

EXECUTIVE SUMMARY

The Office of Inspector General of the City of New Orleans (OIG) conducted an evaluation of the City's motor vehicle self-insurance program and related elements of its vehicle use policy. The objectives of the evaluation were to determine the full cost of the motor vehicle self-insurance program, to assess the City's management of the program, and to evaluate the City's vehicle use policy as it relates to fleet risk management.

The City had approximately 1,900 vehicles, with the largest fleets assigned to the Police Department (60%), Fire Department (6%), Parks and Parkways (5%), Emergency Medical Services (4%), and Public Works (4%). The City self-insured its fleet, directly paying all damages and liabilities rather than transferring its risks to an insurer. Evaluators calculated the net cost of the self-insurance by summing liabilities owed to third parties, damages to City vehicles, and administrative costs to manage the program, and subtracting any money the City collected from third parties who were at fault in accidents. The City averaged \$859,000 per year in liabilities, \$570,000 in damages, and \$242,000 in administrative costs, and collected on average \$195,000 from at-fault parties; the average net cost of the City's motor vehicle self-insurance program was \$1.5 million per year. Vehicle accident-related worker's compensation claims also cost the City around \$1.2 million per year.

The City contracted with a claims administration company that reviewed claims, investigated accidents, and negotiated settlements that were approved by the Law Department. Our review of the claims administration contract found that:

- The City could have performed claims administration in house for \$100,000 per year less than the current contract cost.
- The City overpaid \$90,960 over 29 months by initiating two separate contracts that paid for the same company to do the same work.
- The City did not efficiently manage the contracting process: contractors performed work without a contract specifying the full terms of service and compensation, performed work under the terms of an expired contract, and began work before a contract was signed by the Mayor.

The evaluation also encompassed the City's vehicle use policies, an important component of comprehensive risk management. The city-wide vehicle use policy was outlined in CAO Policy Memorandum 5 (R), which was supplemented by department level policy in some instances (including Police, Fire, and EMS). Evaluators identified three key components of fleet risk management: driver selection, driver training, and driver supervision. By comparing the City's policies to these standards, we found that:

- The City did not adequately monitor employee's official driving records or on-the-job driving safety records, nor did it set standards for denial of driving privileges.

- The City did not require safety training for all drivers of City vehicles.
- The City did not adequately ensure compliance with personal insurance requirements for employees with take-home vehicles.

In addition, evaluators found that the City did not maintain reserves for the motor vehicle self-insurance program, despite the likelihood of periodic high-cost claims.

Based on the report's findings, we recommended the following steps for the City to improve the effectiveness and efficiency of the motor vehicle self-insurance program and vehicle use policy:

- The City should perform claims administration in-house or negotiate a significant reduction in the contract cost.
- The City should improve contracting practices, including avoiding redundant contracts, ensuring that all contracts include complete terms, not permitting contractors to continue work under the terms of an expired contract, and not permitting contractors to begin work before a contract has been signed by the Mayor.
- The City should adopt a vehicle use policy modeled after the State of Louisiana's Driver Safety Program. This policy should define clear standards for denial of driving privileges, and require annual drivers' record checks, the monitoring of employees' on-the-job driving records, and defensive driving training.
- The City should improve oversight of personal insurance requirements for take-home vehicles.
- The City should maintain reserves for the motor vehicle self-insurance program.

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 full response is appended to this report.