100 full-time workers).

Days Away/ Restricted Time: Measures cases with days away from work and cases with job transfers/restrictions by the number of hours worked.

SOURCE: U.S. Department of Labor website information.

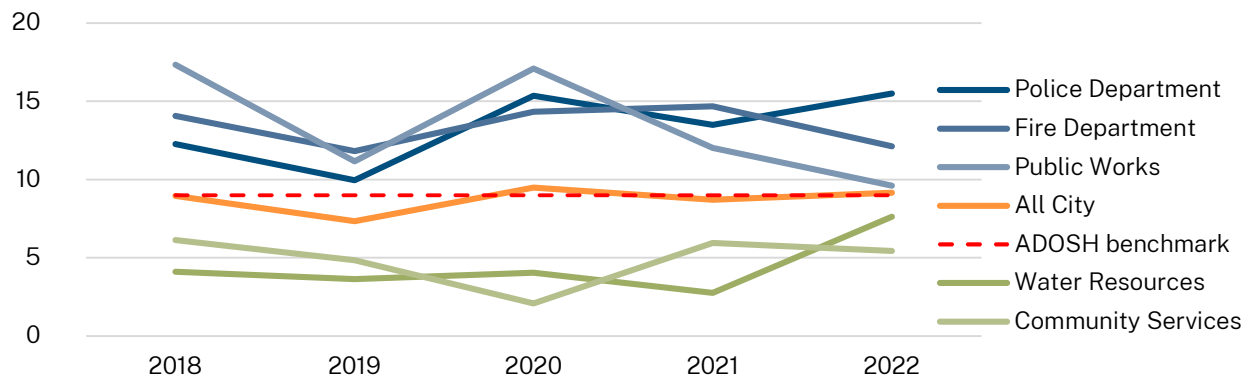
We calculated TCR and DART for major City Divisions and compared them to the benchmark rates that ADOSH used in the Partnership Agreement. As shown in Figure 6 on page 19, while the City averages are close to the benchmark, certain Divisions consistently rate higher or lower than the benchmark. However, in performing these calculations, we found that several data points were inaccurate or missing. Specifically, number of workers and total number of hours worked. We used the available supporting reports to adjust these numbers.

(continued on next page)

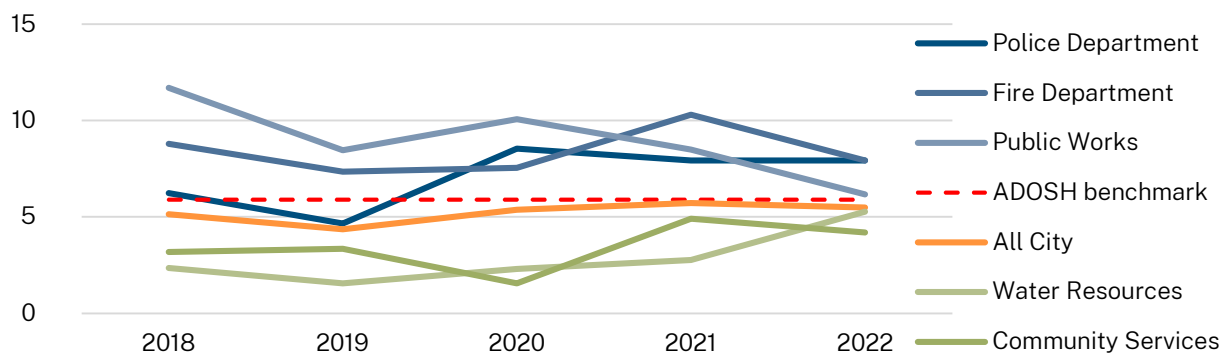
² U.S. Department of Labor OSHA's Form 300A, Summary of Work-Related Injuries and Illnesses.

Figure 6. Five-year trend of Total Case Rate and Days Away Restricted Time

OSHA Total Case Incident Rate



OSHA Days Away and Restricted Time Rate



SOURCE: Auditor analysis of OSHA Form 300A for calendar years 2018 through 2022 prepared by Divisions and Risk Management. For several missing reports and data points, we used the available supporting reports with incident, employee count, and employee worked hours data for calendar year 2020 and 2021. The benchmark was obtained from a City agreement with ADOSH.

B. Denial of workers' compensation claims is not captured in system data fields.

The percentage of worker compensation claims that are denied by the City is monitored by the ICA for compliance. Denial rates over 12% could impact the City's self-insurance status. While denials are reported to the ICA, the department's claims management system does not capture this information separately, making it more difficult for the department to self-monitor the denial rate. Updating its data entry fields to capture claim status would allow the department to quickly assess potential compliance concerns.

C. One of the three departments with highest injury rates does not have a dedicated safety officer.

From April 2022 through March 2023, collectively three departments account for 77% of the reported workers' compensation injuries. As shown in the table below, the Police Department reported almost 40% of injuries citywide, but unlike other departments

with high injury numbers, it does not have a dedicated safety officer. Having a dedicated safety officer can improve the performance of safety programs by managing safety training programs, coordinating monthly safety inspections, assisting with job safety analysis and root cause analysis, as well as acting as a liaison with Risk.

In consideration of the safety officer role, additional training or guidance from Risk would also improve their effectiveness. Some departmental safety officers commented on the need for additional guidance on role responsibilities and interpreting OSHA requirements.

Division or Department	Percentage of:		Dedicated Safety Coordinator
	Reported Injuries	Citywide FTEs	
Police Department	39%	26%	No
Fire Department	28%	12%	Yes
Community Services	10%	19%	Yes
Solid Waste (Public Works)	9%	4%	Yes
Water Resources	7%	9%	Yes
Community and Economic Development	2%	6%	No
Fleet Management (Public Works)	2%	2%	No
Total	97%	78%	

SOURCE: Auditor analysis of worker compensation incident data occurring between April 1, 2022 and March 31, 2023, Adopted FTEs for FY 2022/23, and staff interviews.

Recommendations:

The Risk Management Director should:

- A. Ensure accurate annual reporting of OSHA work-related injuries and evaluate the effectiveness of programs using OSHA incident rates by department.
- B. Capture workers’ compensation claim denial data to monitor compliance with ICA requirements.
- C. Work with the Police Department to evaluate options for assigning a dedicated safety officer. Also, establish standardized training and guidance for departmental safety officers.

MANAGEMENT ACTION PLAN

BACKGROUND

The Safety & Risk Management Department was historically organized under the City Treasurer's Office until it was reorganized to become part of the City Attorney's Office in FY 18/19. Following Sherry R. Scott's appointment as the City Attorney in October of 2019, Safety & Risk Management went through a much-needed overhaul. The City hired a new Safety & Risk Director to reboot the Department and better-focus the City on Safety and Loss prevention. A new Safety Manager was hired shortly thereafter. Both of these key employees have hit the ground running in their new roles, working closely with City Management and employees to revitalize the City's safety program in an effort to minimize losses.

Safety & Risk Management is a small department currently comprised of only 11 employees³ reporting up through the Safety & Risk Management Director to the City Attorney. Despite the Department's small size, it is responsible for the City's Self-Insurance program, Loss Trust Fund and the City's excess commercial private insurance portfolio, Liability and Property Damage claims adjusting and investigations, insurance subrogation claims and collections, Worker's Compensation program administration and claims adjusting, compliance with Industrial Commission of Arizona (ICA), compliance with Arizona Department of Insurance guidelines, OSHA training and reporting compliance, reviewing and approving all City contracts and events from a liability perspective, and the City's general safety & risk loss prevention programs.

The Safety & Risk Management Department has accomplished the following highlights in recent years:

1. Partnered with ADOSH in 2021 and became a member of the Public Entity Partnership Program (PEPP) designed to elevate the City's safety platform and seek detailed guidance on safety improvements from ADOSH.
2. Established a Citywide Ergonomics Assessment Program in FY 20/21. In FY 22/23, two-hundred seventeen (**217**) ergonomic assessments were completed resulting in replacements/upgrades to office workstation furniture and work processes to prevent and mitigate injuries related to Musculoskeletal Disorders (MDS).
3. Established the "See Something Say Something" program. This program is sponsored by the Safety & Risk Management Department and incentivizes City employees to identify potential hazards on City owned or leased property. The goal is to increase the awareness and identification of potential hazards so that they can be remedied before accidents occur. Implemented May 2023.
4. In FY 22/23, a total of **\$38,402,645.59** in third-party liability claim demands/notices of claims were received. The Safety & Risk Management Department has only paid a total of **\$366,237.93** of these demands to fully resolve the accepted claims, or **1%** of

³ Of the 11 employees comprising the Safety & Risk Management Department, 7 are new to their roles and only 4 were employed by Safety & Risk Management at the time the Department's revitalization began.

the total demanded in FY22/23. Only a small number of the unresolved claims will proceed to litigation.

5. Established color-identified “Blue Walls” to centralize all of the City’s safety equipment in each work area for easy identification and quick use in the event of an emergency. The Department has completed six **(6)** Safety & Health “Blue Walls” for four **(4)** City buildings. All City buildings will soon contain a color-coded safety wall for this same purpose.
6. Recovered **\$1,173,605** in direct subrogation reimbursements regarding property, liability, and workers compensation claims in FY 22/23.
7. Increased savings on the cost of worker’s compensation medical procedure payments by **8%** through the use of a new medical bill review provider.
8. In 2023, one hundred and five **(105)** Job Safety Analysis (JSAs) were updated or newly created and implemented for Community Services and are pending only a single final signature by the City Safety Manager. The newly approved 2022 forms were used to complete these JSA’s, which were updated to include frequency and duration of tasks as well as Training and PPE requirements with final review and approval by the City Safety Manager.
9. Detailed ADOSH standard Safety and Health Inspections were completed at twelve **(12)** high risk facilities based on occupancy load, type of operations, history of past inspections, injuries, and accidents. There were also an additional nine **(9)** Safety & Health Inspections completed related to annual insurance and contractual obligations, totaling twenty-one **(21)** facility inspections completed by Safety & Risk Management. These inspections resulted in the identification and abatement of more than 900 individual cited hazards ranging from OSHA hazard clarifications of Imminent Danger to more minor infractions.
10. Implemented Triage Now in FY 20/21 to reduce worker’s compensation claims. Triage Now provides a registered nurse option for City employees with minor injuries who may not need to visit a medical facility to determine if medical treatment is necessary. This offers a more immediate and less stressful option to employees while keeping unnecessary worker’s compensation claims and medical treatment costs down.

1. Identification of safety risk exposures could be improved by formalizing a facility inspection program and more comprehensive reviews of job hazards.

Recommendations:

The Risk Management Director should:

- A. Adopt a risk-based safety inspection plan that considers resource availability, risk exposures, third-party inspections, and historical trends. Make necessary updates to Administrative Regulations and the City Safety Plan to ensure consistent policies regarding ownership of periodic inspection responsibilities. Also, adopt documentation standards for reporting inspection results and post-inspection activities to address recommended remediation.
- B. Provide additional guidance to departments on monthly inspection requirements, including feedback on the quality of inspection tools/ checklists being used. Identify

facilities with gaps in inspection coverage and work with departments to ensure routine inspections are completed. Establish monitoring procedures to routinely verify that inspections are being completed.

- C. Establish quality review procedures for Job Safety Analysis to ensure that 1) similar job hazards are consistently and adequately addressed across different city departments, 2) JSAs are aligned with the identified OSHA requirements for that position, 3) high-risk jobs have been identified, safety analyses have been completed and are regularly reviewed and updated.

MANAGEMENT RESPONSE: *Agree*

PROPOSED RESOLUTION:

- A. Upon taking leadership of the Department in 2020, the Safety & Risk Management Director discovered there was no current plan in place within the Department to prioritize the inspection of City buildings. In working with the City Safety Manager, the Department began inspecting City buildings in 2020 based on size, occupancy, chemicals on site, hazardous operations, and overall risk. Safety & Health inspections were also completed as part of annual insurance and contractual obligations. Staffing levels and resources have allowed the Department to thoroughly inspect twenty-one (21) major City buildings since 2020. Safety & Risk Management staff will work to formalize our current risk-based safety and health inspection process into an approved written plan and matrix noting all key factors considered such as history of past inspections, resource availability, risk exposures, regulations and codes, third-party inspections, and historical accident/injury trends. Safety & Risk Management staff will make the necessary updates to the City's current Administrative Regulations and City Safety and Health plans to ensure consistent policies and guidelines designating ownership of inspection responsibilities. This is because the current language within the Administrative Regulation does not account for the present tenant occupancy of many City buildings relating to safety inspections. Safety & Risk Management will also work to incorporate ADOSH recommended best practices into its newly formed inspection program for more consistent and standardized documentation and reporting of inspection results and post-inspection activities by all responsible divisions/departments. This will better ensure that the required abatements are made in a timely manner based upon OSHA hazard classification guidelines.
- B. Department staff will provide additional guidance and direction to divisions/departments on approved inspection requirements and minimum frequencies per the OSHA Field Operations Manual. Prior to 2020, guidance regarding monthly safety inspections was not formalized. As Safety & Risk Management continues to work towards formalizing these guidelines, guidance will include implementing the use of approved standardized inspection processes, tools, checklists etc. Safety & Risk Management will continue to identify gaps in inspection processes for shared use facilities, and work towards updating the Administrative Regulation related to monthly inspections to designate roles and responsibilities, independent of individual departments, to effectively complete these routine inspections. Safety & Risk Management will work to establish written guidelines to ensure more effective online storage of all inspection results and supporting

documentation to allow for more effective monitoring of compliance.

- C. Safety & Risk Management staff inherited a backlog of over five hundred (500) delinquent or expired JSAs. The Department will continue to work with each division/department in the timely creation or updating of all required JSAs utilizing the new approved forms created in late 2022 which now require the City Safety Manager's final review and approval. This new process will allow for quality review procedures for 100% of JSAs citywide to ensure that (1) job hazards are consistently and adequately addressed and aligned across different City departments, (2) all JSAs are aligned with the identified OSHA, NFPA and other regulatory and code requirements for each position, and (3) all JSAs are regularly reviewed and updated when any applicable changes to work tasks, assignments, equipment or processes have changed or, at a minimum, no more than every 5 years.

RESPONSIBLE PARTY: Safety & Risk Management

COMPLETED BY: 11/1/2024

2. Improvements to workers' compensation claims processes, emergency planning, and employee engagement could strengthen employee safety programs.

Recommendations:

The Risk Management Director should:

- A. Adopt a structured approach for reviewing workers' compensation injuries, including ensuring that requested root-cause analysis are completed.
- B. Establish procedures to ensure complete ICA claim number data.
- C. Formalize policies and procedures for workers' compensation claims processing. Also, establish processes for routine quality reviews of claims and document the review.
- D. Establish a citywide emergency action plan based on OSHA standards and include guidance to department on evacuation procedures training and drills. Also, increase engagement of the City Safety Committee, by coordinating more frequent meetings to facilitate collaboration.

MANAGEMENT RESPONSE: *Agree*

PROPOSED RESOLUTION:

- A. Safety & Risk Management will continue to meet monthly/quarterly with the departments responsible for over 85% of all claims within the City, to discuss injury and accident statistics and trends, to reduce claims and costs throughout the City. Safety & Risk Management will work to formalize its newly developed root-cause analysis program and work to begin involving department supervisors, managers, and directors in the identification of the incident root-cause. Although the Department meets twice monthly to determine the preventability of injuries within the City, Safety & Risk Management is working to establish an Injury Review Committee (IRC), consisting of Safety & Training Coordinators and staff from various departments,

which will be tasked with reviewing all injuries within the City, to develop and implement effective remedial measures.

- B. The Department will work to formalize its existing procedures of capturing ICA claim number data. Opportunities for improvement regarding the capturing of ICA claim number data and verifying its presence within the claims database were identified during the audit, as 84% of the claims judgmentally selected by the Audit Committee had ICA claim numbers and 16% did not have the corresponding ICA claim number noted in the City's record keeping system. During the audit, the Risk Management Director worked with IT to develop a report within the claims database which identifies claims without an ICA claim number noted in the City's system to be updated, ensuring accuracy.

Management would like to emphasize that of the 20 worker's compensation files that were judgmentally selected by the City Auditor's Office for a detailed review, none of these claims had a substantive problem or concern, based on Safety & Risk Management's review. In addition, the audit found there were no delays in reporting incidents by department supervisors, delays in reviewing the reports by Safety & Risk Management claims adjusters, or delays in required ICA reporting.

- C. Safety & Risk Management will work to incorporate additional documentation and adjuster procedures into the existing claim policy and procedure guidelines already formalized within the Department. In addition to these guidelines, the Department's licensed worker's compensation adjusters currently reference the ICA claims adjusting manual, as needed, and attend the ICA's annual claims seminar to stay up to date on rules and regulations relating to worker's compensation. The Safety & Risk Management Director will work to formalize the claim review process and begin inserting the documented claim review within the claim file.
- D. The Department will collaborate with designated staff from the Police/Municipal Security, Fire/Emergency Mgt., and Facilities Mgt. to determine responsibilities and establish a citywide Emergency Action Plan (EAP) based on OSHA guidelines, NFPA and other applicable standards and codes that align with each departments completed Continuity of Operations Plan (COOP). The EAP will include guidance and training to all divisions/departments on shelter in place, evacuation and other related emergency procedures including frequency and type of required drills or exercises for each City facility. The Department will increase engagement of the newly formed City Safety Committee by coordinating more frequent meetings to facilitate collaboration and establishment of the Safety Steering Committee at the executive level.

RESPONSIBLE PARTY: Safety & Risk Management

COMPLETED BY: 11/1/2024

3. Data could be better leveraged to further assess the effectiveness of safety programs and allocation of resources.

Recommendations:

The Risk Management Director should:

- A. Ensure accurate annual reporting of OSHA work-related injuries and evaluate the effectiveness of programs using OSHA incident rates by department.
- B. Capture workers' compensation claim denial data to monitor compliance with ICA requirements.
- C. Work with the Police Department to evaluate options for assigning a dedicated safety officer. Also, establish standardized training and guidance for departmental safety officers.

MANAGEMENT RESPONSE: *Agree*

PROPOSED RESOLUTION:

- A. Beginning in 2020, Safety & Risk Management began conducting monthly/quarterly claim review meetings with the Scottsdale Police, Fire, Solid Waste, and Water Departments, as these departments represent over 85% of the claims generated by, or on behalf of, the City. The claim review meetings are to discuss claim trends and statistics with the departments and develop actions which may prevent or mitigate future losses. Each major department is assigned a customized claims dashboard (referencing claim count, claim cost, injury type, injury cost, accident type, location, cost, etc.), which is designed to illustrate the real-time claims statistics for each department. Safety & Risk Management is currently in the process of developing monthly Key Performance Indicators (KPI's) for each major department to provide a better response to injury spikes or accident trends. The Department also calculates the OSHA compensable incident count and Days Away Restricted Time (DART) annually and will continue to track this information for each department. The Department will further begin to include the calculated OSHA incident rate in its future Annual Reports. Safety & Risk Management believes a more frequent accounting of injury trends, not just annually, will have a stronger impact on injury claim reductions. Safety & Risk Management will work to ensure that all OSHA related data is accurately reported.
- B. Safety & Risk Management will work with IT to take advantage of the existing worker's compensation claims denial tracking field within our current claims database. The claim denial rate is reviewed annually by the ICA during the renewal of the self-insured authority application. An annual denial rate above 12% may necessitate an explanation to the ICA but does not affect the self-insured authority of the City. The City seldom receives worker's compensation claims that are fully denied, but will begin tracking its denial rate, nonetheless.
- C. The Safety & Risk Management Department has been requesting a dedicated Police Safety and Training Coordinator for some time, and it is our understanding that the Scottsdale Police Department ("SPD") agrees. The lack of a dedicated Safety position in the SPD boils down to a matter of budget resource allocation. Safety & Risk Management will continue requesting, and promoting the benefits of, a dedicated Safety and Training Coordinator for the SPD. In reviewing the City's total claim program, it is clear there are opportunities within the SPD to reduce injuries and accidents and increase training specifically related to safety. The SPD is responsible for over 30% of all claims within the City, and statistics have proven that having an internally placed Safety and Training Coordinator can positively impact the number

and nature of claims arising out of that department. We will try again this budget cycle to receive approval for a dedicated Police Safety and Training Coordinator within the SPD.

RESPONSIBLE PARTY: Safety & Risk Management

COMPLETED BY: 11/1/2024

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