



Performance Audit of the Office of Risk Management

**Justin Anderson
Brian Estes
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**June 25, 2013
Report No. 2013-04**

Executive Summary

The Office of Risk Management (ORM), while effective in managing claims against the County, is limited in proactively identifying and addressing potential risks, while King County's cost exposure to high-cost, low-frequency claims has grown. The County should pursue countywide integrated risk management. Also, to address persistent auto accident risks and improve ORM's operational efficiency, the County should adopt higher quality driver training and better performance measures, and include workers' compensation costs in its Cost of Risk Index.



King County

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MEMORANDUM

DATE: June 25, 2013

TO: Metropolitan King County Councilmembers

FROM: *Bob Thomas*
Bob Thomas, Interim King County Auditor

SUBJECT: Performance Audit of the Office of Risk Management (ORM)

Attached for your review is the performance audit of King County's Office of Risk Management. The primary objective of the audit was to assess the performance of the Office of Risk Management in managing the County's risk programs, protecting the County against potential risks and its effectiveness in preventing potential risks. Additionally, we examined the effectiveness of the Office of Risk Management in working with the various departments and agencies across the County.

The general audit conclusions are that ORM is effective in performing risk management administrative functions: claims management, contractual review, and insurance procurement. ORM was reported as responsive to client county departments and proficient in administration of the County's loss prevention fund, periodic claims reviews, and recovery efforts against third parties. We suggested improved performance measures to provide more comprehensive information to continue to maintain and enhance their performance in these areas and the County's overall cost of risk. We also found that ORM could help proactively address high-cost and emerging risk areas with a more thorough enterprise risk management framework, and we identified areas where additional training could help address persistent risks in vehicle accidents among both transit and non-transit drivers.

Among the audit's seven recommendations, the Office of Risk Management and County Executive concurred with six and partially concurred with one. The timeline for implementation of the audit recommendations varies, with the majority to be completed through second quarter of 2014.

Justin Anderson, Senior Management Auditor, and Brian Estes, Senior Principal Management Auditor, conducted this audit under the supervision of Kymber Waltmunson, Senior Principal Management Auditor. Please contact Justin Anderson at 206-477-1046 or me at 206-477-1042 if you have any questions about this audit.

The Auditor's Office sincerely appreciates the professionalism and the cooperation received from the King County Office of Risk Management and staff in conducting this audit.



Performance Audit of the Office of Risk Management

Report Highlights

June 25, 2013

Report No. 2013-04

Purpose

Claims against the County cost the County and its insurers nearly \$150 million over the past ten years. The purpose of the audit was to assess the effectiveness of the King County Office of Risk Management (ORM) in claims management, processing, and other administrative functions, and in preventing and reducing losses and protecting King County's assets by identifying and addressing potential risks and liabilities. We also reviewed the effectiveness of the County's overall approach to risk management.

Key Audit Findings

ORM is aware of best practices in integrated risk management and has proposed the County adopt an enterprise risk management (ERM) approach to proactively identify and address risks. However, in comparing ORM's ERM plan with a recognized risk management standard, ISO 31000, we found critical weaknesses within the plan. In addition, we identified auto accidents as a major area of claims against the County, finding that the County could improve its driver training systems, both for Metro transit drivers and for other frequent non-transit drivers of county vehicles.

While ORM manages overall claims administration in a timely and professional manner, ORM lacks solid performance measures to assess and improve effectiveness in claims management. ORM's current Cost of Risk index understates county liabilities by not including workers' compensation costs.

What We Recommend

We recommend that ORM, in consultation with the County Executive, develop a work plan for an integrated risk management framework for the County, allowing the County to realize the benefits of ERM in reducing future claims. We also recommend that ORM track vehicle accident data for non-transit vehicles and develop performance targets for such accidents, as well as improve its internal performance measures and include workers' compensation costs in its Cost of Risk calculations. Finally, we recommend that ORM work with Metro Transit Division and Office of Safety and Claims to improve driver safety training programs for both transit and non-transit county drivers.

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I. Managing Risks in King County

Section Summary

King County could be exposed to costly and unsustainable future liabilities unless it implements an integrated countywide approach to managing risks. King County is self-insured; it budgets an amount to fund potential future losses based on actuarial calculations. The County also maintains catastrophic insurance to cover individual claims with losses above a certain threshold. This threshold is the self-insured retention (SIR). King County is exposed to increased claim costs as a result of the County's increased SIR. Now at \$7.5 million, the SIR has more than doubled since 2010, due to significant claims payments in 2010 and 2011.

A more integrated approach to managing risks, more effective in identifying emergent risks and aggressively addressing persistent risks, is needed to reduce the County's exposure to high cost claims. This requires a vigorous and comprehensive countywide policy of departmental risk analysis with strategies to mitigate future risks and associated costs, an approach to risk management referred to as enterprise risk management (ERM).

The ORM Plan Needs Strengthening

King County's Office of Risk Management (ORM) agrees that enterprise risk management is needed in King County. We evaluated ORM's plan against the International Organization for Standardization (ISO) 31000 Risk Management—Principles and Guidelines. Although ORM's initial plan embraces a number of best practices, we found it lacks depth in several key areas. These gaps, if not addressed, will hamper King County in designing and rolling out an effective program with a proactive approach to risk management sufficient to reduce the County's future exposure to large dollar claims.

Higher SIR Presents Risks to King County

Since 2011, the County's share of each claim is \$7.5 million. This \$7.5 million SIR elevates the importance of risk management as it exposes the County to more costly and potentially unsustainable future liabilities. As the SIR increases, the County must either budget additional funds to pay for the anticipated additional cost of major claims or work aggressively to prevent such claims.

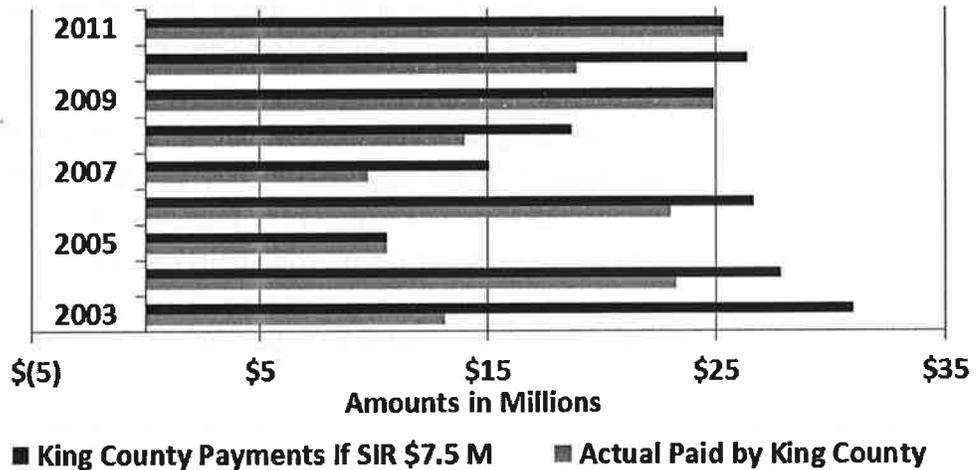
Per ORM, between 2003 and 2011, the total value of claims paid out by the County and its insurers was \$179.4 million.¹ Of this amount, \$132.6 million

¹ Note that the \$179.4 million figure is for *payments* made between 2003 and 2011; later we discuss the value of *claims* from 2002-2012 as \$148 million. The figures are different because they reflect different variables, i.e., the date of the payments made to claimants versus the dates when claims were filed. The latter figure likely underestimates the total value of the claims, as settlements and payments on recently filed claims have not been finalized, and the statute of limitations for negligence complaints in Washington is three years.

I. Managing Risks in King County

(74%) was paid by King County, with the remaining \$46.9 million (26%) paid by the County's supplemental insurance.² As noted by ORM, the County would have paid an additional \$43.6 million from 2003 to 2011 had the County's SIR been set at \$7.5 million throughout the timeframe, a total of \$176.2 million (98%) of all claims during that period. Exhibit A below shows the annual impact of a \$7.5 million SIR.

Exhibit A:
Estimated Payment on
Claims and Lawsuits If
SIR Had Been \$7.5
Million



Source: Office of Risk Management

SIR Increased **Due to Large** **Claims** **Payments**

The SIR has increased due to underlying changes in the insurance market and the large losses the County paid out in 2010 and 2011. Between 2002 and 2011, the total amount paid by the County's reinsurers on claim and lawsuit settlements exceeded the total insurance premiums paid to them. The insurance coverage alternatives to the \$7.5 million SIR included significantly higher coverage premiums and/or caps on the number of potential claims covered, options the Risk Management Committee³ found too costly to pursue.

² Numbers do not add due to rounding.

³ Per King County Code 2.21.040, the Risk Management Committee, consisting of the Chief Civil Deputy of the Prosecuting Attorney's Office, the Budget Director, the Risk Manager, and the Safety and Claims Manager, advises ORM about risk management policy and approves county insurance purchases.

I. Managing Risks in King County

**Reducing Loss
Exposure
Requires
Reducing Major
Claims**

Of the roughly \$148 million⁴ total paid on claims and lawsuits against the County from 2002 and 2012, \$72.5 million was paid for 25 claims over \$1 million.⁵ Both these figures include the amount covered by insurance; the County's SIR constitutes the portion of these claims that the County must pay out of pocket, while amounts over the SIR are covered by reinsurance. As such, changes in SIR affect the financial impact of large dollar claims, as opposed to lower value claims.

The impact of the higher SIR is that a significant portion of large dollar claims previously covered by insurance now would be paid by the County. In addition, it means that individual claims and lawsuits carry a greater potential financial impact, and also increase that impact if multiple major claim events occur over a short period. Yet, because the County's insurance premiums are based primarily on its loss history, these large payouts are something the County can directly influence. Reducing the County's risk of large losses and reducing the SIR to a more cost-effective threshold depends on improving the County's claims experience through prevention of large dollar claims. Both Alliant (the County's insurance broker of record) and ORM expect that five years without significant losses (i.e., claims against the reinsurer) would be needed to lower the SIR.

⁴ This amount reflects costs paid during 2002-2012 for claims filed against the County during that period. See footnote 1.

⁵ We chose a \$1-million threshold for our major claims analysis, because this figure is the maximum amount that county departments and agencies pay, on a per-event basis, for self-insurance in their budgets; paid claims over \$1 million (up to the SIR) are paid from the common county self-insurance fund.

I. Managing Risks in King County

Current Approach Does Not Address Uncommon Risks

ORM's current approach to claims management is based on a traditional strategy for managing known operational risks. However, identifying emergent risks and aggressively addressing persistent risks—as well as broader categories of risks (such as strategic and reputational risks)—requires the County to adopt a more comprehensive countywide approach to risk management. This approach, known as enterprise risk management, would significantly heighten the consideration of risk in the management of the County. Key elements include:

- Consideration of risk in strategic and business plans
- Proactive efforts to identify and address potential risks
- Incorporating risk management activities as a component of the overall performance system

Reactive and Proactive Risk Management Approaches

Approaches to preventing large dollar claims can be categorized as reactive or proactive. Reactive approaches respond to existing risks by looking at previous claims or events to provide data that guides the development of remedial actions that prevent future claims. These efforts can then be reviewed for their effectiveness over time. For example, Metro and ORM can identify common factors within the 4,400 transit-related claims over the past three years and then design prevention efforts to address high-severity events and claims (e.g., preventing pedestrian accidents). This is an effective reactive methodology.

ORM employs several reactive approaches in addressing large claims: annual claims reviews with county departments and agencies and reviewing individual large dollar claims to address underlying risks. Department leaders uniformly told us they have high regard for ORM's management of large claims and in their engagement with agency staff. They were pleased with ORM's engagement in providing expertise or assistance with claims areas when requested, and as a resource for general prevention-related claims information, specifically with regard to annual claims review presentations. ORM was also identified as aggressive in recovery efforts against third parties.

Reactive approaches are less effective in addressing potentially expensive claim categories such as drowning, where only two claims occurred over the past decade.⁶ Preventing these types of low-frequency claims instead relies

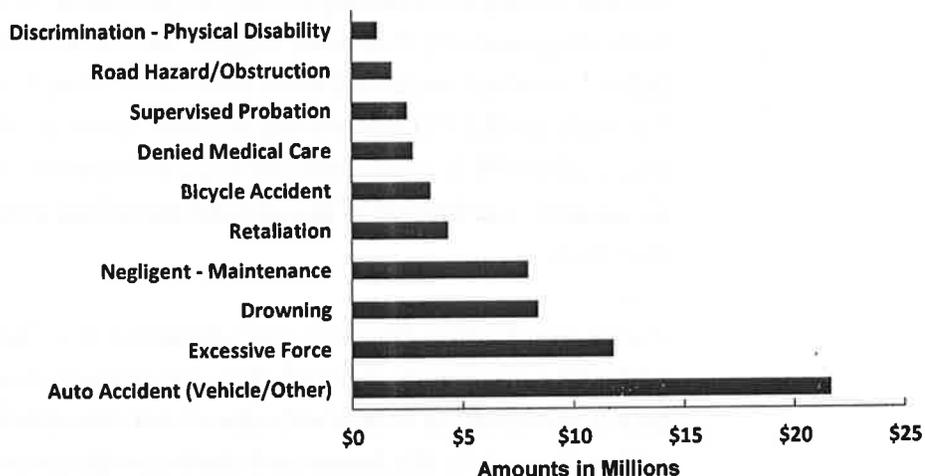
⁶ Our review of the RiskMaster data identified four "drowning" claims; however, one of these claims was duplicative, and one was a claim alleging failure to perform an inspection of a private pool where a drowning occurred.

I. Managing Risks in King County

on proactive efforts to consider and identify potential risks and address them before events occur. Proactive approaches seek out significant risks that occur rarely or have not yet occurred, and then determine actions that mitigate or prevent such risks.

As shown in Exhibit B below, despite only two events, drowning is a major component of the County's large claim payouts over the last decade.

Exhibit B:
Total \$ Value for
Each Type (paid
claims over \$1
million 2002-2012)



Source: Office of Risk Management

The County **Should More** **Proactively** **Manage Risks**

The County's current approach to risk management has been effective in responding to claims, but not as effective in proactively addressing or mitigating potential risks. As noted above, ORM was reported positively in managing claims. We did not find, however, that ORM systemically engaged with departments/agencies on potential risk areas unrelated to claims data. Both ORM and county departments consistently reported that, aside from claims review presentations, proactive advice on potential areas of loss typically occurred on incident-specific, informal basis following large claims.

Methods for Proactive Risk Management Appear Limited

ORM identified the loss prevention fund as their primary tool for encouraging proactive risk reduction among departments, reporting that they leverage the fund to consult with departments and agencies on their internal loss prevention efforts. However, funding depends on departments and agencies developing program requests for funding, and, therefore, potential risk areas that are not self-identified can go unaddressed. A number of departments stressed greater utilization of ORM's expertise in identifying and addressing potential risks would be beneficial.

I. Managing Risks in King County

In our meetings with county departments and agencies, examples of the limits of ORM's engagement in some areas of proactive and emerging risk to the County were volunteered. For example:

Information Technology Security

The County lacks a comprehensive plan for information security management, and its information security incident response plan is outdated.⁷ The last cyber-security exercise was held three years ago with limited participation among county departments. While information technology security standards suggest these exercises be held periodically, a federal standard requires annual exercises.⁸ King County Information Technology (KCIT) acknowledges these exercises should be held more frequently with broader departmental participation. ORM's participation in IT security was limited to discussions regarding potential insurance coverage.

Public Information Requests and Document Disclosure

Multiple departments reported that a significant area of emerging risk is the lack of an effective countywide document management system for addressing public disclosure and electronic discovery records requests. They reported challenges in complying with records requests, especially those involving multiple departments. The County's long-delayed Electronic Records Management System (ERMS) will help to some extent, but the system is designed primarily for records retention, not document management, and is only in the very early stages of implementation countywide. Without a countywide plan for addressing risks associated with records disclosures and electronic discovery record requests,⁹ the County may continue to face compliance and claims risks. Despite being the designated Risk Manager for the county, ORM has only recently been engaged to provide some assistance in implementing this countywide system.

Sheriff's Department Uses of Force

Following the largest single claim against the County over the last decade, an \$11 million King County Sheriff's Office (KCSO) excessive force lawsuit, no formal risk response or prevention plan was developed. ORM and

⁷ King County Security Incident Response Plan, February 2, 2008.

⁸ *Guide to Test, Training, and Exercise Programs for IT Plans and Capabilities*, Recommendations from the National Institute of Standards and Technology, NIST Special Publication 800-84, September 2006.

⁹ In December 2012, King County paid an additional \$1.5 million in the Harris case against the King County Sheriff's Office due to failure to adequately disclose requested electronic records.

I. Managing Risks in King County

Prosecuting Attorney's Office staff participated in the claims response and in later discussions regarding the lawsuit, but no operational response plan or policy changes were examined or recommended. ORM later participated in reviewing proposed changes to the KCSO General Orders Manual and other steps developed by KCSO in response to County Council direction following reports by the King County Auditor's Office and the Office of Law Enforcement Oversight.

Both ORM staff and representatives from these departments reported ORM has not yet played a significant role in these risk areas other than claims-related response and settlement, because the County has not established a proactive approach to addressing emergent risks. Departments reported a greater interest in proactive involvement by ORM in these risk areas and in identifying potential risks generally. The lack of risk-focused planning to address such potential risks enterprise-wide may reflect limited organizational ability to assess, manage, and respond to those risks.

Integrated Risk Management Would Help Prevent Major Claims

An integrated risk management approach would help address high-value risks, but ORM's enterprise risk management (ERM) plan needs improvement. Faced with varied risks, a number of public sector organizations utilize ERM to better assess and manage potential risks and liabilities. ERM systems are integrated risk management systems designed to ensure that organizational leadership adequately integrates consideration of risk into their culture and processes. ORM recognizes the need for a countywide integrated risk management approach, providing an ERM framework in Appendix 1 of their 2012 Line of Business Report. But Risk Management's ERM Framework falls short in several key areas, because (1) it is missing a broader organizational mandate for ERM; (2) it does not address critical governance components for managing risks organization-wide, such as accountability across departments and integration into organizational processes; and (3) it lacks key implementation milestones and performance measures.

I. Managing Risks in King County

Compliance with ISO 31000 Would Mitigate Risks and Heighten Risk Awareness Throughout the County

International Organization for Standardization (ISO) 31000 Risk

Management–Principles and Guidelines is a recognized benchmark for

integrated risk management.¹⁰ ISO 31000 consists of three interrelated core

elements; Principles, Framework, and Process as shown in Exhibit C. The

Principles are the essential values integral to effective organizational risk

management systems, while the Process consists of the activities of risk

management—considering potential risks and their impact, creating plans to

address those risks, and following through. The Framework provides the

foundation to embed risk management throughout all levels of the

organization. The framework must include a “strong and sustained” mandate

and commitment from management throughout the organization. The success

of the organization’s risk management efforts depends on the effectiveness

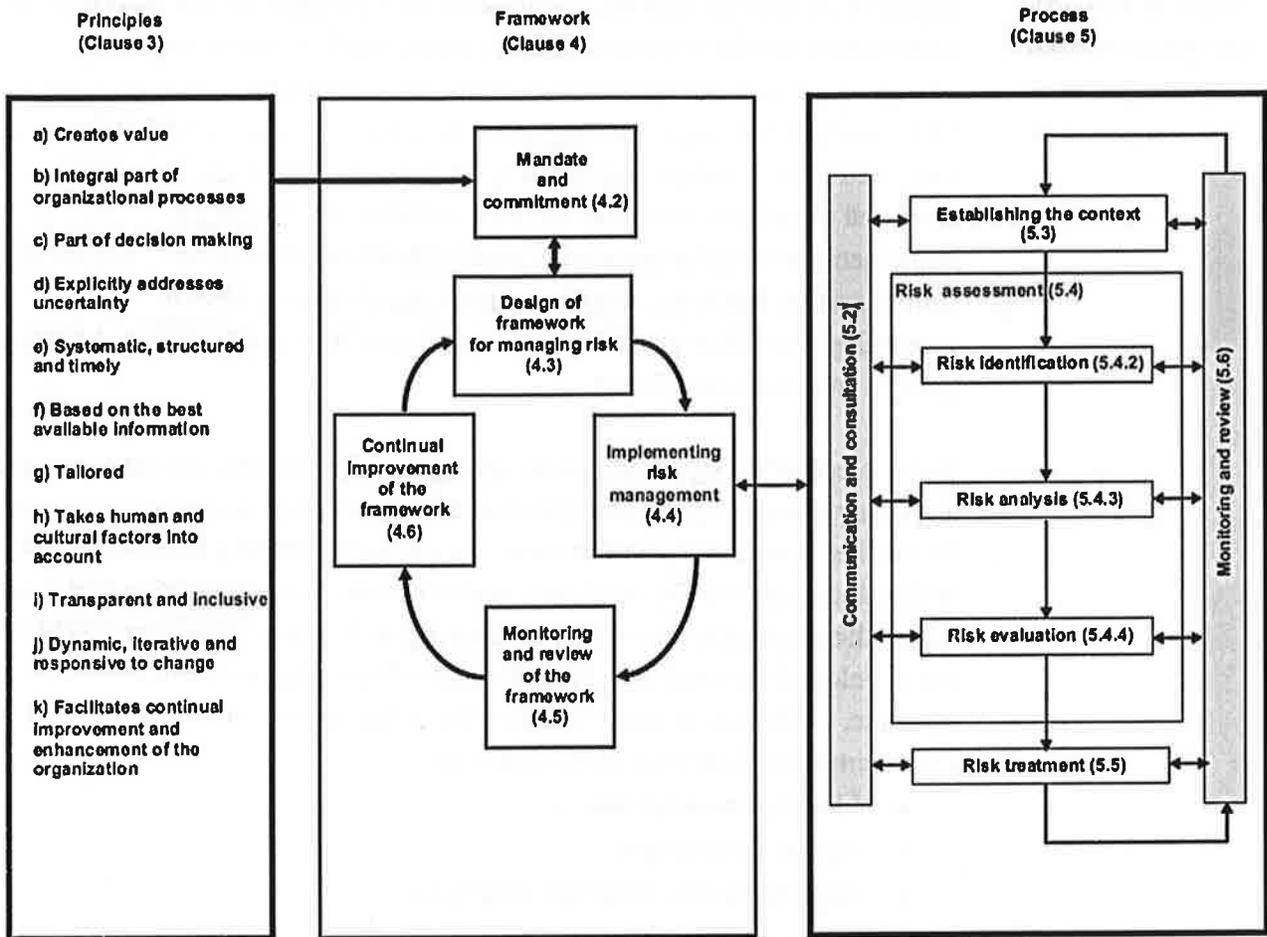
of its framework to ensure that it is carrying out risk management in a

comprehensive fashion and managing to its results.

¹⁰ In evaluating the ORM ERM Framework, we identified two basic ERM frameworks: the COSO Enterprise Risk Management–Integrated Framework and the International Organization for Standardization (ISO) 31000 Risk Management–Principles and Guidelines. We selected ISO 31000 as comparative criteria in evaluating King County, as it is newer and is the core of mature ERM systems in larger government entities within the United States including the state of Washington.

I. Managing Risks in King County

Exhibit C: Three Core Components Essential to All ERM Systems: Principles, Framework, and Process



Source: ISO 31000 Risk Management–Principles and Guidelines.

I. Managing Risks in King County

ORM's ERM Plan Is Missing Integrated Risk Management Components

ORM has proposed King County adopt an integrated risk management approach for several reasons,¹¹ primarily because other organizations have successfully used it to control liability costs, and because it imposes a stronger and more comprehensive, entity-wide approach to risk mitigation. ORM analyzed savings resulting from Washington state's ERM program and estimated King County could save up to \$100 million of the anticipated projected claims payouts over the next decade if the County's implementation results were consistent with those of the state.¹² Achieving similar results, however, would require King County to have a comprehensive ERM program in place, which ORM estimates would take three to five years to achieve.

To be successful, organizations designing an ERM system should consider and comprehensively account for each of three core elements of the system: Principles, Framework, and Process. Accordingly, ORM's plan identifies and includes several key tools and methods central to an effective Process, e.g., risk assessment, treatment, monitoring and review. However, ORM has not developed the other two core elements—Principles and Framework. For example, ORM's plan states that the “basic framework of Enterprise Risk Management includes the following steps:

- Identify and map risks
- Assess their impact
- Implement risk reduction strategies
- Monitor/correct for ongoing success.”¹³

These steps do not address the larger issue of an organizational mandate for ERM. In discussions with ORM, they characterized their Line of Business Report section regarding ERM as a preliminary and not fully developed integrated risk management framework. However, they did not identify any deadlines or deliverables to address the weaknesses in the initial effort or develop a more complete framework.

We are concerned that ORM's current plan for ERM, while embracing a number of best practices, will hamper King County in developing an effective ERM program. Achieving the impacts that other organizations have realized requires a broader countywide framework for consideration of risk and comprehensive implementation of risk management processes. Both our

¹¹ See ORM's 2012 Line of Business Report.

¹² See 2012 Line of Business Report, estimating annual claims inflation factor of 6 percent.

¹³ See ORM's 2012 Line of Business Report.

I. Managing Risks in King County

review of ERM literature and our interviews with the state of Washington and University of Washington provide that organizations who have demonstrated implementation of ERM frameworks typically feature executive-level direction and mandate for ERM tied to organizational performance.

ORM’s plan does not address this central element of ERM. Although ORM proposes the establishment of an Advisory Committee on Enterprise Risk Management, the mandate of the committee lacks clarity; ORM states it will “prioritize risk areas for in-depth assessment of key and emerging risks, and report to the Executive annually on the County’s risk map and recommended mitigations.” Although this is an important aspect of ERM, it stops short of what is needed, because key components of the framework, e.g., the methodology for establishing risk management policy, accountability across departments and agencies, integration into organizational processes, identification of resources, and communication and reporting, are not addressed in ORM’s document.

Exhibit D below compares ORM’s plan with the five main sections of the ISO 31000 Framework:

**Exhibit D:
ORM Plan Does Not
yet Fully Reflect
ERM Framework**

ISO 31000 Framework Element		Assessment of ORM Plan
4.2	Mandate and commitment	Incomplete
4.3	Design of framework for managing risk	Not Included
4.4	Implementing risk management	Included
4.5	Monitoring and review of the framework	Not Included
4.6	Continual improvement of the framework	Incomplete

Source: ISO 31000.

As a result, ORM’s plan omits the governance components critical to effective ERM implementation for King County. In addition, because it lacks any description of the mandates and responsibilities as to Executive and Senior Management, ERM is perceived as an additional tool for ORM’s use, rather than a larger component of proactive county risk management. In discussions with County Executive Office staff, ERM was identified as an ORM project and was not considered or conceptualized as potential component of the County’s strategic and business planning activities.

I. Managing Risks in King County

ORM's ERM plan also lacks steps or guidance in the design, development, and implementation of the ERM framework, i.e., an ERM work plan. As noted above, there are no specific deadlines or performance measures for adoption and approval of the ERM framework, and the authorities and responsibilities for implementation are not identified. In addition, ORM's implementation plan for the new system does not fully describe how ERM will be developed with existing staff resources.

To address the challenges of the County's increased SIR and reduce potential claims and liabilities, the County should move forward in developing and executing ERM.

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- Recommendation 1** We recommend that the Office of Risk Management, in consultation with the County Executive, develop a comprehensive framework to address the fundamental organizational management and performance components of ERM consistent with ISO 31000, including:
- overall goals, and a review schedule for monitoring, review, and improvement of the ERM framework;
 - creation of the Advisory Committee with a clear designation of its members, meeting schedule, deliverables, and deadlines, and the methodology the committee will use in gathering, reviewing, and prioritizing risk prevention efforts;
 - integration of the risk management process into departmental strategic and/or business planning; and
 - a performance and accountability system for ensuring that the risk assessment and treatment process is occurring and that treatment recommendations are implemented.

-
- Recommendation 2** We recommend that the Office of Risk Management, concurrent with development of the ERM framework identified in Recommendation 1, develop an ERM implementation plan that includes:
- an initial schedule of departments for pilot implementation of the risk management process and tools as identified in the 2012 Line of Business report, with deliverables concurrent with business planning processes;
 - specific performance targets for developing and evaluating departmental assessment, treatment, and reevaluation of risks; and
 - a schedule for ongoing implementation of ERM through all county departments and agencies.

2. Other Risk Management Issues

Section Summary

While ORM effectively manages some key aspects of risk management, we identified opportunities to improve by (1) developing effective strategies to minimize the risk of vehicle accidents; (2) providing greater ‘total cost of risk’ transparency; and (3) achieving additional claims processing efficiencies. As discussed in the prior section, ORM is responsive in adjudicating claims, provides timely information and advice, and is helpful in managing large claim and lawsuit settlements. At the same time, enhancing activities and monitoring for these three issues will help address a significant cause of almost one half of claims against the County, provide a complete annual cost of total King County liabilities, and improve ORM’s internal claims processing operations.

Actions Needed to Address Gaps in Vehicle Accident Data and Driver Safety Training

Addressing vehicle-related accident costs requires an effective strategy to track the incidence of all types of vehicle accidents and ensure county drivers are adequately trained in safe driving techniques—strategies not yet in place across the County. Vehicle accidents accounted for almost one-half of all paid claims against King County during 2002–2012. During that 11-year period, vehicle accidents were 47 percent of all paid claims, a cost of over \$70 million dollars. As Exhibit D below shows, most of these were transit related; however, non-transit vehicle accidents accounted for 18 percent of the number of paid vehicle accident claims, and 10 percent of their total cost.

Exhibit D: Vehicle Accidents Costly to King County During 2002-2012

	Total Paid Claims	Percent	Number of Paid Claims	Percent
Transit Vehicle Accidents	\$63,264,133	90%	5,269	82%
Non-Transit Vehicle Accidents	\$6,789,460	10%	1,186	18%
Total	\$70,053,593	100%	6,455	100%

Source: Office of Risk Management; includes paid claims for bus passenger slips and falls.

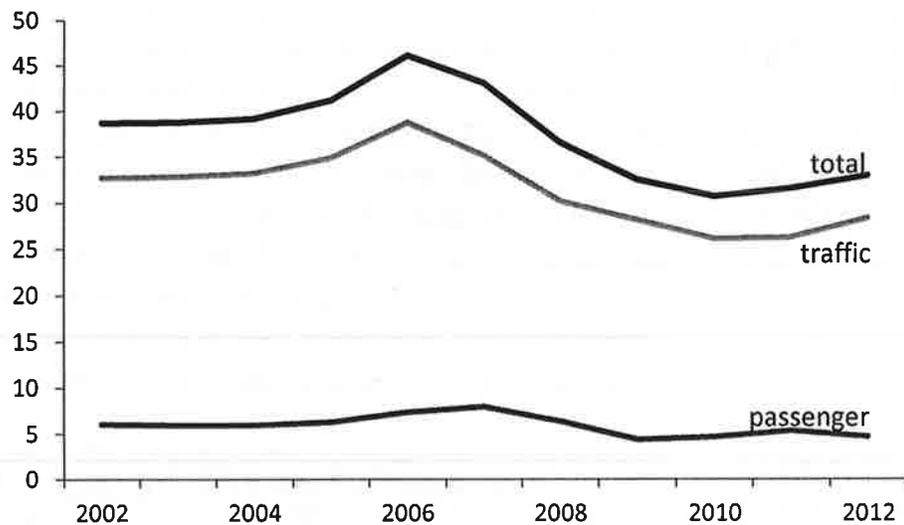
Gaps Exist in Tracking Vehicle Accident Data

ORM lacks a performance measure to track the frequency of accidents among all the 4,900 vehicles operated by King County. Such a measure would provide countywide data and facilitate tracking liability trends on all vehicle accidents, and allow ORM, in consultation with the Office of Safety and Claims, to set targets for reducing the number of non-transit vehicle accidents.

2. Other Risk Management Issues

King County operates a large fleet of vehicles, over 1,400 buses and 3,500 other non-revenue vehicles such as passenger cars and light and heavy-duty vehicles. Metro Transit and a number of other jurisdictions track vehicle accident rates per miles driven as a performance measure, setting performance improvement targets for reducing vehicle accident claims or the rate of vehicle accidents based on these statistics. As shown in Exhibit E below, Metro Transit’s incidence of vehicle accidents trended downward over the past seven years but has risen slightly since 2010. Metro Transit’s Office of Safety has established a 2013 target for reducing preventable accidents per million miles driven to 10.3 accidents from 10.8 accidents in 2012, a reduction of 5 percent.

Exhibit E: Rate of Transit Vehicle Accidents Largely Trended Downward Until Recently (2002-2012)



Source: King County Auditor’s Office using Metro Transit data.

In contrast to Transit, the Office of Risk Management does not track accidents, nor set targets for reducing the rate of vehicle accidents for non-transit vehicles involved in accidents. Many other local governments¹⁴—Maricopa County, Arizona, for example, annually report on the vehicle collision incident rate per miles driven.¹⁵

Recommendation 3

The Office of Risk Management should collect vehicle accident data for non-transit vehicles per total miles driven and establish annual performance targets for reducing non-transit vehicle accidents.

¹⁴ The International City/County Management Association (ICMA) 2010 Comparative Performance Measure report lists 90 local government risk management offices with established performance data which track traffic accidents per 100,000 miles driven for various types of vehicles. Source: Comparative Performance Measurement, FY 2010 Data Report, ICMA Center for Performance Measurement, pg. 506.

¹⁵ Risk Management Annual Report, Maricopa County, Arizona, Fiscal Year 2011-2012, pg. III-2.

2. Other Risk Management Issues

Opportunities to Reduce Vehicle Accidents by Closing Gaps in Driver Safety Training

King County's current driver safety training policy¹⁶ does not ensure that all drivers receive mandatory training. Further, there is no clearly defined countywide policy on who needs to take the training; this is left to each department to determine. Since ORM's authority includes working with all King County departments on loss prevention and risk reduction, they should ensure that departments have a uniform understanding of who should be taking driver safety training.

One of King County's strategies for reducing vehicle accidents is providing safe and defensive driving training to both Metro Transit bus drivers and county employees routinely driving county vehicles. For Metro bus drivers, initial driver training consists of 28 days of classroom and on-board driver training. After they are released to drive on their own, bus drivers receive a ride check within one week and annual ride checks thereafter.

For county drivers of non-transit vehicles, current Fleet Administration Division policy requires that those "employees who are routinely assigned driving responsibilities must be trained in King County defensive driving procedures."¹⁷ The policy further states that King County division directors should coordinate such training, as needed, with the Office of Safety and Claims who offers a four-hour course on defensive driving and follow-up training at three-year intervals thereafter. Thus, each department establishes their own policy as to what constitutes employees with routine driving responsibilities who are required to take defensive driver training.

Our analysis of county employees taking the defensive driver training showed about 69 percent who took the training in 2009 did not retake the training within the required three-year period. We recognize that some of these employees may no longer be required to retrain as they may no longer be driving on a routine basis or be employed by King County. However, the low percentage of those retaking the training within the required three years suggests a large cohort of county employees not in compliance with county policy.¹⁸

¹⁶ Excludes Metro Transit bus drivers.

¹⁷ King County Vehicle Driver's Operating Manual, King County Department of Transportation, Fleet Administration Division, Section 2.5.

¹⁸ It was not within the scope of our audit to contact individual King County departments to update that number of employees driving regularly in 2009 whose jobs still required routine use of county vehicles.

2. Other Risk Management Issues

Recommendation 4 The Office of Risk Management, in conjunction with the Office of Safety and Claims, should develop a countywide system that establishes and enforces a uniform driver safety training requirement for all non-transit county employees who drive routinely at work.

**Gaps in Metro
Bus Driver
Refresher
Training**

Metro Transit offers bus driver refresher training only to a limited number of drivers each year. For bus drivers involved in a preventable accident, they are required to take additional training beginning with a ride check and up to three days of retraining. For other bus drivers, however, funding has only been available in recent years to allow an average of 328 out of Metro's 2,600 drivers to take eight-hour refresher bus driver training each year between 2008 and 2012.¹⁹

Transit's approach does not mirror best practices for bus driver retraining. According to the American Public Transit Association's (APTA) Director of Safety, a majority of transit agencies around the country require up to four hours of bus driver safety training annually and about six states require transit operators take eight hours of refresher driver training annually.²⁰ Finally, APTA's best practices for transit bus operator training call for periodic driver retraining that includes defensive driving training. APTA best practices also call for periodic on-board bus driver observation—"check rides"—which Metro Transit requires annually. However, other components of the best practice requirements on driver retraining are not required for Metro because the state of Washington, who set standards for commercial driver's licenses including bus drivers, has not developed standards on transit bus driver refresher training.

We recognize driver safety training is important to Metro Transit, and it is taking other actions to address transit-caused vehicle accident liabilities. For example, Metro plans to hire a risk manager specifically for transit operations and is planning a new training initiative on pedestrian accident avoidance. Nevertheless, in light of how much the County spends on transit-related vehicle accident claims, a greater amount of bus driver retraining will likely reduce claims costs.

¹⁹ Metro Transit has other types of driver refresher training on such topics as Customer Service, Tunnel Operations, Bus Coach Refresher training, and Pedestrian Awareness. With the exception of Pedestrian Awareness training, since 2008 such trainings have been given to less than 50 drivers each year. Metro also provides annual Operator Ride Checks and Operator Route qualification training specific to new routes they are driving.

²⁰ According to an APTA official, states that adopted these policies have chosen to adopt the Federal Motor Carrier Safety Administration regulations pertaining to interstate passenger carriers, but they have been adopted by a number of states for intrastate bus operators, including transit agencies. According to a Metro Transit safety official, Washington state has not adopted these requirements.

2. Other Risk Management Issues

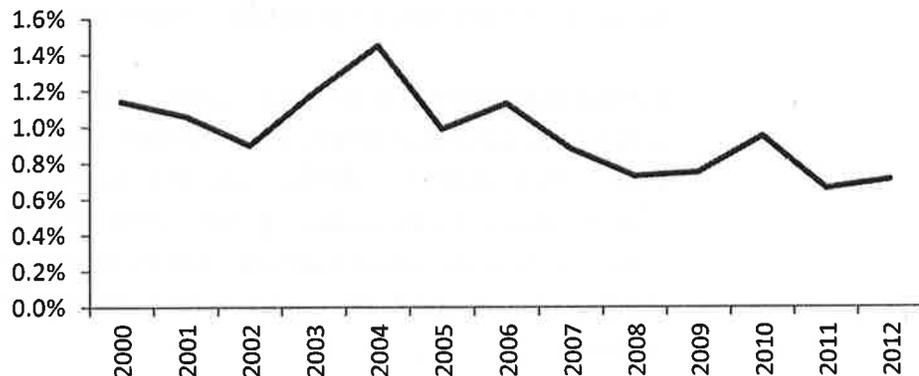
Recommendation 5

The Office of Risk Management, in conjunction with Metro Transit, should require some level of annual bus driver safety retraining consistent with transit agency best practices.

ORM's Present Cost of Risk Index Understates King County's Total Liability Costs

The Office of Risk Management's Cost of Risk Index understates the total cost of all risks to King County because it excludes the liability costs associated with the Workers' Compensation program. The Cost of Risk Index²¹ is a tool for measuring the annual costs associated with a risk management operation as a percentage of the government entity's total operating expenses. King County's ORM has been calculating the cost of risk as a percentage of the County's operating budget for a number of years and recently it has been declining. As shown in Exhibit F, since 2007, the index has consistently been below the 13-year average of .96 percent.

Exhibit F: ORM's Cost of Risk Index Has Trended Downward During 2000 – 2012



Source: Office of Risk Management. Cost of Risk as a percentage of the county's operating budget.

To ensure the costs of all King County's liabilities are fully disclosed, greater transparency is needed concerning King County's true, total cost of risk. Just like tort claims filed against the County, workers compensation claims administered by the Office of Safety and Claims are liabilities to King County. Several local government risk management agencies²² we contacted calculate their total cost of risk index to include the cost of the workers' compensation program and generally, according to a Marsh insurance consultant, many public sector entities include the cost of workers' compensation costs in their annual cost of risk index reporting.

²¹ Many public and private entities assess the effectiveness of their risk management programs using a performance measure called the "Cost of Risk Index." Several organizations, such as the Risk Management Society (RIMS) and the International City County Management Association (ICMA) gather data on the Cost of Risk index.

²² Maricopa County, Arizona; Spokane County, Washington; and City of Eugene, Oregon.

2. Other Risk Management Issues

As shown below in Exhibits G and H, when workers' compensation costs are included, the County's total liability cost is more than double that of ORM's Cost of Risk Index figure in three of the last four years, with workers' compensation costs exceeding ORM's tort liability costs. Because the Office of Safety and Claims has not recently produced an annual report, it is unclear if the costs associated with workers' compensation, as well as the County's total liabilities, are widely known throughout the County.

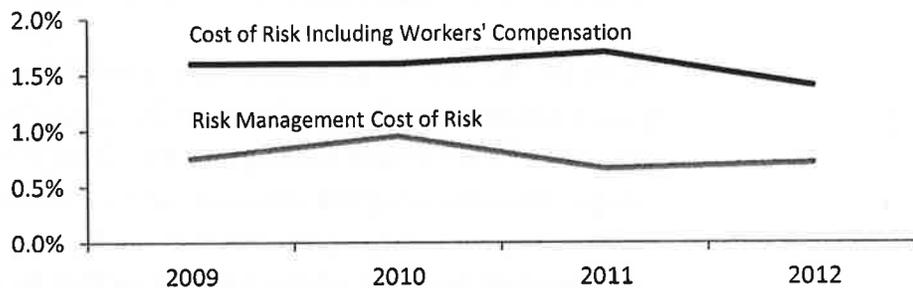
Exhibit G: Cost of Risk Generally Greater for Workers Compensation than Office of Risk Management

Year	Workers Compensation Cost of Risk	Risk Management Cost of Risk	Total King County Liability Costs
2009	\$29,165,056	\$23,848,152	\$53,013,208
2010	\$29,705,704	\$25,582,868	\$55,288,572
2011	\$29,697,213	\$35,852,770	\$65,549,983
2012	\$27,494,721	\$25,919,037	\$53,413,759

Source: Office of Risk Management and Office of Safety and Claims

Greater transparency as to King County's total cost of risk would be achieved if these two figures were combined and included in ORM's annual Cost of Risk Index. In addition, increased knowledge about King County's total liabilities would promote greater focus on varied risk management issues, such as the recent large increase in the County's share of large dollar liability claims, and build support for implementation of the planned ERM system.

Exhibit H: Cost of Risk Index More Than Doubles When Workers' Compensation Costs Are Added



Source: Office of Risk Management and Office of Safety and Claims. Cost of Risk percentage is shown as a percentage of the County's operating budget.

Recommendation 6

We recommend the Office of Risk Management include workers' compensation costs as a component of King County's annual Cost of Risk Index.

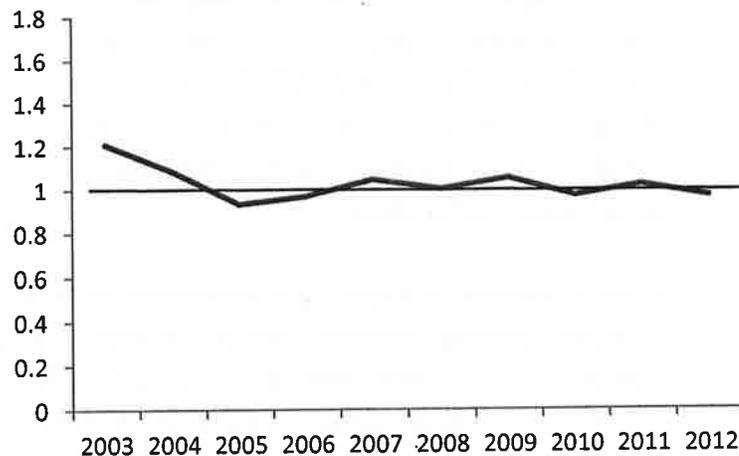
2. Other Risk Management Issues

Performance Measures Needed to Track the Efficiency of ORM's Claims Processing Procedures

We found ORM's claims processing procedures and processes were operationally sound. A number of departments told us, overall, that ORM was reasonably expeditious in settling claims. At the same time, we identified two areas where opportunities exist to ensure optimal claim processing productivity and ensure non-litigation claims²³ are closed as quickly as possible. Prompt payment and timely case closure provide good customer service, lower overall processing time, and maximize claims investigator productivity, among other benefits.

A common measure of claims processing productivity is the ratio of open to closed claims, with the goal of a 1 to 1 ratio. ORM has generally achieved that ratio over the last several years (with the exception of 2003), as shown below.

Exhibit I: Ratio of 1 to 1 on Claims Filed to Claims Closed Fairly Consistent Since 2003



Source: King County Auditor's Office using Office of Risk Management data.

Variation Exists Among Investigator Workloads

While the open/closed claim ratio is one measure of claims processing productivity, we also reviewed Tort Claims Investigator (TCI) workloads over the last three years. ORM currently has a staff of 7.5 TCIs, with 2 claims supervisors. We found some differences in investigator caseloads²⁴ and case closure timeliness during the 2010–2012 period.

The number of claims assigned to investigators ranged from 168 to 263 per year, with an average of 228 claims per TCI. This equates to a difference of almost 100 assigned claims between the investigators with the highest and lowest numbers of assigned claims. The number of cases closed ranged from

²³ We selected non-litigation claims because, in Washington state, tort claims have a three-year statute of limitations; hence, some cases can remain open for a number of years.

²⁴ We reviewed caseloads for six full-time tort claim investigators.

2. Other Risk Management Issues

169 to 273 claims, with an average of 205 claims closed annually. This equated to a difference of 104 claims between the high and low number of claims assigned to investigators.

Although total caseloads are within a range of 1 to 1 of open to closed claims for the office as a whole and among individual TCIs there is variability in workload among the six investigators. While ORM tracks the open and closed ratio for the office as a whole, it does not maintain data on individual investigator open and closed caseloads nor track investigatory productivity over time. An insurance industry representative said some variability in workload among claims investigators is expected, but risk management departments often have internal benchmarks and some track investigator productivity over time.

Opportunities for More Expeditious Cases Closure

Some variation in TCI workloads and claim closure timeframes is expected due to the nature of claims settlement and the varied nature of claim circumstances. However, ORM does not routinely maintain data on case closure rates by individual claims investigators or for the office as a whole, nor does it track trends in claims processing timeliness by investigator or by King County department.

Claim closure rates showed the average case duration by investigators was 179 days, varying between a low of 158 days to a high of 219 days. Case closure timeliness also varied by the King County department. For those departments with an average of about 20 or more claims per year during the period, case closure timeframes were highest for Public Health and Department of Adult and Juvenile Detention (390 and 233 days respectively); less so for Sheriff's Office and Department of Natural Resources and Parks (201 and 206 days respectively) as compared to 171 days for Metro Transit and 161 days for Roads Services.

A 2008 audit report²⁵ reviewed ORM's claims processing functions and was mainly complimentary of their processes and procedures. It did note, however, that some claims, such as those that required inter-departmental coordination, were left open too long. Interviews with several ORM staff revealed that on some claims there is not a sense of urgency when closing non-litigation claims and that these claims remain open longer than necessary. Further, some of the delay in claim closure, claims investigators

²⁵ Audit Report on Claims Administration and Risk Management Auditing Services, Brickmore Risk Services and Consulting, October 7, 2008.

2. Other Risk Management Issues

told us, is due to a lack of timely investigation and/or response by King County departments.

To address such concerns, closer tracking of the open and closed claim ratio by individual investigators and better data on case closure rates—by claims investigator and by individual department—would provide ORM with clear data to assess investigator productivity and the responsiveness of individual departments in achieving case closure as expeditiously as possible.

Recommendation 7

We recommend that the Office of Risk Management should develop performance measures, and maintain the data to support them, on investigator open/closed claims caseloads, closure rates and by King County departments.

Executive Response (continued)

Executive Response

KING COUNTY AUDITOR

JUN 17 2013

RECEIVED



King County

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June 17, 2013

Bob Thomas
Interim County Auditor
King County Courthouse
515 Third Avenue, Room 1033
Seattle, WA 98104

Dear Mr. Thomas:

I want to thank you for the opportunity to respond to your proposed final report on the Performance Audit of the Office of Risk Management (ORM) received June 3, 2013. We appreciate the audit and the auditors' willingness to bring ideas to the table to reduce risk. Some of the audit recommendations expand on ideas we were planning, and some recommendations we hadn't considered. As you know, King County and the County Council have had to make difficult choices in recent years due to the economy. Some of those choices have increased the risk of loss. Now that the economy is strengthening, we can look at ways to invest in our employees, add back training, and embed risk management into strategic and business planning processes to reduce our risk.

The seven recommendations in the audit report will be addressed along two themes: process improvement and investment in employees.

Process Improvement

As outlined in the 2013 Office of Risk Management Line of Business Report, ORM is moving forward with developing an Enterprise Risk Management framework for King County. The audit emphasizes the importance of using the enterprise risk management framework to embed risk management throughout all levels of the organization. The success of enterprise risk management depends on a strong and sustained mandate and commitment from management throughout the organization. One hallmark of a successful enterprise risk management program will be the inclusion of ORM as a strategic partner in financial, economic, revenue, strategic, compliance, and reputational risk considerations, in addition to traditional operational risk.

Executive Response (continued)

Mr. Bob Thomas
June 17, 2012
Page 2

Embed Risk Management throughout All Levels of the Organization

ORM is working with the Office of Performance, Strategy and Budget (PSB) to incorporate enterprise risk management into financial and business planning processes for the County. We will be embedding risk into future County Lean events, the emerging Strategic Innovation Plan which is being reviewed by the Performance Management Action Team, as well as long term financial planning. PSB has started to develop longer-term forecasts for the General Fund which includes proactive assessments of emerging risks, in line with an enterprise risk management philosophy. Similarly, including risk assessment in the alternatives analysis and forecasting sections of the Line of Business process and providing a template for risk assessments during Lean events will ensure that departments are considering risk in financial, strategic, business and performance plans.

As recommended in the audit, an initial enterprise risk management framework, review schedule, Executive Advisory Committee and a performance and accountability system to ensure that the risk assessment and treatment process is occurring and recommendations are implemented, will all be developed throughout 2014. An implementation plan to include specific performance targets and ongoing monitoring of departments' evaluation of risks will be complete by the first quarter of 2015.

Performance Targets within ORM

As a productivity measure within ORM, the audit recommended that ORM develop performance targets on liability claim caseloads and closure rates which were defined in the report as duration between claim filing and claim closure. The recommendation suggested that the targets be tracked by individual Tort Claims Investigator. We prefer to use Lean techniques where employees collaborate to improve the outcome of processes. Due to the complex and lengthy nature of some liability claims, claim duration is not necessarily an indicator of productivity. ORM added a Customer Service Measure in April of 2013 establishing a target for the time between receipt of claim and initial contact with claimant. This customer service measure is more indicative of responsiveness and timely claims processing, and competition between employees is avoided.

Provide Greater Transparency in Total Cost of Risk

The audit suggested that workers compensation costs be included in the Cost of Risk Index that ORM provides to Council in the Annual Report. This is an excellent suggestion and will provide a comprehensive report of the County's total cost of risk. ORM will begin including workers compensation costs as a component of King County's cost of risk in the next ORM Annual Report in April, 2014.

Performance Improvement Targets for Reducing Vehicle Accident Claims

The audit pointed out some gaps in vehicle accident data and reporting. The audit recommends a performance measure to track the frequency of non-transit accidents and to set targets for reducing the number of vehicle accidents. While the County has the data available, it has not been tabulated to track vehicle accidents/100,000 miles driven. ORM

Executive Response (continued)

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will work with the Fleet division to report on non-transit vehicle accidents and to establish annual performance targets for reducing accidents. In addition, ORM plans to compile the total cost of vehicle accidents by incorporating workers' compensation costs, liability claims costs, and vehicle damage costs to provide a complete report of true accident costs. This complete report will provide departments with more incentive to prevent vehicle accidents. This data will be included in the ORM Annual Report in April, 2014.

Protection of Critical Risk Analysis Information

There are very few protections in place from disclosure of the types of risk analysis work we're discussing. Establishing a culture of critical risk assessment may be discouraged if the analysis is subject to disclosure and discovery. Current public disclosure laws can inhibit the kinds of collaboration and critical review of processes and events that bring about quality improvement. In the healthcare setting, documents created or maintained for quality improvement are not subject to outside review or disclosure so that medical practices can be identified and reviewed to improve the quality of health care services (RCW 43.70.510). Similarly, when drafting the Railroad Safety Improvement Act of 2008, Congress determined that for risk reduction programs to be effective, the risk analyses must, subject to a few exceptions, be shielded from production in response to Freedom of Information Act (FOIA) requests (49 U.S.C 20118). If Washington laws were expanded to provide protections for process and quality improvement programs in settings beyond health care, it would encourage more quality improvement work. ORM supports a legislative fix to this dilemma.

Investment in Employees

Establish and Enforce a Uniform Driver Safety Training Requirement for all Non-Transit Employees who Routinely Drive at Work

The audit discussed opportunities to reduce vehicle accidents by closing gaps in driver safety training. One specific recommendation was to work with the Office of Safety and Claims to develop a countywide system that establishes and enforces a uniform driver safety training requirement for all non-transit employees who drive routinely at work. Over the past five years, an average of 662 employees per year have been trained in the Defensive Driving classes offered by Safety and Claims. On average, 36 Defense Driving classes are offered throughout the year. In addition, several agencies which require specialized driving skills such as the King County Sheriff's Office and Emergency Medical Services currently provide their own driver training programs specific to the types of vehicles they operate. ORM will work with Safety and Claims, Fleet, and County departments to determine what balance of training and other initiatives is appropriate.

Require Some Level of Annual Bus Driver Safety Retraining

The audit recommended that ORM in conjunction with Metro Transit should require some level of annual bus driver retraining consistent with transit agency best practices. ORM and Metro Transit concur that required annual bus driver retraining is an aspirational goal, but one that must be balanced with budget resources.

Executive Response (continued)

Mr. Bob Thomas
June 17, 2012
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ORM and Metro Transit appreciate and acknowledge the need for consistent and focused bus operator safety training. Metro Transit's motto is "Safety-Service-Schedule" and the safety reference is first for a reason. Transit has a strong safety culture, complemented by a wide variety of highly effective programs. In operator training, all instruction includes safety. Safety is a part of every course, event or conversation that Operations Training engages in with its operators.

Metro's goal is to have all operators complete an eight-hour refresher training every three years, with safety a key but not sole component of the curriculum. Our Operations Training program is currently funded to meet this obligation. In 2012, Metro Transit trained 900 (30 percent) of its operators on a refresher basis in a variety of subjects, all of which included safety. Metro fell just short of its goal for reasons described below.

In order to move to a training model that provides annual training to *all* operators, Metro calculations indicate that eight-hour refresher training will cost an additional \$1,293,370 annually, while four-hour refresher training will cost an additional \$859,703. These costs include backfill and overtime costs to ensure that service to customers is not impacted. There are no funds to address increased training costs unless cuts are made in other areas, primarily service. In the current funding environment, annual refresher training for all operators is beyond Metro Transit's financial means.

As is the case with any organization, Metro's ability to provide refresher training has fiscal and organizational limits. All of the training mentioned has been accomplished in a time of declining resources. Metro Transit's training budget dropped 7 percent from 2009 to 2012 as part of the broad-based budget cuts implemented to preserve service levels.

Viewed with a longer lens, transit's preventable accident frequency history demonstrates an exceptionally good trend. When calculated as accidents per million miles operated, this number has dropped nearly in half over the past 32 years, from 18.7 percent in 1980 to 9.4 percent in 2012. A chart depicting this trend is attached. In 2009, Metro Transit's Safety program won an American Public Transportation Association (APTA) Certificate of Merit.

By way of additional context, in 2012, Metro Transit joined the prestigious International Bus Benchmarking Group (IBBG) which includes 13 transit systems from around the world including New York, Paris, Vancouver B.C., and Montreal. The IBBG provides Metro with an opportunity to compare our performance against other highly successful transit organizations. Our safety performance is among the highest of the organizations associated with the IBBG. Details on the benchmarking participants and results are attached, with Metro Transit indicated as "Se" (See attached detail).

The audit mentions that Metro Transit plans to hire a Risk Manager specifically for transit operations. This hire has been completed. The individual is working on a Transit-specific program that will impact claim frequency and severity, with an eye towards improved employee and customer safety, customer satisfaction and reduced costs to the organization.

Executive Response (continued)

Mr. Bob Thomas
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Page 5

Again, I want to thank you for the opportunity to respond to the audit report and commend the audit team for looking at ways we can improve processes and invest in our employees to reduce risk. If you have any questions regarding this response, please contact Jennifer Hills, Director of the Office of Risk Management, at 206-263-2238.

Sincerely,



Dow Constantine
King County Executive

Enclosures

cc: Fred Jarrett, Deputy County Executive, King County Executive Office (KCEO)
Sung Yang, Chief of Staff, KCEO
Carrie S. Cihak, Chief Advisor, Policy and Strategic Initiatives, KCEO
Dwight Dively, Office of Performance, Strategy and Budget
Harold Taniguchi, Director, Department of Transportation (DOT)
Kevin Desmond, General Manager, Transit Division, DOT
Caroline Whalen, Chief Administrative Officer, Department of Executive Services (DES)
Jennifer Hills, Director, Office of Risk Management, DES
Carol Basile, Deputy Director, Finance and Business Operations Division, DES

Executive Response (continued)



King County Metro Accident Data:

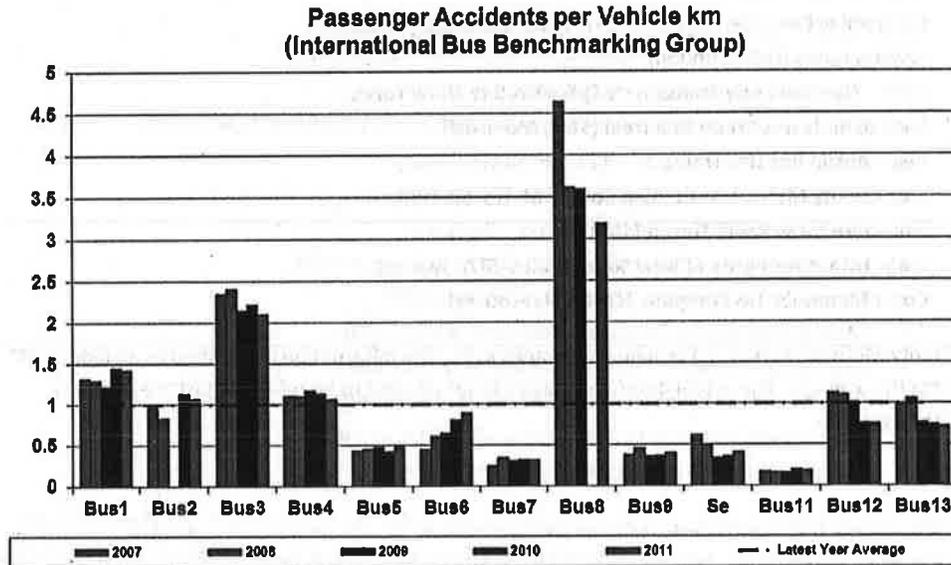
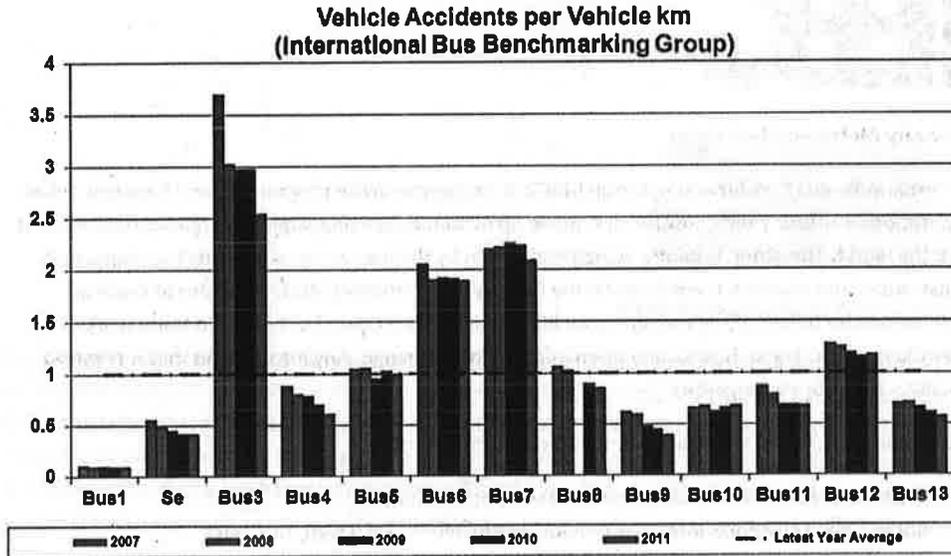
The International Bus Benchmarking Group (IBBG) is a comprehensive program of benchmarking urban bus operations. Currently the consortium is made up of 14 medium and large bus organizations located around the world. The group is jointly owned and driven by the members, with project management, administration, and research carried out by the Railway and Transport Strategy Centre at Imperial College London on behalf of the members. All IBBG activities are carried out within a framework of confidentiality, ensuring an honest and open information exchange. Any information that is released externally is therefore anonymised.

The following 13 agencies are represented in the information:

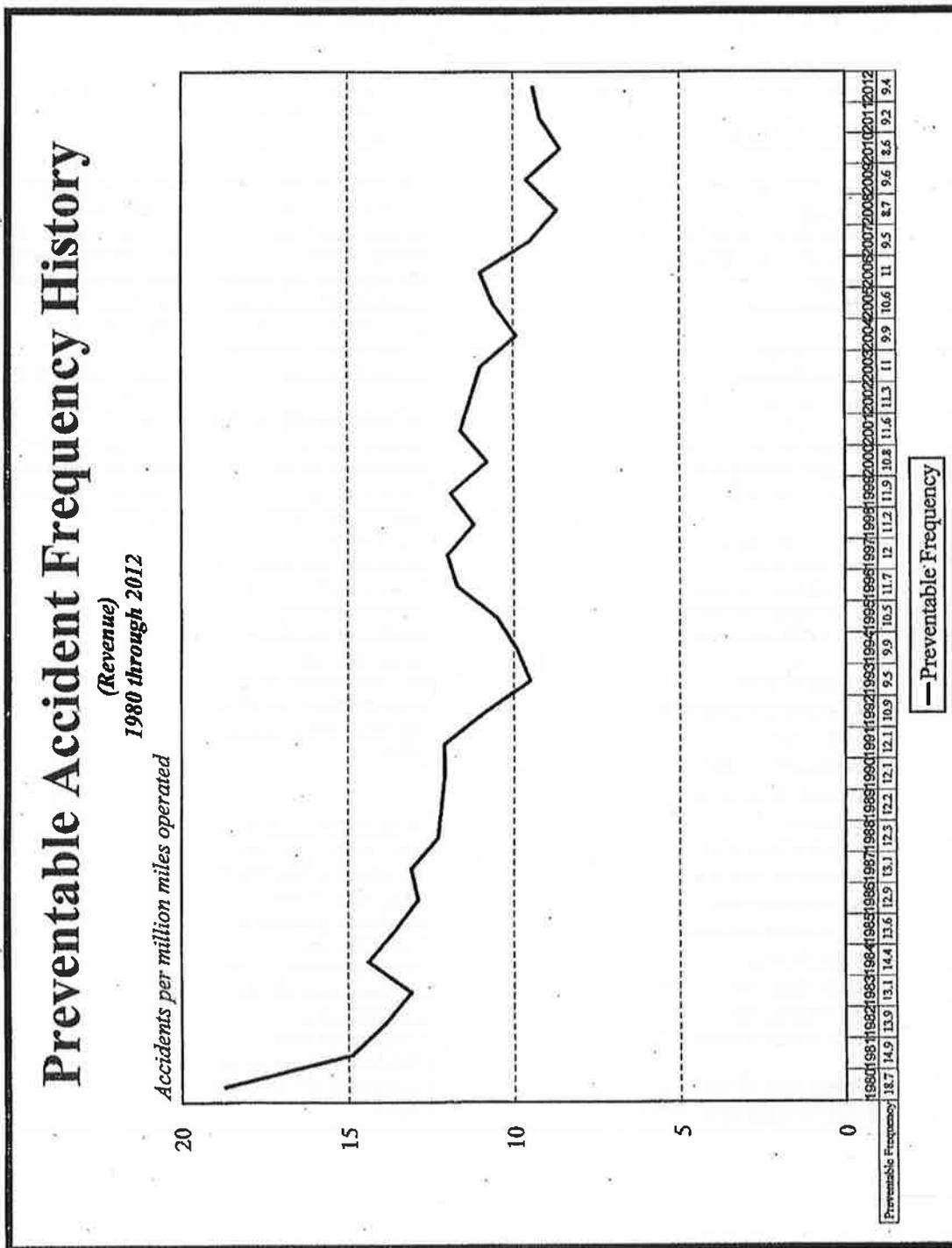
- Transport Metropolitans de Barcelona (TMB, Barcelona),
- Société des Transports Intercommunaux de Bruxelles (STIB/MIVB, Brussels),
- Dublin Bus (Dublin),
- Companhia Carris de Ferro de Lisboa (Carris, Lisbon),
- London Buses (LBSL, London),
- MTA – New York City Transit (NYCT) & MTA Bus (New York),
- Societe de Transport de Montréal (STM, Montréal),
- Régie Autonome des Transports Parisiens (RATP, Paris),
- King County Metro Transit (King County Metro, Seattle).
- Singapore Mass Rapid Transit (SMRT Buses, Singapore).
- State Transit Authority of New South Wales (STA, Sydney).
- Coast Mountain Bus Company (CMBC, Vancouver).

King County Metro is marked in the following graphs as Se. The information is provided as an index, with one being the average. The actual data/information is not allowed to be released, just the relativity across the agencies.

Executive Response (continued)



Executive Response (continued)



Executive Response (continued)

The complete response to the Office of Risk Management Performance Audit is provided in the June 17, 2013 letter. This table is provided for compliance and tracking purposes.

Recommendation	Agency Position	Schedule for Implementation	Comments
<p>Recommendation 1</p> <p>The Office of Risk Management, in consultation with the Executive, develop a comprehensive framework to address the fundamental organizational management and performance components consistent with ISO 31000, including:</p> <p>Overall goals, and a review schedule for monitoring, review, and improvement of the ERM framework;</p> <p>Creation of the Advisory Committee with a clear designation of its members, meeting schedule, deliverables, and deadlines, and the methodology the Committee will use in gathering, reviewing, and prioritizing risk prevention efforts;</p> <p>Integration of the risk management</p>	<p>Concur</p>	<p>Ongoing</p> <p>As outlined in the Risk Management 2013 Line of Business Plan, the Office of Risk Management is moving forward with developing an Enterprise Risk Management framework for King County.</p> <p>An initial enterprise risk management framework, review schedule, Executive Advisory Committee and a performance and accountability system to ensure that the risk assessment and treatment process is occurring and recommendations are implemented, will all be developed throughout 2014.</p> <p>A performance and accountability system for ensuring that the risk assessment and treatment process is occurring and recommendations are implemented will be established in conjunction with the ERM framework to be completed 4th Quarter 2014.</p>	<p>We are requesting a loss control analyst position in the 2014 budget to assist with the ERM framework and planning as well as future implementation.</p> <p>ORM is working with PSB to incorporate enterprise risk management into financial and business planning processes for the county.</p>

Executive Response (continued)

<p>process into departmental strategic and/or business planning;</p> <p>A performance and accountability system for ensuring that the risk assessment and treatment process is occurring and treatment recommendations are implemented.</p>			
<p>Recommendation 2</p> <p>The Office of Risk Management, concurrent with development of the ERM framework identified in Recommendation 1, develop an ERM implementation plan that includes:</p> <p>An initial schedule of departments for pilot implementation of the risk management process and tools as identified in the 2012 Line of Business report, with deliverables concurrent with business planning processes;</p> <p>Specific performance targets</p>	<p>Concur</p>	<p>1st Quarter 2014</p> <p>Upon completion of the initial ERM framework, ORM will begin developing an implementation plan that will include a schedule for pilot agencies, as well as a plan to implement County-wide.</p> <p>This plan, including deliverables, performance targets and ongoing monitoring will be complete 1st Quarter 2015.</p>	

Executive Response (continued)

<p>for developing and evaluating departmental assessment, treatment, and reevaluation of risks;</p> <p>A schedule for ongoing implementation of ERM through all county departments and agencies.</p>			
<p>Recommendation 3</p> <p>The Office of Risk Management should collect vehicle accident data for non-transit vehicles per total miles driven and establish annual performance targets for reducing non-transit vehicle accidents.</p>	<p>Concur</p>	<p>2nd Quarter 2014</p> <p>ORM will report on vehicle accident data per 100,000 miles driven in the Annual Report transmitted to Council in April 2014.</p> <p>Once the accident data is compiled, ORM will compare King County data with other established comparative performance measurement data for vehicle accidents/100,000 miles and establish annual performance targets for reducing non-transit vehicle accidents.</p>	<p>The King County Vehicle Driver's Operating Manual requires all King County (non-transit) Accident Reports and State of Washington Collision Reports be submitted to the Office of Risk Management. The Fleet Division is currently working on a project to enhance accident reporting.</p> <p>Miles driven is not currently tabulated for all non-transit vehicles, but the data is available.</p> <p>ORM plans to compile the total cost of vehicle accidents by incorporating workers' compensation costs, liability claims costs, and vehicle damage costs to provide a complete report of true accident costs. This complete report will provide departments</p>

Executive Response (continued)

			with more incentive to prevent vehicle accidents.
<p>Recommendation 4</p> <p>The Office of Risk Management, in conjunction with the Office of Safety and Claims, should develop a countywide system that establishes and enforces a uniform driver safety training requirement for all non-transit county employees who drive routinely at work.</p>	Concur	<p>2nd Quarter 2014</p> <p>The Office of Risk Management, in conjunction with Safety and Claims, will establish and enforce a system to help departments identify which employees drive routinely for work and to ensure they are receiving defensive driving training upon initial assignment and every three years.</p>	<p>Some agencies which require specific driving skills such as the King County Sheriff's Office and Emergency Medical Services have their own driver training programs specific to the types of vehicles they operate.</p> <p>An average of 662 employees per year have been trained in the Defensive Driving classes offered by Safety and Claims over the past five years. On average, 36 Defense Driving classes are offered throughout the year.</p> <p>ORM will work with Safety and Claims, Fleet, and County departments to determine what balance of training and other initiatives is appropriate.</p>
<p>Recommendation 5</p> <p>The Office of Risk Management, in conjunction with Metro Transit, should require some level of annual bus driver safety retraining consistent with transit agency best practices.</p>	Concur	<p>All operators complete 8-hour refresher training every 3 years.</p> <p>ORM and Metro Transit concur that required annual bus driver retraining is an aspirational goal, but one that must be balanced with budget resources.</p>	<p>Metro's goal is to have all operators complete an eight-hour refresher training every three years, with safety a key but not sole component of the curriculum. Our Operations Training program is currently funded to meet this obligation. In 2012, Metro Transit trained</p>

Executive Response (continued)

		In order to move to a training model that provides annual training to <i>all</i> operators, Metro calculations indicate that eight-hour refresher training will cost an additional \$1,293,370 annually, while four-hour refresher training will cost an additional \$859,703. These costs include backfill and overtime costs to ensure that service to customers is not impacted. There are no funds to address increased training costs unless cuts are made in other areas, primarily service. In the current funding environment, annual refresher training for all operators is beyond Metro Transit's financial means.	900 (30 percent) of its operators on a refresher basis in a variety of subjects, all of which included safety.
Recommendation 6	Concur	2 nd Quarter 2014	
The Office of Risk Management should include workers compensation costs as a component of King County's annual Cost of Risk Index.		ORM will begin including workers compensation costs in the Cost of Risk Index in the ORM Annual Report.	
Recommendation 7	Partially Concur	4 th Quarter 2013	
The Office of Risk Management should develop performance measures, including maintaining data to support them, on		Performance targets on open and closed claim caseloads by Tort Claim Investigator and closure rates by departments can be added to the monthly claims	ORM currently reviews data on open and closed claims in a monthly claims management report. Due to the complex

Auditor's Comments

Recommendation 7

Concerning the partial concurrence with the recommendation on claims processing productivity measures, the Executive Response Matrix of Recommendations indicated actions were planned to address the first two components of the recommendation: establishing performance targets for tort claims investigator caseloads and case closure rates by departments.

Concerning the part of the recommendation addressing case closure timeliness by tort claims investigator—the third component of the recommendation—the Executive stated:

“As a productivity measure within ORM, the audit recommended that ORM develop performance targets on liability claim caseloads and closure rates which were defined in the report as duration between claim filing and claim closure. The recommendation suggested that the targets be tracked by individual Tort Claims Investigator. We prefer to use Lean techniques where employees collaborate to improve the outcome of processes. Due to the complex and lengthy nature of some liability claims, claim duration is not necessarily an indicator of productivity. ORM added a Customer Service Measure in April of 2013 establishing a target for the time between receipt of claim and initial contact with claimant. This customer service measure is more indicative of responsiveness and timely claims processing, and competition between employees is avoided.”

Auditor's comment: Performance measures are an important component of quantifying and tracking various aspects of government services and setting benchmarks for service goals is an important way to monitor effectiveness, among other benefits. While this new Lean measure certainly holds promise for improving customer service, it does not track the entirety of claims processing and thus is an incomplete measure of claims processing efficiency and tort claims investigator productivity. As stated in the report, we recognize that some variation in case closure timeframes by individual investigator on non-litigation claims is expected given the complex and varied nature of liability claim resolution and settlement. We acknowledge case closure timeliness should not be the sole indicator of investigator productivity. However, tracking case closure rates by investigator over time and monitoring trends for the office as a whole would establish measures for feedback on claims processing efficiency, improved customer service, and should be considered one variable, among others, in monitoring investigator productivity. We look forward to assessing progress on all three aspects of this recommendation during audit follow-up.

Statement of Compliance, Scope, Objectives & Methodology

Statement of Compliance with Government Auditing Standards

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 Scope and Objectives

Assess the effectiveness of the King County Office of Risk Management in protecting King County's assets and preventing and reducing losses:

1. How effective is Risk Management at protecting the County's assets, including risk mitigation and related administration?
2. How effective is Risk Management in identifying, responding to, and limiting the impact of loss exposures, including claims management and processing?
3. How effective is Risk Management in identifying and avoiding emerging potential liabilities?
4. To what extent does King County have an effective approach to a countywide enterprise risk management (ERM) program?

Methodology

To achieve the objectives noted above, the King County Auditor's Office interviewed Office of Risk Management leadership, management and staff; staff from a number of departments and offices of King County elected officials with high volumes of claims against the county; insurance industry consultants at Marsh and Alliant Insurance Services; risk management officials at the State of Washington and the University of Washington; and conducted a literature search on enterprise risk management systems and risk management best practices.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objectives. This included review of selected policies, plans, processes, and reports. In many areas of this audit, we relied on computer generated data. We tested the reliability of the data using a variety of techniques depending on the data and our purposes. We determined that the data used was sufficiently reliable for our intended purposes.

List of Recommendations & Implementation Schedule

Recommendation 1: We recommend that the Office of Risk Management, in consultation with the County Executive, develop a comprehensive framework to address the fundamental organizational management and performance components of ERM consistent with ISO 31000, including:

- overall goals, and a review schedule for monitoring, review, and improvement of the ERM framework;
- creation of the Advisory Committee with a clear designation of its members, meeting schedule, deliverables, and deadlines, and the methodology the committee will use in gathering, reviewing, and prioritizing risk prevention efforts;
- integration of the risk management process into departmental strategic and/or business planning; and
- a performance and accountability system for ensuring that the risk assessment and treatment process is occurring and that treatment recommendations are implemented.

Implementation Date: Ongoing

Estimate of Impact: Provide greater certainty that enterprise risk management program will be sufficiently effective and comprehensive to achieve desired results of risk reduction.

Recommendation 2: We recommend that the Office of Risk Management, concurrent with development of the ERM framework identified in Recommendation 1, develop an ERM implementation plan that includes:

- an initial schedule of departments for pilot implementation of the risk management process and tools as identified in the 2012 Line of Business report, with deliverables concurrent with business planning processes;
- specific performance targets for developing and evaluating departmental assessment, treatment, and reevaluation of risks; and a schedule for ongoing implementation of ERM through all county departments and agencies.

Implementation Date: 1st Quarter 2014

Estimate of Impact: Provide assurance that enterprise risk management program is being developed and integrated into county processes expeditiously.

Recommendation 3: The Office of Risk Management should collect vehicle accident data for non-transit vehicles per total miles driven and establish annual performance targets for reducing non-transit vehicle accidents.

Implementation Date: 2nd Quarter 2014

Estimate of Impact: Reduce vehicle accidents claims and measure progress in containing King County's liability costs for non-transit vehicle accidents.

List of Recommendations & Implementation Schedule (continued)

Recommendation 4: The Office of Risk Management, in conjunction with the Office of Safety and Claims, should develop a countywide system that establishes and enforces a uniform driver safety training requirement for all non-transit county employees who drive routinely at work.

Implementation Date: 2nd Quarter 2014

Estimate of Impact: A uniform countywide policy on driver safety training will help lower King County vehicle accident liability costs.

Recommendation 5: The Office of Risk Management, in conjunction with Metro Transit, should require some level of annual bus driver safety retraining consistent with transit agency best practices.

Implementation Date: Ongoing

Estimate of Impact: Reassessing the current level of annual bus driver safety retraining will aid in lowering King County Metro vehicle accident liability claims.

Recommendation 6: We recommend the Office of Risk Management include workers compensation costs as a component of King County's annual Cost of Risk Index.

Implementation Date: 2nd Quarter 2014

Estimate of Impact: Provide greater transparency on the total liability costs facing King County and build support for improved risk management initiatives such as a countywide enterprise risk management system.

Recommendation 7: We recommend that the Office of Risk Management should develop performance measures, and maintain the data to support them, on investigator open/closed claims caseloads, closure rates and by King County departments.

Implementation Date: 4th Quarter 2013

Estimate of Impact: Tracking new performance measures will provide the opportunity to assess tort claims investigator productivity, improve customer service, and increase claims processing efficiency.