

EXECUTIVE SUMMARY

The Office of Inspector General of the City of New Orleans (OIG) conducted an evaluation of the City's policies and practices relating to the management of property and casualty risks, including the risk of damage or loss caused by flood, fire, natural disaster, etc. The objectives of the evaluation were to determine whether the City prudently managed these risks and to evaluate procurement and contracting practices relating to an insurance producer of record.

The City managed its property and casualty risks primarily through the purchase of property insurance and National Flood Insurance Program (NFIP) flood insurance, at a cost of \$1.6 million and \$300,000 per year, respectively. The City selected policies with the dual goals of providing insurance coverage and meeting standards set by the federal government to maintain eligibility for federal assistance in the event of a future disaster. In 2007 the City was certified by the Louisiana Department of Insurance as having "reasonable" insurance coverage, sufficient to meet federal requirements. Our review of City insurance policies found that:

- The statement of values (a list of covered properties) for the City's master property insurance policy was out of date and contained errors and deficiencies.
- The City maintained insurance policies that appeared inconsistent with the City's overall approach to managing property and casualty risks.

The City purchased insurance policies through a producer of record that acted as the City's agent. The producer helped the City solicit quotes from insurers, select coverage levels, purchase policies, and make renewal payments. The contract stipulated fees for service up to an annual maximum of \$80,000, although the City automatically paid the maximum fee without requiring documentation of the services provided. The producer was also entitled to commissions on flood insurance policies, which in 2011 came to \$60,000 in additional compensation. In early 2011 the City solicited proposals for a new producer of record contract. The City selected a proposal but did not execute a new contract before this evaluation was completed. Our review of the City's management of the producer of record and the selection process for a new producer found that:

- The City did not manage the producer of record contract to maximize the value of the producer's services or provide sufficient oversight to ensure that the work was commensurate with the fees.
- The selection process for a new producer of record did not generate price competition.
- The selection committee did not explain the reasons for the proposal ratings, obscuring the decision making process.

Based on these findings, we recommended the following steps for the City to improve the effectiveness and efficiency of the property and casualty insurance program:

1. The City should request that the State review the City's property and flood insurance program to verify continuing eligibility for Stafford Act waiver certification.
2. The City should undertake the necessary steps to develop an up-to-date and accurate statement of values for its master property insurance coverage.
3. The City should develop a risk management plan for the property and casualty program.
4. The City should develop a new request for proposals (RFP) for a producer of record contract.
 - a. The RFP should solicit competitive prices for a fee-based contract.
 - b. The RFP should include clear standards for evaluating qualifications.
 - c. The selection committee should adhere to the instructions in Executive Order MJL 10-05 by providing written explanations of numerical scores.
5. The City should improve oversight of the producer of record and include clear performance standards in the contract.

A draft of this report was provided to the Risk Management Division, City Attorney's Office, and Chief Administrative Office for review and comment prior to publication. The City's Response is appended in full to this report.

Relevant portions of the City response to this report follow each recommendation; all are direct quotes excerpted from the City's official response to the internal review draft.