

Risk Management Department

Operational Review of the Property & Casualty Insurance Program

(Project No. 01-M-05)

This document is the result of a collaboration between the Risk Management
Department and the Office of Financial Management & Budget,
Financial Management Division

J U N E
2003
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Executive Summary

Report Highlights . . .

Our review of the Property & Casualty Insurance Section found that:

- ☑ *The Section has had sufficient staffing to handle workloads during the last six years*
 - ☑ *The claims processing system operates as intended, but there are intrinsic inefficiencies associated with the system resulting from its use of an outside claims administrator*
 - ☑ *The Property & Casualty Insurance Section's management information system functions adequately, but its technology and reporting tools are limited*
 - ☑ *Performance standards reflecting organizational expectations with respect to quantity, speed or quality control of the work product have not been established*
 - ☑ *It may be an appropriate time to evaluate the feasibility and desirability of bringing claims adjusting in-house*
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During the six-year period 1997 through 2002, the county's Property & Casualty Insurance Section (P&CI) handled almost 10,800 incident reports and 2,300 insurance claims, and processed many thousands of claims- and litigation-related invoices for payment. These things were all done as part of its responsibilities for managing the county's Self-Insured Retention Plan, providing coverage for almost \$1.4 billion of insurable county property and for third party casualty loss claims. In meeting these responsibilities, P&CI staff routinely interacts with the public, the County Attorney's Office and Finance Department, and with claims adjusters at Gallagher & Bassett Services, Incorporated (Gallagher & Bassett), the county's contract claims administrator.

In response to a request from county administration, the Management and Program Analysis Section conducted a resource utilization study of P&CI, with particular attention on the principal processes at work in the claims cycle. Our examination included a review of external interactions both with the County Attorney's Office and Gallagher & Bassett. This report contains the results of that study, in the form of findings and recommendations. Denis J. Krajec was the lead analyst assigned to the project. Fieldwork for the project was conducted between December 2002 and February 2003, and a final draft of the report was distributed for comment in May 2003.

The study found that operational and workload demands on the P&CI program have routinely been handled by the existing staff of three, without creating work backlogs. The project scope did not include an assessment of user satisfaction with program services, so no conclusions have been drawn in that respect. However, our study found that the program operates as it was designed to, using county staff to intercept property damage and casualty loss incidents and to put together the documentary record of each such occurrence, while outsourcing the claims adjustment decisions and negotiations, based upon that documentary record. That operational model has been in use for many years in Palm Beach County, apparently with good results. But the segregation of claims processing from claims adjusting, results in system inefficiencies necessitated by audit considerations associated with the use of an outside contractor to distribute County funds.

The Property & Casualty Insurance Section's computerized incident reporting system lacks some of the reporting tools needed to fully track work effort and provide information for objective staffing decisions, although we saw no evidence that these deficiencies compromise financial accountability or the daily management of claims processing. The existing system also does not fully capitalize on contemporary information technologies to increase productivity of section staff, which relatively modest enhancements to the incident reporting software could materially affect.

To address the study team's findings, we have offered three specific recommendations:

PROPERTY & CASUALTY INSURANCE PROCESSES

- The Risk Management Department should evaluate the feasibility of bringing the claims administration and claims adjusting functions in-house;
- The Property & Casualty Insurance Section should upgrade its existing computerized incident reporting information management system;
- First party property loss deductible limits should be increased from the current \$500 to \$1,000 as a means of reducing the number of claims processed through the property & casualty insurance system and the associated contract fees paid for outside claims administration services.

Risk Management Department: Operational Review of Property & Casualty Insurance Section

A study to assess staffing adequacy, workload allocation, interaction with external parties and opportunities for improvement of the property and casualty insurance claims processing activity

The purpose of this report is to provide county administration and department management with an assessment of the Property & Casualty Insurance Section's incident reporting and claims processing operation including interaction with outside parties involved in the process.

The study focused on the claims processing operations of the Property & Casualty Insurance Section (P&CI) of the Risk Management Department (department), and its interaction with the county's contract claims administrator, Gallagher & Bassett Services, Inc. (Gallagher & Bassett), and County Attorney's Office. Specifically, the study team was asked to do the following:

- Examine the claims processing cycle and assess the extent to which contemporary management practices and technologies are employed in every stage of that cycle;
- Identify practices and conditions which impede productivity in the claims cycle;
- Identify the utilization of staff and other resources throughout the claims cycle.

The methodology employed in resource utilization studies such as this, requires an examination of workload data and performance criteria in the workplace, together with a detailed understanding of the principal processes in use for job accomplishment. The methodology of these studies is dependent on knowing *what* the organization does, how *much* it does, what *processes* it goes through in carrying out its mission, and how these compare with *performance requirements* which may apply to its work.

To understand the section's responsibilities and procedures for managing incident reporting and claims processing, the study team interviewed staff and management

of P&CI, the County Attorney's Office and branch management at Gallagher & Bassett.

To understand the constraints on the operating environment which can impede productivity, the study team reviewed applicable state statutes, the county's *Self-Insured Retention Plan* (SIR Plan) and the existing contract with Gallagher & Bassett for the provision of third party claims administration.

To determine how staff is utilized, the study team observed work activities at the department, interviewed all P&CI employees and requested they provide a self-assessment of their typical daily tasks and an estimated amount of time committed to each one. Section management was consulted as an additional level of review and for confirmation of employee responses. At the request of department management, on-site observations by the study team were limited in order to minimize disruption of operations.

To document division workload and determine whether staffing and workload are in proper balance, we analyzed available workload data over the past six years, from 1997 through 2002, and examined performance and workload standards by which Property & Casualty Insurance Section activities are judged by the county.

Finally, to assess how well contemporary management practices and technologies have been employed in the division, we reviewed internal policy and procedure memoranda, conducted (limited) on-site observations to document processes, and reviewed the automation systems in use by the section and by Gallagher & Bassett.

Introduction to Insurance Concepts

Insurance is a system of coping with financial risk. Its primary function is to substitute certainty for uncertainty, by transferring the potential for losses resulting from accidental occurrences from one individual or entity to others. Some forms of insurance are required by law; others are optional. In many cases, insurance coverage is purchased from commercial providers (called insurers) by making periodic payments (called premiums), in exchange for which the insurer agrees to pay the insured a sum of money in the event of a specified type of loss. Often, the insured pays part of the loss (called the deductible).

In other cases, the insured has the capacity to set aside a large enough financial reserve to incur losses directly—up to a certain level—without requiring a commercial insurer to contribute financially. In these cases, the insured must be willing and able to retain all of the basic financial risks on his own, and so only purchases commercial insurance as an “umbrella” to cover losses above his chosen, basic risk level. These insureds are said to be self-insured for their basic coverage and commercially insured for their excess coverage. Palm Beach County government fits into this category.

Many years ago, the county established a Self-Insured Retention Plan in order to pay the liability claims and court judgments against it by others who sustain injury or damage to their property due to the negligence of the county, up to the self-insurance retention limit of \$100,000 per person and \$200,000 per occurrence. The

Self-Insured Retention Plan will pay claims of loss or damage to county property up to a limit of \$1,000,000 per incident.¹ Liability and loss amounts above the self-insurance retention limits are covered by excess insurance purchased from commercial insurers, as described later in this report.

INSURANCE TERMINOLOGY

A more extensive glossary of insurance terminology is located in Appendix 1.

Claim: Financial demand brought against the county by a claimant because of an incident in which the county is alleged to bear some liability—in other words, some degree of fault, negligence and/or responsibility to pay. The claimant may or may not be represented by an attorney, but no lawsuit has been filed in connection with the incident.

Claims Adjustor: An individual licensed by the State of Florida and often employed by insurance companies to handle the resolution of loss claims. The adjustor investigates the circumstances involved in claims and either pays or denies the claims. In Palm Beach County, Gallagher & Bassett Services, Inc. is under contact to perform these services, with authority to settle third party claims up to \$5,000 and all first party claims regardless of the dollar amount.

Claims-Related Expense: Expense incurred in the defense or prosecution of a claim or lawsuit (e.g., services of an investigator or court reporter) in which the county is an interested party. Settlement payments are not included in this definition.

Deductible: Dollar amounts payable by the policyholder (county departments) before the insurance company (Risk Management Department, as self-insurer) is obligated to pay insurance policy benefits on a claim. In accordance with the County's Self-Insurance Retention Plan, the deductible amount relating to First Party Claims is \$500 for each property loss, except auto comprehensive losses which have a \$100 deductible per occurrence. Additionally, there is a \$2,500 deductible for each building damage loss resulting from wind and flood.

Excess Insurance: A commercial insurance company policy that provides insurance coverage against losses that exceed the self-insurance payment limits established by the county's Self-Insured Retention Plan.

First Party Claim: Property claim presented to the Risk Management Department for damage to a county asset.

Incident: Report of person injured or property damaged that does not necessarily involve liability to the county. Reporting incidents is a requirement of countywide policy & procedure memorandum no. CW-O-007 (Appendix 2).

Lawsuit: Financial demand brought against the county because of an incident in which the county is alleged to bear some liability and for which litigation has commenced against the county as a named party.

Self-Insured Plan: Insurance plan whereby an entity with sufficient capital chooses to insure itself against loss, without contracting for insurance coverage

¹ Source: Board of County Commissioners Resolution No. R2000-1524

through a commercial carrier. Some companies contract with commercial insurance carriers for the administration of their self-insurance programs.

Self-Insurance Retention: The total amount of financial loss that the county is willing to assume through its own financial resources, without contracting for insurance coverage from a commercial insurer. The limit of self-insurance retention amounts varies by loss category, as defined within the county's Self-Insured Retention Plan (Appendix 3).

Settlement: Mutually agreed-upon sum of money that one party pays another in consideration of the release of present and future claims for damages.

Subrogation: The right of an insurer to take action against a third party to recover the amount of a claim paid to a covered insured if the loss was caused by the third party. After expenses, the amount recovered must be divided proportionately with the insured to cover any deductible for which the insured was responsible.

Third Party Claim: Liability claim against the county for personal injury (other than to county employees) or property damage suffered by a member of the public.

Third Party Claims Administrator: An individual or other entity that maintains claim records, provides claims adjustor services for third party claims, pays all claims-related expenses (including first party claims), and provides periodic reporting with regard to claims activity and claim settlement payments. Palm Beach County has contracted with Gallagher & Bassett (Appendix 4) to provide third party claims administration for the County's Self-Insured Retention Plan at a base cost of \$152,635 for fiscal year 2002.

Total Claims Experience: Accumulated, total actual claim payments made, plus a reserve for estimated future claim payments arising from known claims. For Palm Beach County property and casualty insurance claims, this information is provided by Gallagher & Bassett.

Factual Profile

OVERVIEW: PROPERTY & CASUALTY INSURANCE PROGRAM

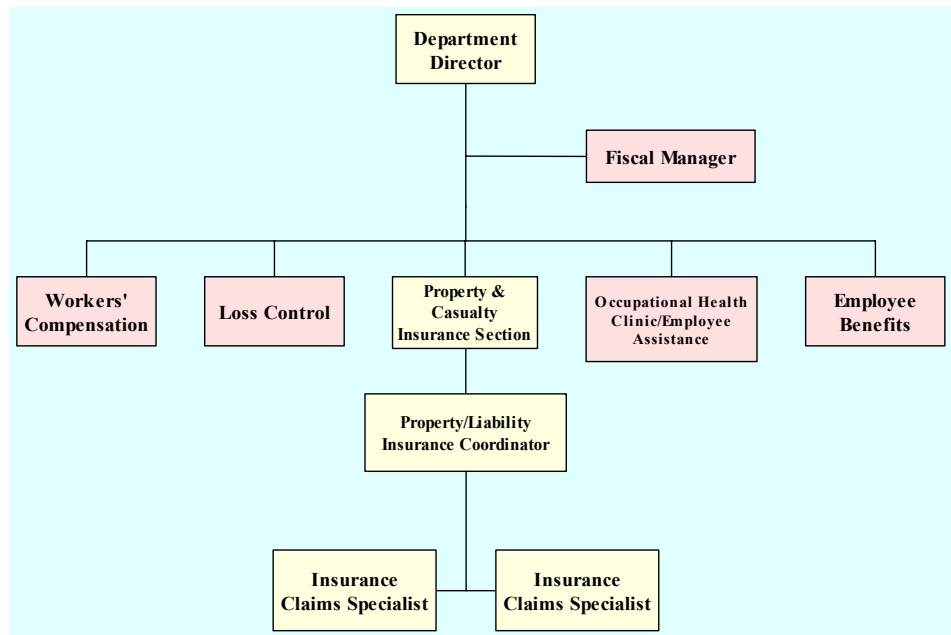
The county's Property & Casualty Insurance program is one of five major programs operated by the Risk Management Department from its offices at 160 Australian Avenue in West Palm Beach. The five programs are:

- Employee Benefits – Developing and administering health and life insurance and long-term disability programs that protect county employees and their families.
- Loss Control – Developing and implementing comprehensive programs to reduce accidents and to comply with state and federal occupational health and safety laws in the workplace.
- Occupational Health Clinic – Providing medical services for work-related injuries and illnesses, as well as health education and employee physical examinations. The clinic's Employee Assistance Program assists troubled employees who have problems affecting their work performance.

- Property & Casualty Insurance – Managing claims involving damage to county property or allegations of county liability.
- Workers’ Compensation – Managing claims of county employees injured on the job.

FIGURE 1

Current Table of Organization of the Property & Casualty Insurance Section



The P&CI program’s primary function is described in its mission statement:

“To insure that the County is adequately covered for property losses and liability claims and that claims are processed on a timely basis.”²

It accomplishes that mission by performing all of the following:

- Reviewing the county’s potential loss exposure on an annual basis;
- Submitting recommendations to the County Administrator regarding changes in the county’s insurance coverage;
- Formulating maintenance modifications and recommending updates to the Self-Insured Retention Plan for BCC approval;
- Providing assistance to other county departments on insurance issues;

² Source: *Palm Beach County Fiscal Year 2003 Budget*, page D-239.

- Maintaining an incident reporting database;
- Collecting and processing all necessary information from county departments and forwarding that information to Gallagher & Bassett;
- Processing weekly disbursement reimbursement requests from Gallagher & Bassett;
- Processing claims-related invoices for payment by Gallagher & Bassett;
- Monitoring the contract performance of Gallagher & Bassett; and
- Attending mediation meetings to settle litigated claims prior to trial.

This makes the P&CI program responsible for all of the county's insurance needs and claims processing *not* involving (1) industrial accidents to county employees or (2) employee health and welfare benefits. The program operates with a staff complement of three positions, most of whose time is devoted entirely to activities that support the processing of claims. Claims administration and adjusting services are handled outside the department by Gallagher & Bassett, acting under contract to the county. Gallagher & Bassett settles and pays all third party claims against the county, after necessary information is first accumulated by P&CI staff. First party claims of loss to county property are simply paid by Gallagher & Bassett without adjustment.

The types of insurance coverage, exclusions and plan participants that comprise the basic responsibility of the P&CI program are contained in the county's Self-Insured Retention Plan (Appendix 3).³

The Self-Insurance Retention Plan covers all assets and operations under the jurisdiction of the Board of County Commissioners, as well as certain property and operations of constitutional officers and state agencies. Table 1 on the following page highlights this coverage.

In addition to the coverage provided by the SIR Plan, the county also purchases excess insurance coverage to pay claims in excess of the annual, aggregate limits set by the Plan. This excess coverage protects the county against extraordinary losses in a single year that the county is unwilling or unable to pay on its own. The chart at the bottom of page 9 shows the annual limits of liability which the SIR Plan permits, above which the commercial excess coverage takes effect.

³ Types of insurance coverage, the financial limits of self-insurance retentions and related deductible amounts are identified in the first six pages of the Plan. A good summary of those factors can be found in the document's "Declarations Pages" (pages 1-2).

TABLE 1

**Palm Beach County Self-Insurance Retention Plan
Summary of Plan Coverage**

Coverage Type	What's Covered		
Buildings	All BCC-owned [§]		
Building Contents	All BCC-owned [†]		
General Liability	All BCC departments, except Airports	Supervisor of Elections	Tax Collector
Vehicle Damage	All BCC-owned [‡]		
Vehicle Liability	All BCC-owned [‡]		
Other	Property Appraiser leased computer equipment	Property Appraiser Crime Insurance	Property Appraiser Money & Securities

Source: PBC Risk Management Department.

§ Including sheriff's Department buildings owned by the Board of County Commissioners.

† Including those utilized but not owned by Constitutional officers.

‡ Including those used by Health Department, State Attorney, Public Defender, and Tax Collector.

Under the doctrine of "Sovereign Immunity," political subdivisions of Florida, including Palm Beach County, are held to a liability limit of \$100,000 per incident or claim and \$200,000 for all incidents or claims resulting from a single occurrence. Hence, the use of those amounts as limits in the Self Insurance Retention Plan.⁴ Excess insurance for buildings and property protects against catastrophic losses from occurrences such as hurricane damage.

Insurance Type	SIR Limits	Excess Insurance Limits
Buildings & Property	\$1 million	\$250 million
General Liability	\$100/\$200 thousand [§]	\$10 million
Liability (PalmTran accidents)	\$100/\$200 thousand [§]	\$2 million

§ Per individual/per occurrence.

The cost of the Self-Insured Retention Plan, including the cost of premiums for excess insurance, is allocated to participating departments and agencies as part of the annual budgeting process. Owing to their disproportionately high costs, premiums for excess building & property insurance coverage for the Water Utilities Department and Department of Airports are billed directly to those organizations. For the remainder of departments, the Risk Management's Fiscal Manager and

⁴ Claims exceeding the sovereign immunity limits can be brought to the state legislature for consideration of a "Claims Bill." Passage of a Claims Bill by the legislature allows for payment of claims or court judgments in excess of those limits.

Property & Liability Insurance Coordinator determine total costs to be allocated and the pro rata share of total cost to be charged to each participant. The Fiscal Manager then distributes the “Property & Casualty Insurance Premiums” allocation document (Appendix 5) to Plan participants so that each can include their respective premium charges as part of their annual budget appropriations request. For fiscal year 2003, Risk Management charged participants premiums totaling \$8.5 million of which \$3.7 million was budgeted by Risk Management for the payment of claims under the county’s Self-Insured Retention Plan. Premium charges allocated to plan participants for the fiscal year 2004 budgeting process have risen to \$10.4 million.

INCIDENT REPORTING AND CLAIMS PROCESSING

In addition to its responsibility for managing the county’s SIR Plan and excess insurance coverage portfolio, P&CI is responsible for processing all incoming incident reports and loss claims by the county and against the county. The activities associated with these latter responsibilities represent the greatest portion of staff effort and time. Although the claims process is significantly more involved than the incident reporting process, less than one-fifth of all incidents reported ever become claims, making both processes major time-consuming activities, albeit for different reasons.

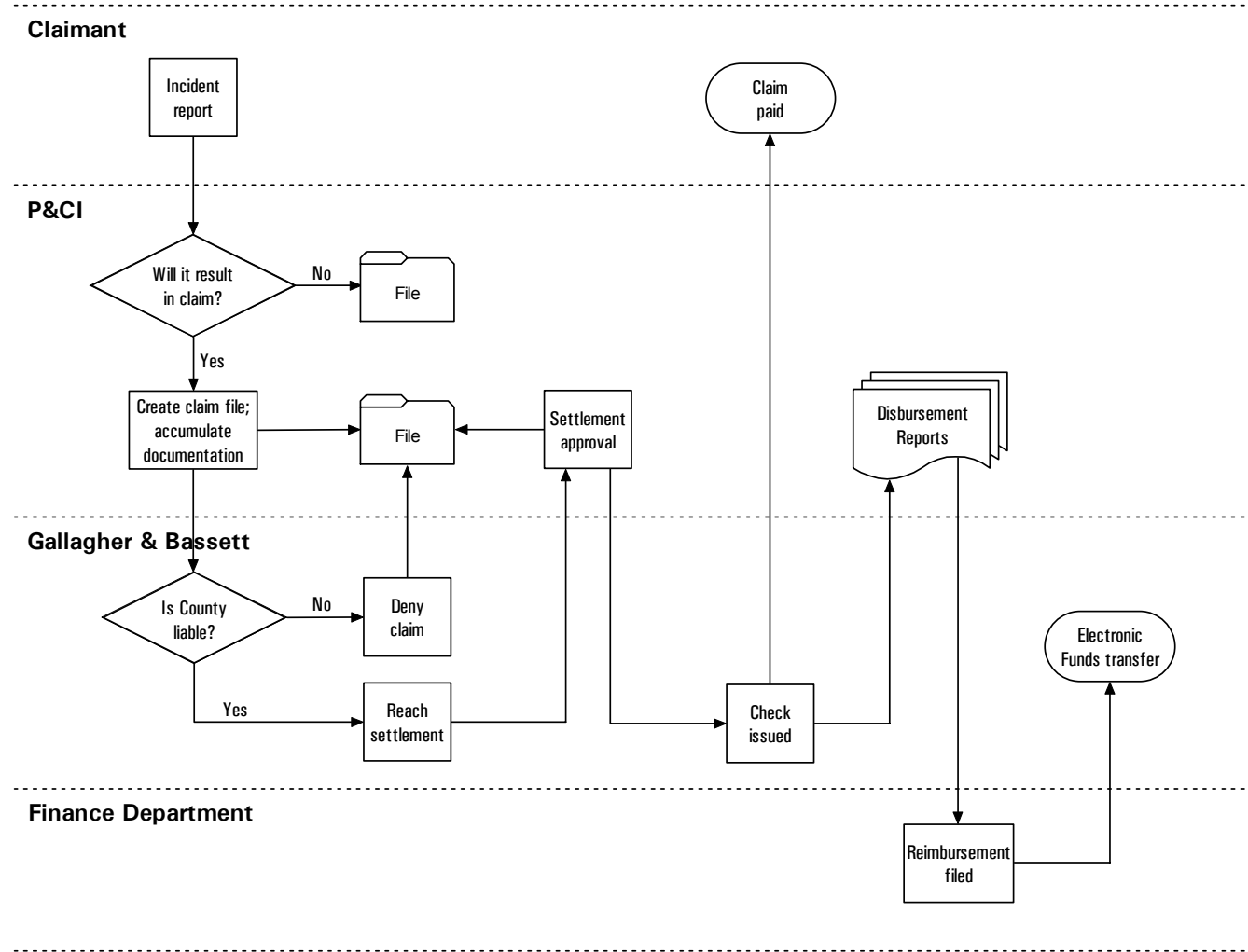
Typically, incident reporting requires only that an official form be completed and sent to the Property & Casualty Insurance Section. Staff then transcribes the report information from the form into a computerized incident tracking database. If an incident actually becomes a loss claim, the staff must accumulate all of the related documentation which will be necessary to make a determination concerning the extent of liability involved, and the value of the loss suffered. Figure 2 highlights the major steps in the claims process and shows the roles of the principal affected parties.

Incident reporting policy and procedures are governed by countywide PPM No. CW-O-007 (Appendix 2). Policy and procedures for property, liability and lawsuit payments are governed by countywide PPM No. CW-P-064 (Appendix 6) which derives its authority from the Palm Beach County Administrative Code, Section 305.08; the county’s Self-Insured Retention Plan; and BCC resolutions R93-372D, R96-230 and R2000-1524. Collection of claims for damage to county property is covered by countywide PPM No. CW-F-001 (Appendix 7).

The Director of Risk Management has the authority to settle claims and pay claims-related expenses up to a maximum of \$5,000. This authority, in turn, is delegated by contract to the county’s third party claims administrator and claims adjustor, Gallagher & Bassett. Additional authority to pay claims for automobile property damage above \$5,000 but not more than \$10,000 remains with the Director of Risk Management. The County Administrator may authorize settlement of claims and lawsuits of \$50,000 or less without the approval of the Board of County Commissioners. Settlement of claims and lawsuits in excess of \$50,000 are subject to approval of the Board, but payments of judgments rendered by the court are not subject to Board approval, regardless of the amount.

FIGURE 2

The Claims Process in Brief
and the Roles of the County and Other Parties in the Process



Payments for settled claims or court-ordered judgments result from a sometimes-lengthy process that involves recording an incident, accumulating all related information and documentation, and determining the extent of county liability. Insurance Claims Specialists are responsible for incident recording, accumulating available information and documentation in support of a claim, and the preparation of a claim file for transfer to Gallagher & Bassett. Afterwards, Gallagher & Bassett is responsible for determining the extent of county liability, if any, and either denying the claim or settling with the claimant.

In general, incidents are handled in the order of occurrence with related information being recorded by Insurance Claims Specialist as it becomes available. Because not all incidents become claims (e.g., approximately 16% during FY 2002), the process often ends when all information needed to record the incident has been entered into the Property & Casualty Section's incident tracking database. There are three official countywide forms (Appendix 8) utilized internally by county staff to report incidents:

- Accident / Incident Report Form (County Form 024) – An internal county form for reporting bodily injury and/or property damage liability incidents;
- Property Loss Report Form (County Form 025) – For reporting damage to county property, including theft, vandalism, fire, water damage, windstorm, hail, explosion, glass breakage, damage caused by vehicles, and other causes;
- Vehicle / Equipment Accident Report Form (County Form 008) – A five-part “NCR” form for reporting and documenting any accident involving county vehicles or equipment.

Third parties or their legal representatives are mailed claim forms (Appendix 9) that serve to both formally report an incident, when no incident report has been previously submitted by county staff, and/or to initiate a claim:

- Report of Bodily Injury Claim Form – Used to file a claim involving third party bodily injury;
- Report of Property Damage Claim Form – Used to file a claim involving third party property damage.

These forms provide Insurance Claims Specialists with the information required to record the incident and determine whether immediate claims action is warranted.⁵

Obtaining completed incident report forms and related information for first party claims involving damage to county property tends to be easier than dealing with third party claims. County departments have a vested interest in repairing or replacing their own assets and are generally aware of the process they must adhere to for that to occur. By contrast, members of the public that have suffered bodily injury or property damage often have no idea who to contact, what their responsibility is, or what the claims process entails.

Gallagher & Bassett is under contract to Palm Beach County to act as its third party claims administrator. As the third party claims administrator it provides services such as:

- Recording, categorizing, monitoring, and reporting of claims activity;
- Processing payments for first party claims (i.e., damage to county assets);
- Providing accounts receivable collection (subrogation) services;

⁵ Six alternative incident reporting forms have been created for specialized use by PalmTran, the Department of Airports, Fire-Rescue Department, and the aquatics operations of the Parks Department. Examples of each are presented in Appendix 10. Use of these alternative forms is considered acceptable practice by P&CI staff, who typically use the information from completed specialized forms to record incidents involving those departments.

- Investigation of third party claim validity;
- Obtaining outside professional assistance for background investigations, accident reconstruction, medical examinations, etc.;
- Determining/estimating the extent of county liability, if any;
- Paying all bills and invoices arising as the result of claims processing including efforts by the County Attorney to defend the county against lawsuits;
- Denying third party claims when there is no county liability;
- Adjusting claims;
- Issuing claim settlement payments to third party claimants;
- Obtaining liability releases from third party claimants after settlement payments are issued;
- Notifying P&CI staff when claims have been closed;
- Providing daily detail of all claims-related payments made on behalf of the county under the Self-Insured Retention Plan;
- Notifying the county's excess insurance carriers of claim activity;
- Attending monthly litigation status meetings with County Attorney and Risk Management staff; and,
- Estimating liability reserves for claims-in-process at fiscal year-end.

For these services the county pays Gallagher & Bassett a fixed contract amount (\$152,635 for fiscal year 2002) plus an additional amount to reimburse for the time and associated expense (\$39,324 for fiscal year 2002) of their technical and clerical staff that goes beyond the normal activities associated with claims processing (Appendix 11). The fixed rate contract amount is an estimate based on the county's claims activity of past years. Each claim type has its own claim processing charge rate which is multiplied by the number of anticipated claims in that claim type for the coming year. The dollar amount resulting from that calculation is then inflated by 15 percent and becomes a component of the fixed contract amount for the coming year. Other known or predictable costs, such as information, banking, and administrative services are then added on to the summation of charges associated with each categorical claim type. The result is the fixed contract amount for the next year. Twenty-four months after the end of each contract year an audit of actual claims activity may result in a rebate of money to the county. To the extent that actual claims activity was lower than the estimate used by Gallagher & Bassett to establish the fixed contract amount, the county will receive a rebate. Should it be determined as a result of the audit that Gallagher & Bassett underestimated actual claims activity for the year, they must absorb the loss.

Role of the Property & Casualty Insurance Section (Internal)

The process begins with the occurrence and reporting of an incident. Often, the initial report is verbal and may originate from either county staff or an outside third party. All county employees should be aware of the need to file incident reports as required by PPM No. CW-O-007 and telephone operators will direct outside

inquires to the Property & Casualty Insurance Section staff. While verbal reporting of an incident is insufficient to fulfill incident reporting requirements or to initiate a claim, it does place Insurance Claims Specialists on notice of an occurrence and presents the opportunity to provide guidance with respect to the formal reporting requirements. Based upon information gathered from verbal reports, the claims specialists will typically open “shell” incident records on the Section’s incident tracking database to serve as reminders of required follow-up action.

When a county vehicle is involved in an accident or when an incident involves serious bodily injury or substantial property damage, county policy requires notification of the county’s Emergency Operations Center (EOC). The reasons for this are twofold: (1) EOC is staffed around the clock, seven days a week, making access assured; (2) EOC personnel are well versed in addressing the needs of serious situations and can arrange for any assistance necessary, including a vehicle tow. EOC provides any incident information obtained to the Loss Control Section of the Risk Management Department, which also has staff on-call around the clock. Information provided to Loss Control is conveyed on a “GBS” form and is generally very basic. While Loss Control provides the Property & Casualty Insurance Section with a copy of the completed “GBS” form, this process does not relieve departments of the responsibility to complete and submit the appropriate county incident reporting form.

While two forms of initial incident reporting (i.e., via telephone calls & EOC) have already been discussed, P&CI claims specialists may receive initial notices of incidents by other means: incident report forms; after-hours telephone messages; letters; e-mails; and walk-in visits from the public (i.e., third parties). Generally, initial incident reporting does not occur by receipt of completed incident report forms. As a result, P&CI claims specialists invest significant time on follow-up efforts. Follow-up communication is in the form of telephone, e-mail and letters, with significant time devoted to third parties unfamiliar with reporting and claim requirements.

Members of the public often telephone Insurance Claims Specialists after being referred by other county staff. Having no idea of what organization is responsible for handling their claims, third parties often telephone the department or agency they believe is most likely responsible for the cause of their injury or loss. That department or agency staff will refer the individuals to the Property & Casualty Insurance Section. Outside parties may also contact a county-operated information service and receive the same referral. Often, after a time consuming investigation on the part of Insurance Claims Specialists, incidents reported by the public as involving the county prove to be the responsibility of another jurisdiction or even of investor-owned utility companies. For incidents that could conceivably involve county liability, Insurance Claims Specialists mail out the appropriate Report of Bodily Injury Claim form and/or Property Damage Claim form with filing instructions.

In all cases, the first objective of Insurance Claims Specialists is to obtain information and required documentation regarding the incident. While submission of information solicited on the appropriate form fulfills required county policy and allows for the recording of an incident, the information obtained is generally insufficient to proceed with establishing a claim or account

receivable. Even incidents of a first party nature involving damage to a county vehicle require that Fleet Management provide an estimate of damage before a claim for payment can be filed with Gallagher & Bassett. For other incidents, such as damage of less than \$100 to a county vehicle, a claim is not necessary. So the next step for Insurance Claims Specialists involves the evaluation of the incident and a determination of whether further action is warranted. This determination is based on previous actions taken in similar situations, the deductibles identified in the county's Self-Insured Retention Plan and existence of a formal request for compensation (i.e., a submitted Report of Bodily Injury Claim Form and/or Property Damage Claim Form). If there is any doubt as to the appropriate course of action, the case is referred to the program coordinator for decision.

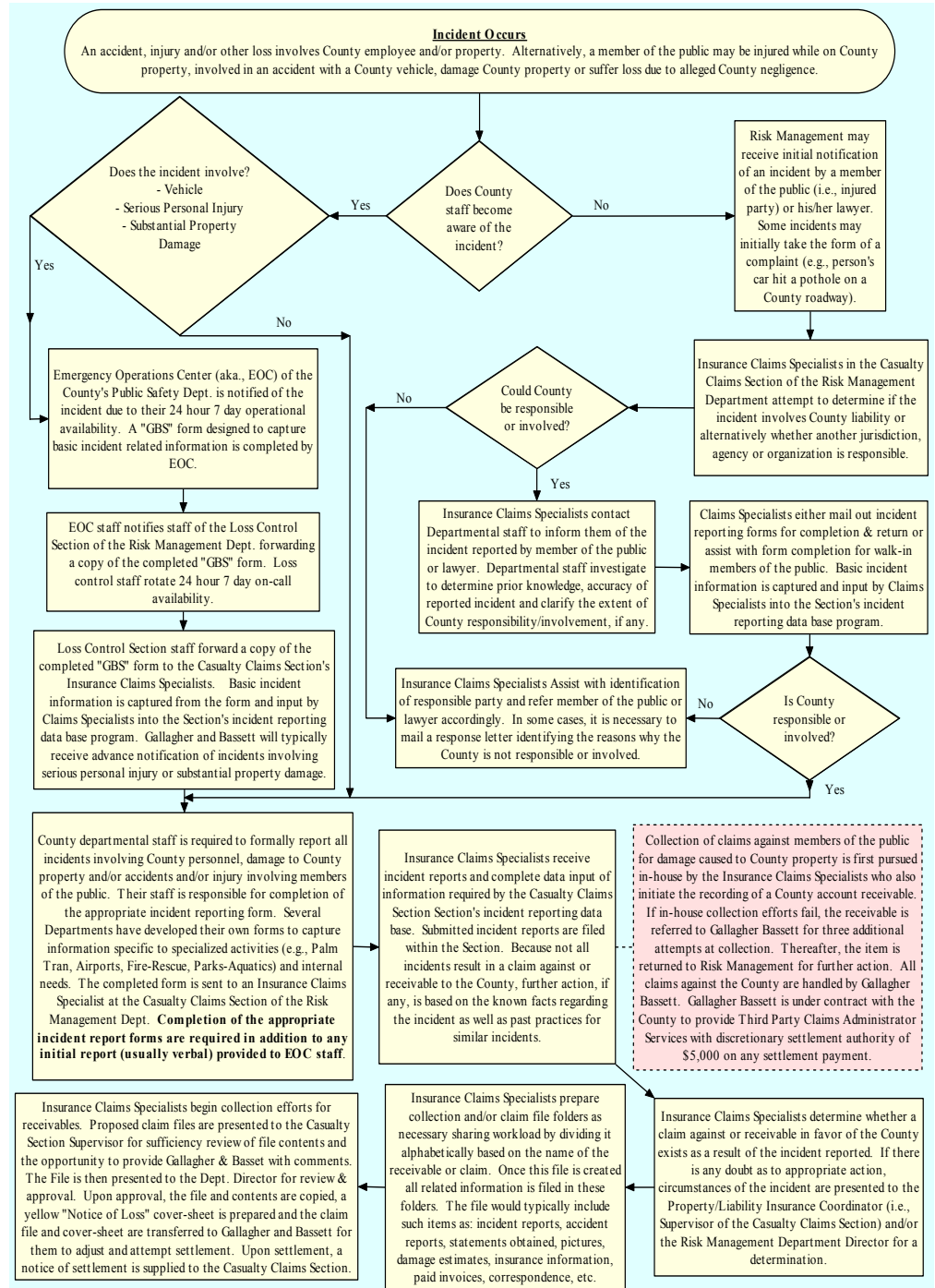
If no further action is required after the incident report form has been received and the required information entered on the Property & Casualty Insurance Section's Incident Reporting database, the incident report is filed on the premises within the Property & Casualty Insurance Section. Incidents requiring the preparation of a claim or recording of an account receivable are then addressed and P&CI claims specialists begin contacting individuals and organizations as they start the task of accumulating the additional information and documentation necessary to support the claim or receivable. These additional requirements may include, but are not limited to, the following:

- police department accident reports;
- copies of medical bills;
- repair invoices;
- private insurance policy coverage;
- damage estimates from the county's Traffic Engineering Division;
- damage estimates from the county's Fleet Management Division;
- damage estimates from the county's Facilities Development & Operations Department;
- damage estimates from independent private appraisers;
- statements from eye-witnesses;
- employee statements;
- pictures of the damaged vehicle or property; and,
- pictures of the alleged incident cause (potholes, sharp edges, etc.).

As some incidents involve damage to county property by third parties, the Insurance Claims Specialist must record a formal accounts-receivable with the county's Finance Department before any collection activities occur. Once this type of incident has been properly reported and any additional support documentation obtained, the Insurance Claims Specialist will access the Local Government Financial System (LGFS) and input the data necessary to setup an account receivable and generate an invoice for the damage. At this point, a collection file is created within the Property & Casualty Insurance Section containing all information and documentation obtained to date. If the Insurance Claims Specialist is contacted by the party at-fault or his insurance company with an offer

FIGURE 3

The Incident Reporting and Claims Process (County Portion)



payment before the collection file is transferred to Gallagher & Bassett, the offer will be accepted. If this does not occur, the contents of the collection file are photocopied and the original file is transferred to Gallagher & Bassett for three attempts at collection. If those collection efforts are successful, payment is forwarded to the P&CI staff for endorsement and deposit with the Finance Department as satisfaction of the open account receivable. If unsuccessful, the collection file is returned to the Property & Liability Insurance Coordinator to determine what action, if any, will be taken. Options include having Insurance Claims Specialists attempt collection, forwarding the claim to the County Attorney's Office to seek a judgment in court, or assigning the debt to the Collections Section of OFMB for placement with the county's collection agency, Penn Credit Corporation. During the last two fiscal years, approximately \$77,000 of invoiced P&CI accounts receivable were referred to Penn Credit Corporation for collection.

For those incidents for which a claim has already been submitted or is deemed highly likely, Insurance Claims Specialists will create a claim file and begin accumulating the necessary documentation for the type of claim involved. When that documentation has all been accumulated, the completed claim file is presented to the P&CI program coordinator for review. This ensures that the claim is supported by adequate documentation and allows the coordinator to make notes, express opinions and otherwise give instructions to Gallagher & Bassett. Once claim documentation is complete and the coordinator is in agreement, the claim file will be given to the department director for review and final approval. Upon approval by the director, the file and its contents are photocopied, a yellow "Notice of Loss" cover sheet (a.k.a., Liability Accord Form) is prepared, and the claim file and cover sheet are sent by courier to Gallagher & Bassett. The West Palm Beach office of Gallagher & Bassett is a daily stop on the county courier's pickup and delivery route.

Role of Gallagher & Bassett (External)

The office of Gallagher & Bassett is visited daily by the county's courier service allowing for continuous flow of communications, files and other documents with the Property & Casualty Insurance Section. When a new file is received by Gallagher & Bassett, it is logged and date stamped by their office receptionist/secretary who then forwards the file to the branch manager for review. The branch manager personally handles all first party claims and, according to that manager, these claims are processed for payment and closed within 24 hours of receipt. After review of remaining claim files, the branch manager assigns them to one of two claims adjustors who work part-time on the Palm Beach County account. Before being routed to the assigned adjustor, the claim files are first returned to the receptionist/secretary who enters basic information regarding each claim into the company's proprietary claims management software, known as RISX-FACS.

Once the claim file is assigned to an adjustor, efforts at resolution of the claim begin. To that end, Gallagher & Bassett has several policies regarding the procedural handling of claims and communications with the parties involved. These policies are incorporated into the claims administration contract and form

part of the performance measures under which Gallagher & Bassett provides these services to the county. They include the following:

- Incoming mail must be date-stamped on the date received and should be reviewed by a member of the technical staff within 24 hours;
- Contact with P&CI staff must be made within 24 hours of receipt of claim;
- Contact with claimant must be made within 24 hours of receipt of claim;
- Contact with claimant's attorney must be made by telephone within 48 hours of notice of representation or notice of claim. Receipt of an attorney's lien must be acknowledged within 5 working days.
- New claims must be reviewed, reserved, and processed into RISX-FACS within 6 calendar days of receipt by a Gallagher & Bassett office;
- Written correspondence with outside sources such as clients, claimants, doctors and attorneys must be typed. Form letters may be used for routine transmittals or requests;
- All open claims files must be on RISX-FACS diary; and,
- A "30-Day Report" is required for each open bodily/personal injury suffix, to be completed within 30 days following claim file setup, via Claim Notebook, Subject 013. The report should reflect the most recent information available at the time the report is due.

While the claim process involves many activities relating to recording, categorizing, monitoring, and reporting of claim activity, the primary objective is claim resolution. Specifically, efforts to resolve a claim involve the determination and extent of county liability, negotiation of a settlement with the claimant and payment of the settlement and related claim expenses. Because claims vary in complexity and extent of loss, efforts by adjustors to determine county liability, validate an alleged loss and decide upon an appropriate course of action can vary significantly. The time investment in claim resolution is not considered a performance issue since pressuring adjustors to expedite claim resolution can have the undesirable effect of higher settlement costs. A basic flow chart of internal Gallagher & Bassett claims-related activity is provided in Appendix 12.

The first task of claims adjustors is review of the claim file, followed by making contact with all parties involved. Once Gallagher & Bassett adjustors have contacted P&CI staff to clarify any instructions, adjustors will notify claimants and/or their legal representatives of Gallagher & Bassett's role as third party claims administrator for the county. From there, claims adjustors set about the task of determining the extent of county liability, if any, regarding the claimed loss. In the absence of liability on the part of the county, the claim is denied outright. If there is some liability, the adjustor turns his attention to determining the validity and value of the loss.

In their efforts to determine county liability and the validity and value of losses, adjustors may solicit information in addition to that initially provided by P&CI staff. Information may be obtained with the assistance of Insurance Claims Specialists, by direct contact with departmental staff and/or witnesses and by contact with the claimant and/or his legal representative. Outside resources to aid

with the investigation may also be obtained, provided the use of those resources is approved in advance by the Property & Liability Insurance Coordinator and does not cause total claim-related expenditures to exceed the authorization cap of \$5,000 per claim. Examples of outside services include background checks, medical examinations, independent appraisals, surveillance through private investigators, witness depositions and accident reconstructions.

When the validity of a loss and county liability for the loss have been substantiated, the adjuster attempts to negotiate a settlement with the claimant that is favorable to the county. In some cases involving minor auto damage, a single appraisal of the damage by an insurance company may be a sufficient basis for settlement with little or no negotiation. In other claims, particularly those involving personal injury, the extent and projected duration of claimant loss is not always as apparent, and negotiation may become protracted. Ultimately, some claims are never settled through negotiation; then, claimants may decide to become litigants in lawsuits against the county.

Gallagher & Bassett is authorized to independently adjust and settle claims whenever the total cost of a claim—including the proposed settlement amount and all related expenses—does not exceed \$5,000. In those cases, settlement checks are processed through the local office of Gallagher & Bassett; the settlement checks are produced in Boston, Massachusetts and mailed from there. Every claimant receiving a settlement check is required to release the county from any further liability regarding his claim. The claims process concludes with receipt of the signed liability release form by Gallagher & Bassett and notification of P&CI staff that the claim has been closed. P&CI staff files the “Notification of Closed Claim” form and the executed release of liability document signed by the claimant, and the claim file is officially closed.

On a weekly basis, the county reimburses Gallagher & Bassett for all claims settlement checks and related expense payments made. A process flow-chart is included as Appendix 13 to this report. On a daily basis, a check register that identifies each disbursement made by Gallagher & Bassett the previous day is sent to P&CI staff. These registers are used as source documents supporting the weekly reimbursement requests sent to the Finance Department, and they serve as the means of identifying to Insurance Claims Specialists which of the claims-related invoices in their pending payments file have been paid. The weekly reimbursements to Gallagher & Bassett are prepared by Insurance Claims Specialists, approved by the Property & Liability Insurance Coordinator and the departmental Fiscal Manager, and issued by the Finance Department as electronic funds transfers payable to Gallagher & Bassett.

Role of the County Attorney’s Office

The County Attorney’s Office is not ordinarily involved in any aspect of incident reporting or claims processing. As a courtesy and to facilitate preparation of an early defense, the County Attorney is generally notified of incidents involving serious personal injury or death that are likely to result in lawsuits. But the Office only becomes formally involved in either of two circumstances: (1) when proposed claim settlements exceed the Risk Management Director’s settlement authority; or (2) unresolved claims evolve into litigation against the county.

For claims that require settlement amounts in excess of approval limits of the Risk Management Director, the County Attorney is involved with the settlement process in all cases. Even though the County Administrator has the authority to approve settlements up to \$50,000, and the Board of County Commissioners can settle claims in any amount, county policy requires the involvement of the County Attorney's Office.⁶ For settlements within the limits of authority for the County Administrator, the County Attorney's Office must concur with settlements after approval of the County Administrator. Settlements proposed to the Board of County Commissioners for approval require the County Attorney's Office to prepare the Board Agenda Items and all necessary documentation. By submission of a proposed claim settlement as a Board Agenda Item, the County Attorney becomes the originating department and is required to sign the "Recommended by" line on the Agenda Item as part of the agenda process. Therefore, the proposed settlement of any claim exceeding the authority of the Director of Risk Management requires the review and concurrence of the County Attorney.

Beyond proposed claims settlements that exceed Risk Management's approval authority, the County Attorney is involved in the defense of all lawsuits brought against the county. A lawsuit may arise from the inability of Gallagher & Bassett to successfully negotiate a settlement of a claim. Alternatively, an injured third party may choose to file a lawsuit against the county as an initial course of action. In either scenario, the County Attorney's Office begins its defense by collecting all the available relevant information and documentation about the incident. This initial solicitation includes any claim file documentation already gathered during the insurance claim process. Where litigation has evolved from unsuccessful claim negotiations, all subsequent actions become the responsibility of the County Attorney and the claims adjusting process ends. Monthly, the County Attorney's Office meets with Risk Management Department staff and representatives from Gallagher & Bassett to review the current status of lawsuits and the potential financial exposure associated with litigation.

During preparation for a lawsuit defense, the County Attorney may choose to augment its staff with specialized services obtained from outside vendors in much the same way that Gallagher & Bassett may use such services during the investigations conducted as part of the insurance claims process. Services and the related litigation expense include, but are not limited to, witness depositions, court reporters, expert witness fees, background checks, accident reconstruction engineering, mediation services, second opinion medical examinations, independent appraisals, and surveillance by private investigators. Unlike Gallagher & Bassett, the County Attorney is not required to seek pre-authorization for the use of these specialized outside services, but all invoices and lawsuit-related payment requests are processed through the P&CI Section for payment by Gallagher & Bassett. For payment processing and reporting purposes, lawsuit-related payments, including lawsuit settlements, are regarded as claims expenditures by Gallagher & Bassett.

As a strategy for mitigating financial loss, the County Attorney's Office may offer to pay the plaintiff an out-of-court settlement to drop the lawsuit. Alternatively, if

⁶ Source: Policy and Procedure Memorandum No. CW-P-064.

both parties to a lawsuit opt to continue with litigation, Florida law mandates that mediation be attempted prior to court proceedings. Mediation employs the services of a professional mediator to hear both sides of the lawsuit and make one final attempt at finding an equitable out-of-court settlement. If mediation fails, the court will ultimately decide the outcome. By whatever method the lawsuit is settled, all costs of the County Attorney's Office and litigation-related services—whether for settlement or for court judgment—are submitted to P&CI for processing to Gallagher & Bassett for payment.

Claims– and Litigation–Related Costs

Insurance program costs are the direct result of services provided during claims processing or litigation defense activities. The invoiced services are provided either by staff or outside vendors and originate from one of three sources: the Property & Casualty Insurance Section; Gallagher & Bassett; or the County Attorney's Office. In some cases the costs are for staff services provided by the County Attorney's Office or Gallagher & Bassett, while others result from the authorized use of the outside specialized services described earlier. With the exception of invoices from Gallagher & Bassett for staff time and expense not covered by contract, Gallagher & Bassett pays all invoices after review by P&CI Insurance Claims Specialists.

By a wide margin, the County Attorney's Office generates the greatest number of invoices. The County Attorney's Office bills for staff time and related expenses monthly. This includes staff time expended on processing claim settlements in excess of Risk Management approval limits and litigation defense. In addition, they may authorize use of outside service providers.

Gallagher & Bassett may also utilize its own staff or employ specialized services to assist with tasks considered outside the normal and customary activities covered by its contract with the county. For Gallagher & Bassett staff, this may involve first party claim subrogation or fact-finding, hearing, negotiation and settlement activities that require the claims adjustor to leave the office. These expenses are billed separately each month and paid by the Finance Department after appropriate department approvals. Typically, the P&CI Coordinator and department Fiscal Manager approve all such time-and-expense invoices. In addition to staff time and expense, Gallagher & Bassett may, on occasion, request the use of outside vendors to provide background checks, second opinion medical examinations, independent appraisals, surveillance by private investigators, and the like. Requests by Gallagher & Bassett for use of outside vendor services are infrequent and must be authorized in advance by the P&CI program coordinator.

Finally, P&CI staff may also enlist the use of outside vendors. For example, it may be desirable to get an independent appraisal on a county vehicle severely damaged in a collision to determine whether repair is warranted. In these instances, the service providers bill the Risk Management Department directly and are paid by Gallagher & Bassett.

The Invoice Payment Process

All claims- and litigation-related invoices are first reviewed by their originating organizations (County Attorney, Gallagher & Bassett or Risk Management

Department), regardless of whether the invoices relate to staff time and expense or use of outside vendors. In the case of the County Attorney's Office, all invoices must be approved by the Assistant County Attorney assigned to the litigation. Because the use of outside service vendors by Gallagher & Bassett must be pre-authorized by the Property & Liability Insurance Coordinator, no further invoice approvals are required. All approved invoices are forwarded to P&CI claims specialists.

Insurance Claims Specialists receive the invoices and divide the workload alphabetically based on the name assigned to the claim or litigation. Next they conduct a pre-audit of the invoices, checking that charges are:

- Pre-approved or otherwise authorized, as necessary;
- Related to claims-in-progress or current litigation;
- Reasonable in nature based on the services provided;
- Accurately calculated and mathematical extensions are correct; and
- Not duplicates, and have not been previously processed for payment.

Prior to further processing, the Property & Liability Insurance Coordinator must review for approval all exceptions discovered during the pre-audit process. Additionally, the Coordinator reviews for approval all invoices from the County Attorney for staff services, as well as the time-and-expense billings from Gallagher & Bassett. Once approved, Gallagher & Bassett invoices are sent directly to the Finance Department for payment.

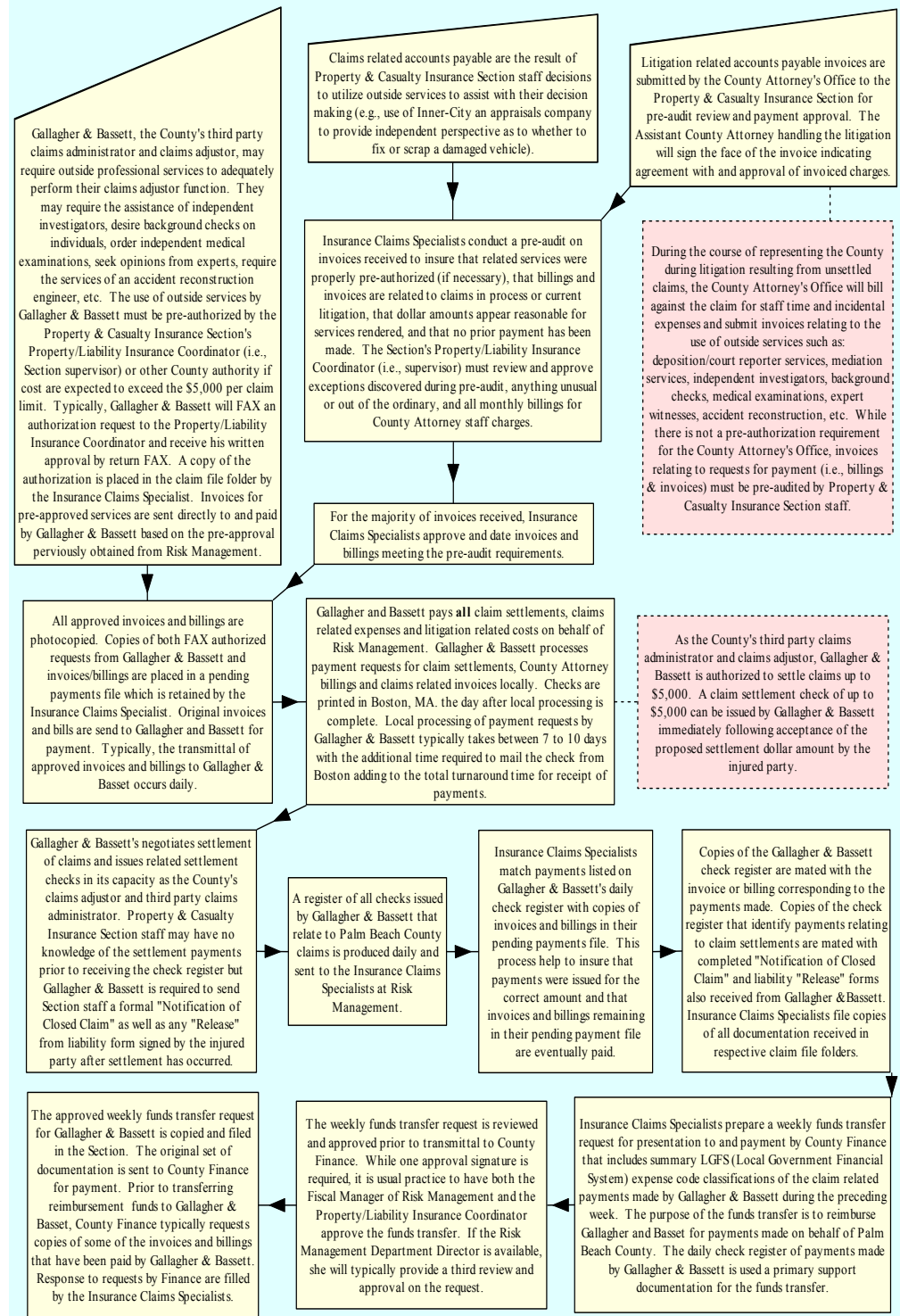
Invoices that pass pre-audit review and contain all the necessary approvals are then photocopied by the Insurance Claims Specialists. Photocopies of invoices are placed in a "Pending Payments" file and originals are sent by courier to Gallagher & Bassett for payment.

Gallagher & Bassett makes all payments for claims and litigation expenses on behalf of the county, except payments of its own time-and-expense invoices. Payments made by Gallagher & Bassett include all invoices, claim settlements and court judgments. Processing of payment requests, check printing and claims reporting are performed by Gallagher & Bassett's RISX-FACS proprietary software system. The system requires all payment requests to be associated with a valid claim. If a claim existed prior to becoming a lawsuit, subsequent litigation-related payments would be associated by the system with the originating claim.

Local processing of invoice payments by Gallagher & Bassett typically takes between 7 and 10 days (Appendix 13). Checks are printed daily in Boston and mailed directly from there to individual vendors and claimants. Separate checks are printed for each claim and each vendor. Therefore, the County Attorney might receive several checks reimbursing expenses incurred on several cases. Expedited payment requests can be processed locally on a same-day basis with checks written in Boston the following day. Such overnight courier delivery of checks reduces delivery time, but still results in a minimum three-day turnaround time for expedited payments.

FIGURE 4

The Invoice Payment Process (County Portion)



Gallagher & Bassett's RISX-FACS system produces a daily payment register that identifies each check issued, its payee and amount. The register is produced and faxed from the Itasca, Illinois branch of Gallagher & Bassett to P&CI Claims Specialists as it becomes available. In a process designed to ensure that invoices sent to Gallagher & Bassett for payment are actually paid, Insurance Claims Specialists match the payments reported on the daily payment registers with invoice photocopies in their pending payments file. When a payment is matched to an invoice in the file, the invoice copy is removed from the pending file and both the invoice copy and a copy of the check register are placed in the claim file.

Once a week, P&CI Claims Specialists prepare a funds transfer request to the Finance Department to reimburse Gallagher & Bassett for claims- and litigation-related payments made on behalf of the county during the preceding week. They use the Gallagher & Bassett daily payment registers as primary supporting documentation for these transfer requests. In preparing the request, Insurance Claims Specialists are required to provide the LGFS accounting code distribution (Fund 631, Agency 700, Organization 7130, Object 4511) for Gallagher & Bassett payments previously aggregated by claim and vendor. Sub-object codes are used to differentiate among categories of expense, such as attorney's fees, investigations, depositions/court reporting, and so on. Once a funds transfer request is prepared it must be approved by the Risk Management Director, Property & Liability Insurance Coordinator or Fiscal Manager. In practice, both the Property & Liability Insurance Coordinator and Fiscal Manager sign the funds transfer request and, when she is available, the department director does as well. After approval, the funds transfer request is sent to the Finance Department and payment is remitted by wire transfer to a Gallagher & Bassett depository. This entire cycle is repeated weekly.

In this final step of the payment process, it is not uncommon for Insurance Claims Specialists to be requested to send photocopies of individual vendor invoices and County Attorney billings to the Finance Department. This is done to enable Finance staff to conduct a post-audit of payments made by Gallagher & Bassett, and to check the diligence of the pre-payment audits conducted by P&CI claims specialists.

STAFFING AND WORKLOAD CONSIDERATIONS

The Property & Casualty Insurance Section has an authorized staffing complement of 3 full-time positions. Both the number of authorized positions and their position classifications have remained unchanged during the past six years. The Property & Liability Insurance Coordinator serves as Section supervisor. Two Insurance Claims Specialists complete the roster.

A review of staff turnover and sick leave utilization revealed nothing of note. Paid overtime use has not been incurred since fiscal year 1997 and compensatory time off was last accrued during fiscal year 2001, amounting to 8 hours for the entire year.

The primary activities of the Property & Casualty Insurance Section involve the recording of incidents, preparation of insurance claims and the processing of invoices related to claims and litigation. Insurance Claims Specialists devote approximately 90 percent of their available work hours to these activities. The

Coordinator spends approximately one-quarter of his available work hours involved directly in those activities or supervising the Insurance Claims Specialists engaged in those activities.

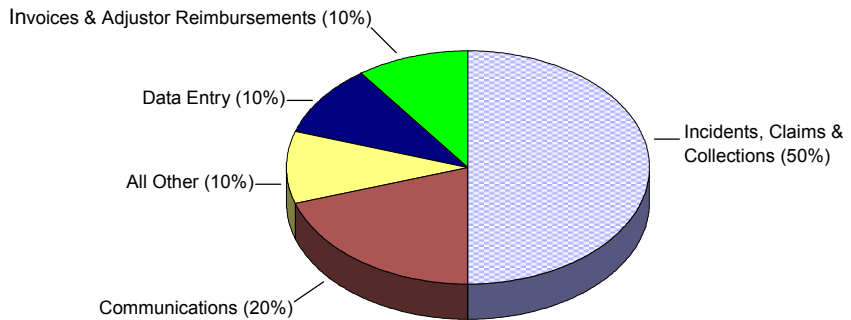
The Property & Liability Insurance Coordinator has overall operational responsibility for the P&CI and is available for consultation with county staff as well as outside vendors on a wide variety of insurance related matters. As such, his daily work activities are generally not of a predetermined or repetitive nature.

In contrast, Insurance Claims Specialists perform more narrowly focused and repetitive tasks. The great majority of their workday is occupied with some aspect of incident recording or claims processing. Incident reports and claims originate daily from both internal county sources and from the public or their legal representatives.

Incident and claims-related information is received as a result of walk-in visits, telephone contacts, FAX transmissions, posted mail, e-mail, and interoffice mail. Insurance Claims Specialists typically sort the input as either incident- or claim-related then proceed to perform follow-up activities as required by each. The chart in Figure 5 provides an overview of how they allocate their available working hours.

The greatest portion of staff effort is devoted to accumulating incident- and claims-related information and documentation necessary for establishing county liability, the circumstances surrounding an alleged loss, and the magnitude of the loss itself. While Gallagher & Bassett handles all third party claims adjusting on behalf of the county, Insurance Claims Specialist are charged with providing the adjustor with a substantial portion of the information and documentation necessary to adjust and settle claims. In the case of damage to county vehicles, the Fleet Management Division prepares an estimate of damage, which is then reviewed by P&CI employees prior to being provided to Gallagher & Bassett for immediate payment.

FIGURE 5
Estimate of Daily Work Distribution by Major Tasks
Insurance Claims Specialists



Source: PBC Property & Casualty Insurance Section

An in-house incident tracking database software program is utilized by Insurance Claims Specialists to capture information regarding incidents and monitor the number of incidents recorded annually. Over the six-year period from 1997 through 2002, the number of reported incidents increased by 17.3 percent while the number of claims processed fluctuated slightly from year to year, ending 15.7 percent higher for fiscal year 2002 as compared with fiscal year 1997.⁷ The graph on the following page depicts the trends in these two activity measures from fiscal year 1997 through fiscal year 2002.

The number of claims processed annually by claim type is captured by Gallagher & Bassett's RISX-FACS proprietary software system. Over the six-year period between fiscal year 1997 and 2002, the number of claims processed annually has fluctuated slightly, starting at 356 claims processed during fiscal year 1997 and ending with 412 claims, or 15.7 percent higher, in fiscal year 2002. As of April 1, 2002, the county's Self-insured Retention Plan began coverage of Palm Tran's bus liability claims. Currently, there is insufficient historical data to determine the impact on future workloads; however, bus related accidents can result in multiple claims.

Information regarding the number of claim- and litigation-related invoices processed is not recorded by P&CI staff or available from the Gallagher & Bassett RISX-FACS system and was therefore not available to the consultant for analysis.

In general, the type of information captured and the forms utilized by the county's incident reporting process are fairly standardized and the task of recording incidents is relatively uncomplicated and repetitive. The real challenge here involves obtaining the necessary information and completed forms on a timely basis. This effort varies widely and requires a significant investment of time in the area of communication and follow-up. There exists a definite correlation between the number of incidents reported and the work effort required by Insurance Claims Specialists.

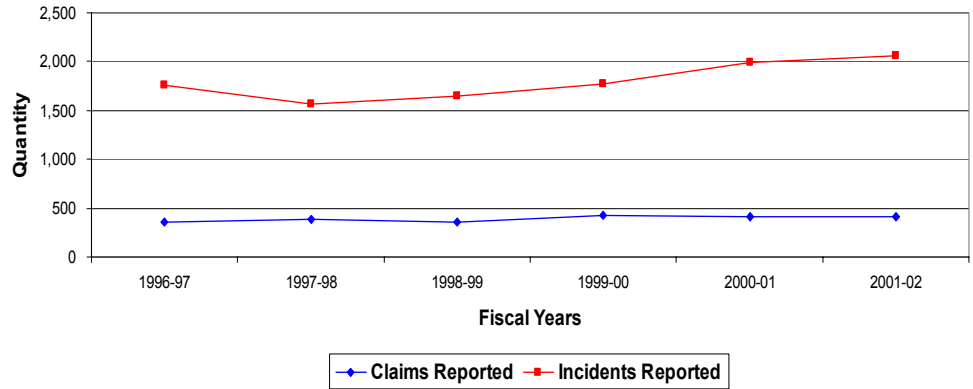
On the other hand, the information and documentation required for claims processing varies with the type of claim, the number of parties involved and severity of loss. This makes preparation of some claims more complicated than others. Because Insurance Claims Specialists interact frequently and extensively with county staff, the public, lawyers, insurance companies, police departments and others during their information gathering efforts, communication and follow-up represent a significant portion of the time required to prepare claims for processing. This is clearly depicted in Figure 5 on page 25.

A review of the schedule "Actual Incidents and Claims Reported" contained in Appendix 14 shows that the quantity and type of claims processed have remained fairly consistent over the past six-year period.

⁷ Appendix 14 to this report contains detailed information regarding the number of incidents and claims by category for each year, including amounts paid to settle claims and reserves established for unsettled claims. The incident and claim data in Appendix 14 reflect only known claims; it is not unusual for claims to be filed several years after a loss event has occurred. The Actuarial Projections of claims related cost include both known and unknown claim components.

FIGURE 6

**History of Incident and Claims Activity
(Fiscal Year 1997 – Fiscal Year 2002)**



Sources: (1) Incidents – Property & Casualty Insurance Section database; (2) Claims – Gallagher & Bassett Selex-Facs Report *SXQ73R01*.

The Section publishes four performance indicators in both the annual budget document and the County Administrator’s Semi-Annual Report. They are:

- County damage claims against others;
- Claims processed;
- Percent claims processed within three working days; and
- Amount collected from county damage claims.

Findings and Recommendations

This part of the report is divided into two sections—General Findings and Recommendations. As appropriate, analyses of the issues are included in each of these sections. We begin by summarizing the essential conclusions reached by the study team as a result of our work on behalf of the department.

GENERAL FINDINGS

The preceding sections of this report have described the current organization and operating environment of the Property & Casualty Insurance Section, its workload, performance and available staffing. Through a process of on-site observation, interviews with employees and managers, and a review of available documentary data, the study team offers its assessment of the staffing adequacy, opportunities for improvement regarding incident reporting, claim preparation and invoice payment processes.

The essential conclusions we have reached are: 1) the authorized P&CI staffing allocation is adequate to handle the program workload; 2) there are built-in inefficiencies in the claims processing system, although the process functions as intended; 3) the existing P&CI management information system is adequate, but there are technology limitations that impede efficiency; and 4) P&CI lacks useful measures of program performance.

The following specific findings describe the study team's conclusions in detail, and are the bases for recommendations that follow in the next section of the report.

The Property & Casualty Insurance program routinely operates without a backlog and without resorting to use of overtime to handle its workload

Over the course of the six-year study period, FY 1997 through FY 2002, the section processed all 10,770 incident reports filed and 2,267 claims initiated, along with an unknown number of invoices, incurring a total of just 28 hours of overtime worked. While a formal complaint process does not exist, the study team found no evidence of performance complaints, either formal or informal, lodged against the section.

The annual number of incidents processed by section staff increased by 17.3 percent between FY1997 (1,752 incidents) and FY 2002 (2,055 incidents). Claims fluctuated slightly in both quantity and type during the period (Appendix 14), ending FY 2002 with a total of 328 claims, a 13.7 percent reduction from fiscal year 1997 (380 claims). The number of claims- and litigation-related invoices processed was not available to the project consultant. That data is not recorded by P&CI staff and the Gallagher & Bassett RISX-FACS software does not report that statistic either.

The numbers of claim file folders on desktops and the volume of paper in the in-baskets of claims specialists provide the only visible indication of the amount of work-in-process and newly received items awaiting staff attention. The section supervisor periodically performs this sort of visual check and converses with the claims specialists as his primary means of monitoring how well the staff is able to keep up with the workload. While this somewhat informal method of monitoring has apparently been a workable means of ensuring that incoming work is addressed by staff, it would not normally be regarded as a sufficient basis to make objective decisions regarding staffing adequacy.

The determination of staffing adequacy is dependent on more than just achieving a balance between the workload quantity and the size of the workforce available to do the job. Workload is itself a composite of two factors—activity levels (an input measure) and performance levels (an output or outcome measure). To determine staffing adequacy, how *well* a workforce is meeting its expected targets is as important as how *much* it has to do. For reasons that are discussed later in this section, the issue of work performance cannot be as readily assessed in this instance as workload volume. However, at least from the perspective of activity levels, the section has had sufficient staffing during the six-year study period to keep pace with incoming work.

The existing claims processing system operates as intended, but there are some built-in inefficiencies associated with that system

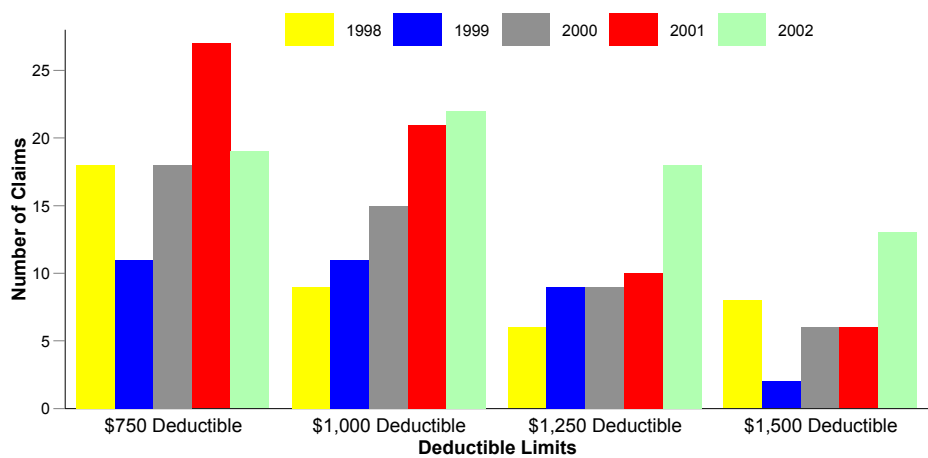
The use of outside contractors to administer insurance claims is a common practice among public agencies with self-insurance programs. Often, it is the easiest, most reliable means of initially acquiring the industry knowledge and experience needed to operate effectively in this field. Palm Beach County has relied on this type of arrangement for more than a dozen years, apparently with good success. But the contract model imposes a degree of redundant work on the county that can be somewhat inefficient with staff time. This is particularly apparent in two respects: 1) the need to produce duplicate claim files for each claim initiated, one for P&CI records and one for transfer to Gallagher & Bassett; and 2) the additional layer of payment and accounting activities which result from the need to pre-audit payments made by Gallagher & Bassett to claimants and to third-party vendors, and then to post-audit these same payments, along with the contract fee payments to Gallagher & Bassett.

Redundant claim files and financial accounting are a function of the use of outside, contracted claims administration.

A second form of process inefficiency has to do with the current deductible limits on damage to county property (other than buildings). An analysis of first party property claims processed during fiscal years 2001 and 2002 reveals that over half of all claims opened in those years would have been eliminated if the property loss deductible limit had been \$1,000 per incident rather than the current \$500. Eliminating claims by means of higher deductible limits reduces the claims workload throughout the entire insurance system, while shifting a greater portion of the financial responsibility for losses onto the departments incurring the losses.

FIGURE 7

The Number of First Party Property Claims Could Be Reduced By Raising Deductible Limits (Fiscal Year 1998 - Fiscal Year 2002)



Source: Gallagher & Bassett RISX-Facs Report.

The graph in Figure 7 on the preceding page shows the additional numbers of first party property claims that could have been eliminated at each of four deductible levels over the past five years. The number of claims involved at each deductible level is added to the number of claims at all lower levels to determine the total number of avoidable claims at a given deductible level. For example, 41 claims would have been eliminated during fiscal year 2002 had the deductible been set at \$1,000 rather than at its existing \$500. This represents 19 claims eliminated at the \$750 deductible level plus an additional 22 avoided claims at the \$1,000 level.

The Section's management information system functions adequately, but its technology capabilities and reporting tools are limited

The P&CI section's incident reporting management information system was developed by Risk Management staff as a way of automating the maintenance of incident information. A data input screen simplifies the task of keeping database records updated as relevant information is received at P&CI. Reports capable of sorting input records and providing statistical information based on user-defined incident characteristics are available upon request. Typically-requested reports sort and summarize incident data records to produce information such as the number of incidents reported in a month, the departments of origin, and the types of incidents involved (vehicle-related or other). As with all relational database programs, the option exists in the P&CI application to print detailed individual incident report records, or multiple detailed records based on user-defined selection criteria, or to print all records in the database.

But the system does not currently have the capability of reporting on or periodically reminding P&CI staff of incident report "shell" records that may exist in the database. Shell records are incomplete incident report records that were started but which remain incomplete, awaiting required information. This is of interest because some input of incident information occurs immediately after incidents are reported to P&CI staff by telephone or e-mail, but the official incident report forms may not be received immediately. According to P&CI staff, some incident report shell records remain open for months, with only the eventual receipt of completed reports to trigger completion of data input into the database. In the absence of this information, adherence to countywide policy and procedure memorandum no. CW-O-007 cannot be effectively monitored by P&CI staff. PPM #CW-O-007 requires personnel in county departments to make an immediate initial incident report by telephone to Risk Management or to the Emergency Operations Center, as appropriate, followed by submission of a completed incident report form to Risk Management "as soon as possible" after the loss occurrence.

Other information available from the incident reporting system database could be utilized to identify the total elapsed time between the date an incident is reported ("Report Date" record field) and the date a claim file is sent to Gallagher & Basset ("Claim Date" record field). While this period of time includes both the time required to complete the incident reporting process and the time required to accumulate documentation for Gallagher & Bassett's claims adjustors, the systematic calculation and periodic reporting of the total time required to prepare each claim would provide valuable management insight into the claims processing cycle. Further, reporting of total time requirements by claim type, as well as the calculation of corresponding average processing times, would reveal the typical

processing times required by individual claim types, facilitate the development of claim processing performance standards or expectations and provide a limited means of evaluating both individual employee and overall program performance. Existing incident reporting program options do not provide for the calculation or reporting of this time element, although it would be possible to include this feature in the program.

Finally, the existing system requires that claims specialists manually input data relating to reported incidents, and it has no facility for electronically accepting this sort of report information directly from the filer. There is no availability of electronically formatted incident report forms, third party claim forms—or even the instructions for completing and submitting these documents—on the county Intranet site. According to the P&CI supervisor, signatures historically required on incident report forms are not necessary, and the existing requirement should not stand in the way of developing electronic versions of the forms.⁸ Employee statements, depositions or affidavits with original signatures can always be obtained after submission of an incident report, as circumstances warrant.

Performance measures in use in the Section are inappropriate indicators of program performance and do not allow the department to objectively determine personnel requirements or to monitor adherence to countywide policies concerning incident reporting

The P&CI Section does not presently use performance standards related to incident reporting, claim file preparation and invoice processing, although one of the section's performance indicators, "Percent of claims processed within three working days," attempts to monitor the ability of staff to complete some of the less time consuming, more routine final steps of claim file preparation within a three day period.⁹ Countywide policy and procedure memorandum #CW-O-007 instructs personnel to make an immediate initial incident report by telephone to Risk Management or the Emergency Operations Center, as appropriate, followed by submission of a completed incident report form to Risk Management "as soon as possible" after an occurrence. However, there is no evidence this policy is monitored for adherence in any way. Other than the aforementioned, there are no internal performance standards that express organizational expectations for completing activities associated with the three primary operations of P&CI: incident reporting, claim file preparation and invoice processing.

Besides "Percent of claims processed within three working days," three other performance indicators record output in a manner that is more a function of events beyond staff control than it is reflective of P&CI program performance. Because Insurance Claims Specialists typically do not experience backlogs in handling incoming workload, and items can generally be addressed on a current basis, whatever workload volume is input results in a corresponding output. In fact, the

⁸ While existing internal incident report forms require the signature of the individual filing the report, the specific content and format of the forms are not addressed by PPM #CW-O-007.

⁹ Note that the performance indicator, "Percent of claims processed within three working days" includes only working days from the date that all documentation necessary to process a claim is in the possession of the P&CI Claims Specialist. It may take as long as several months to obtain the documentation; that time is disregarded in the calculation of this performance measure.

output measure, “Amount collected from county damage claims” is just as likely to result from the efforts of Gallagher & Bassett, Penn Credit Corporation or the County Attorney’s Office as it is the result of efforts by P&CI staff.¹⁰ For that reason, it is not a reliable measure of program performance.

Indeed, the study team found no performance measures to reflect organizational expectations with respect to quantity, speed or quality control of the work product that could usefully be applied to employees of the program. When expectations are quantified as performance standards, they permit monitoring of how closely program performance conforms to administrative expectations, given the available staffing.

The answer to whether or not an organization’s staffing is adequate depends very largely on the results of two comparisons: 1) how much work the organization does compared with how much there *is* to do, and 2) how well (or fast) it does its work compared with how well (or fast) it is *supposed* to do it. By not aligning performance expectations with the section’s primary operational activities, key reference points are missing to make these comparisons, which are necessary for objective resource allocation and staff deployment decisions.

RECOMMENDATIONS

Recommendation 1: It is recommended that the Risk Management Department evaluate the feasibility of bringing the claims administration and claims adjusting functions in-house

All indications are that the use of outsourced claims administration services has been an effective means of providing professional management over the handling of third party claims against the county’s self-insured retention plan. Our process analysis of the county’s property & casualty insurance program leads us to believe that it may now be appropriate to consider bringing that activity into the department. Three factors, in particular, have led us to this conclusion. First, the maturity of the county’s self-insurance program and its management suggests that the county is not dependent on outside administration as may have been the case in the early years of the program. Second, under the circumstances, the built-in inefficiencies of contracting become increasingly unnecessary to tolerate. Third, the costs of a private sector contract become increasingly unnecessary to incur.

The county contracts with Gallagher & Bassett to provide third party claims administration service, including claims adjusting, claims settlement and payment of vendor invoices for related services. During FY 2002 the county paid \$152,635 for the basic contract services and additional “time and expense” charges that amounted to \$39,324. Basic claim service fees¹¹ under the contract range from a low of \$130 per claim for simple first party claims to over \$500 for third party claims involving bodily injury.

¹⁰ The section’s two remaining performance indicators are county damage claims against others, and total claims processed.

¹¹ Claim service fees can increase between 5% and 5.5% annually during the remaining term of the contract which expires 9/30/06.

A decision to take over claims adjusting services would involve both advantages and disadvantages.

Advantages

- Save the annual contract cost and “time and expense” billings, now approaching \$200,000 annually.
- Result in a higher claims and invoice-processing priority as P&CI staff would be focused solely on county business. Currently, the contract adjustors work only part-time on county claims, as they must divide their time among several contract clients.
- Enable existing staff to handle claims adjusting responsibilities with a modest increase in effort due to the fact that P&CI claims specialists already gather the documentation on which claims adjustment decisions are made, and the section supervisor already reviews all claims before their submittal to the outside adjustors.
- Save P&CI staff time by eliminating the need to prepare duplicate claim file contents and then send claim files to outside adjustors.
- Save P&CI staff time by eliminating the need for P&CI staff to act as intermediaries between the outside adjustors and staff of county departments on follow-up information requests.
- Save P&CI staff time by eliminating the need to photocopy and file copies of invoices sent to the outside adjustors for payment.
- Increase the speed of payments issued for claim settlements and claims-related invoices by using the county Finance Department. Requests for expedited payments could be issued on a next-day basis as opposed to the existing process that requires three days plus mailing time.
- Save P&CI staff time by eliminating the need to obtain and reconcile the daily Gallagher & Bassett check register of payments with the filed copies of pending invoices previously sent to Gallagher & Bassett.
- Save P&CI staff time by eliminating the need to prepare weekly electronic funds reimbursement requests (and supporting documentation) to the Finance Department for reimbursement to outside adjustors, and
- Save P&CI staff time by eliminating the need to provide county Finance with photocopies and explanations of invoices paid by Gallagher & Bassett to fulfill the Finance Department’s post-payment audit procedures.

Disadvantages

The handling of claims administration in-house would involve certain start-up expenditures as well as both short- and long-term staffing considerations.

- In-house claims administration would require purchase, development or lease of claims administration software and may require computer hardware upgrades.

- Acquisition, installation and training activities associated with an in-house claims administration software package will require the investment of staff time and involve a learning curve, during which staff use of a new system will be less than optimal.
- The county would lose the use of Gallagher & Bassett and its appearance of independence when denying claims to third parties.
- The existing self insured retention plan may require redesign because existing excess insurers may be unwilling to provide coverage in the absence of an approved third party claims administrator.
- In the short term, an experienced claims adjustor would need to be hired. None of the current staff has the appropriate claims background to adjudicate complex third party liability claims or estimate the related claim reserves. Over time, it may be possible to optimize the effectiveness of current staff and increase their credibility in the area of claims adjusting by encouraging Insurance Claims Specialists to obtain state licenses as independent claims adjustors; however, licensing of staff may lead to higher pay classifications and increased staffing costs on the program.
- The current building floor space allocated to the Risk Management Department cannot accommodate the addition of personnel.

For the purpose of providing an additional perspective on in-house claims administration, the study team reviewed certain operational characteristics and workload statistics of the Broward County program. Broward County is also self-insured and has a separate insurance section similar to P&CI. For many years now, Broward County has handled its own claims administration—including claims adjusting—having previously contracted for these services. They operate with a complement of five employees, including a supervisor, three claims adjustor positions and one secretary. Except for the secretarial position, all of the employees are licensed by the state as independent claims adjustors. During FY 2002, Broward County processed 694 claims—more than double the 328 claims in Palm Beach County during the same year.¹²

Based on conversations with P&CI staff, the local branch operations manager for Gallagher & Bassett and the supervisor of Broward County’s in-house claims administration group, the study team believes that Insurance Claims Specialists already perform most of the necessary preparatory work by accumulating the documentation required for claims adjustment decisions. Nevertheless, new skills will have to be developed and these skills will take time to acquire. The department should undertake a thorough evaluation of these issues to determine the feasibility and desirability of making such a change. OFMB’s Management & Program Analysis Section is available to assist in that evaluation, if requested.

¹² All data for the Broward County program were provided in a telephone interview with Ms. Sandy Steinlagi, supervisor of the Property & Casualty Insurance Section, on February 25, 2003. Broward County’s Claims Adjustor II position description and its corresponding salary range are included as Appendix 15.

Recommendation 2: It is recommended that the PC&I Section upgrade its existing computerized incident reporting information management system

The P&CI Section lacks some of the reporting tools it needs to fully track its work effort and to make objective staffing decisions, but we saw no evidence that these data deficiencies compromise the daily management of incident and claims processing or financial accountability.

The existing system makes no provision for capitalizing on contemporary information technologies to increase the productivity of P&CI staff. Relatively modest revisions to the incident reporting software would have potentially significant productivity implications. Web-enabling the program would allow county employees to file reports directly into the incident reporting system via the county Intranet. This would have the beneficial effect of immediately relieving much of the initial clerical work performed by the claims specialists at P&CI.

As envisioned, the system would interpret input data on-the-fly, deciding which series of sequential input screens to display in order to customize the capture of data required by the various types of incidents involved. Providing both on-line help and the capability for electronic submission of incident reports would reduce the largely clerical data entry activities of Insurance Claims Specialists, while assuring the capture of the most up-to-date information, thus increasing the throughput speed of incident report filings, improving data accuracy by eliminating transcription errors and providing county employees immediate answers to commonly asked filing questions.

As an interim measure, electronic versions of hardcopy incident report forms (Appendix 8) could immediately be made available on the county Intranet. Forms in common text formats such as Microsoft Word, Corel WordPerfect or Adobe Acrobat would allow incident reports to be filed as e-mail attachments, making use of existing technology and widely supported software at no additional expense to the organization. At a minimum, Intranet site information should provide instructions for completing forms, cross-references to applicable countywide policies and procedures and the forms themselves.

Besides providing a more automated method of incident reporting, the P&CI claims management system should be enhanced to report the existence of shell records in the database. Because the current system does not automatically remind staff of the existence of incomplete incident report records, some reports remain incomplete and unaddressed for long periods of time. To remedy this situation, a new key record field designed to identify the incident report "Completion Date" should be added to the system's master record layout. Then, the computer program would be able to periodically provide an exceptions list of all such incomplete incident reports. Additionally, when the "Completion Date" is compared to the initial incident "Report Date," time elapsed between the two dates allows for the monitoring of timely incident reporting as required by PPM #CW-O-007. Likewise, when the proposed incident report "Completion Date" is compared to "Claim Date" (the date the claim file is sent to Gallagher & Bassett) it would be possible to determine the length of time required to accumulate the documentation necessary for processing a claim. These measurements would

facilitate the calculation of average time required by the respective processes and form a basis for developing future operational standards of program performance.

The existing incident report system could also be enhanced to systematically monitor the number and types of claims-in-process for which documentation is being accumulated and prepared by P&CI staff for use by the adjustors. Currently, incidents that have evolved into claims are only identified in the system after all claim file documentation has been sent to Gallagher & Bassett by entering that date into the incident report record in the “Claim Date” field. Prior to that event, claims-in-process are known only by the existence of physical claim file folders atop the desks of claims specialists. Insertion of a new key record field designed to identify the “Type of Claim” would not only identify the incident record as a claim-in-process but also enable reporting by type and frequency.

Finally, the P&CI incident reporting system should produce pre-defined periodic reports that allow management to monitor changes in volume, composition and time requirements of workload activities during comparable time periods. While the means to produce some of these reports already exists in the intrinsic capabilities of relational database programs such as FOX-Pro, reports are often only defined and run to fulfill ad-hoc information requests and are therefore not always comparable in either content or reporting time periods. The addition of recommended record fields for capturing the incident report “Completion Date” and “Type of Claim” will provide the database with the information necessary to calculate average processing times for both incident reporting and claims-in-process workload, along with the ability to determine the number of claims-in-process within P&CI. The study team recommends that the following reports be defined and produced on a periodic basis.

- The number of incidents reported by originating department and incident type (property, auto or third party liability), by current month and year-to-date.
- The number of claims-in-process by type and department involved, by current month and year-to-date.
- An aging report listing all shell incident report records, by 30-day intervals.
- A printout of all shell incident report records.
- Average time required to complete incident reports during the current month and year-to-date, with the average defined as the sum of elapsed time between the initial incident “Report Date” and the incident report “Completion Date” for each incident completed during the period, divided by the number of all incidents completed during the period.
- Average time required to complete claims-in-process during the current month and year-to-date, with the average defined as the sum of elapsed time between the incident report “Completion Date” and the incident report “Claim Date” for each claim file completed and transferred to Gallagher & Bassett during the period, divided by the number of all claims completed and transferred during the period.

Recommendation 3: It is recommended that first party property loss deductible limits be increased from the current \$500 to \$1,000 as a means of reducing the number of claims processed through the casualty insurance system and the associated contract fees paid for outside claims administration services

An analysis of historical claims data reveals that increasing the deductible from \$500 to \$1,000 can reduce the number of first party claims by more than half. This translates into some reduction in P&CI workload and savings of \$130 per claim in contract claims administration charges. In FY 2002, a first party property claim deductible of \$1,000 would have reduced the number of first party property claims by 56 percent and overall claims volume by 12.5 percent, in the process saving more than \$5,000 in contract fees.

Because first party property claims are among the easiest claims to process, staff effort expended on these claims is not equivalent to the effort expended on other claim types. Nevertheless, some savings of staff time would be realized throughout the entire system, from the originating department to Gallagher & Bassett. Ancillary benefits include reductions in paperwork and file space.

Implementation of this recommendation would not alter the financial costs of a loss or reduce what the county would ultimately have to pay for repair or replacement of an asset. It would merely shift an additional \$500 of loss liability for each incident from the county's self-insurance fund to the department incurring the loss. However, at 40 or 50 losses per year for all covered agencies, the budgetary impact on any single department would be negligible. Moreover, the elimination of those losses to the self-insurance fund would favorably affect the program's loss payout experience and be reflected in the annual premium distribution calculations to participating departments.