



# **Office of Inspector General**

**City of New Orleans**

## **Evaluation of City Motor Vehicle Self-Insurance Program and Vehicle Use Policy**

**E. R. Quatrevaux  
Inspector General**

**Final Report**

**October 23, 2012**

OFFICE OF INSPECTOR GENERAL  
**CITY OF NEW ORLEANS**



ED QUATREVAUX  
INSPECTOR GENERAL

October 23, 2012

Re: Evaluation of City Motor Vehicle Self-Insurance Program and Vehicle Use Policy

I certify that the inspector general personnel assigned to this project are free of personal or other external impairments to independence.

A handwritten signature in blue ink, appearing to read 'E.R. Quatrevaux', located to the left of the printed name.

E.R. Quatrevaux  
Inspector General

# Evaluation of City Motor Vehicle Self-Insurance Program and Vehicle Use Policy

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## EXECUTIVE SUMMARY

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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.

## I. OBJECTIVES, SCOPE, AND METHODOLOGY

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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 scope of the evaluation encompassed all aspects of the self-insurance program, including claims administration, damages to City vehicles, liability claims and settlements, subrogation settlements, and all contracts, solicitations, and proposals related to the program. Evaluators reviewed program data from 2007 through 2011, though some information was not available for certain years. In addition, evaluators examined more detailed documents for a sample period of June 1, 2010, to May 31, 2011. These documents included information on all accidents in the claims database that occurred within the sample period, details of all liability payments and reserves related to those claims, bank records from the City's claims account for the sample period, receipts for vehicle repair work, all available accident reports for accidents that occurred within the sample period, and disciplinary records for individuals who had multiple accidents within the sample period. Evaluators also collected information on the size of the fleet and number of take-home vehicles as of the first half of 2012.

Evaluators interviewed City staff from the Chief Administrative Office, Office of Homeland Security and Emergency Preparedness, City Attorney's Office, Risk Management Division, Equipment Management Division, Police Department, and Fire Department, in addition to representatives of Rosenbush Claims Service and Hammerman & Gainer Inc. (HGI). Evaluators also consulted a variety of sources regarding vehicle use policy, including direct communication with staff from the State of Louisiana Department of Public Safety, State of Louisiana Office of Risk Management, City of Baton Rouge Risk Management Division, Jefferson Parish Sheriff's Office, and South Louisiana Chapter of the National Safety Council.

The evaluation was conducted in accordance with the Principles and Standards for Offices of Inspector General for Inspections, Evaluations, and Reviews.<sup>1</sup> This report includes findings and recommendations intended to improve the management of the City's motor vehicle self-insurance program, improve procurement and contract oversight practices, and eliminate unnecessary costs.

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<sup>1</sup> Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General, *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2004).

## II. BACKGROUND

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### CITY OF NEW ORLEANS MOTOR VEHICLE FLEET

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In 2012, the City of New Orleans had a fleet of about 1,700 passenger vehicles and 180 non-passenger vehicles, including ambulances, fire trucks, tow trucks, dump trucks, and construction vehicles.<sup>2</sup> The Police Department had 1,118 vehicles, accounting for approximately 60% of the total number. The remaining passenger and non-passenger vehicles were spread widely among other City departments. The next largest fleets belonged to the Fire Department with 115 vehicles (6.1%), Parks and Parkways with eighty-nine (4.7%), and Emergency Medical Services and Public Works each with seventy (3.7% each).

The fleet included 497 vehicles assigned for take-home use. Of these, 391 were within the Police Department. The remaining take-home vehicles were assigned to employees of the District Attorney's Office (42),<sup>3</sup> Fire Department (14), City Council (10), Coroner (7), Property Management (7), Clerk of Criminal District Court (6), Emergency Medical Services (5), Traffic Court (5), Municipal Court (4), Mayor's Office (2), Equipment Maintenance (2), Homeland Security (1), and Mosquito Control (1). The 2012 total of 106 non-police take-home vehicles represented a 61% decrease from the 273 cited in a 2008 report by this office.<sup>4</sup>

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<sup>2</sup> Working with fleet data provided by EMD and NOPD, evaluators classified all cars, SUVs, pickup trucks, motorcycles, scooters, and vans as "passenger vehicles."

<sup>3</sup> Though the District Attorney's office is not a City agency, the two agencies entered into a cooperative endeavor agreement in which the City agreed to provide vehicles to the DA's office. The City bore the risk involved in the operation of those vehicles, and the City's vehicle use policies applied to them.

<sup>4</sup> *Interim Report on the Management of the Administrative Fleet*, New Orleans Office of Inspector General, December 2008.

### III. INTRODUCTION

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Risk management is a multi-faceted task requiring identification and evaluation of potential sources of liability or loss (risk), decisions about risk transfer, and implementation of risk mitigation strategies. Once risks have been identified and evaluated, a risk manager must decide whether to transfer a risk by purchasing insurance or to retain the risk and maintain reserves to self fund any losses. This decision should be made through a deliberative process that uses historical data to analyze potential loss in terms of severity and frequency and systematically reviews the cost of available alternatives. Comprehensive risk management also entails steps to reduce uncertainty, prevent accidents, and minimize risks.

The City's Risk Manager, who heads the Risk Management Division in the Chief Administrative Office, is responsible for developing policies and implementing programs to control and minimize the City's losses from accidents, disasters, and other events.<sup>5</sup> This includes responsibility to manage the City's insurance policies and self-insurance programs.

The major risk categories handled by the Risk Manager were property and casualty, liability for damages caused by accidents or actions of City employees, and workers' compensation. The primary insurance policies the City purchased covered damage to City property from fire, wind, flood, and other causes.<sup>6</sup> With a few exceptions, the City did not purchase insurance for liability risks. The City self-funded losses and claims from motor vehicle accidents, premises and other types of liability, and workers' compensation. These programs were considered self-insured.

In the case of vehicle use, the City's policy is set through a Policy Memorandum issued by the Chief Administrative Office. The Office of Homeland Security and Emergency Preparedness, the Equipment Maintenance Division, and the Risk Management Division also contribute to vehicle use policy.

#### MOTOR VEHICLE SELF-INSURANCE

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Rather than purchase commercial motor vehicle insurance and transfer the financial risks associated with vehicle use to an insurance company, the City elected to self-insure its vehicle fleet. The City directly paid all costs for property damage to the fleet and injury to employees, as well as all liabilities stemming from accidents, including third-party property damage and bodily injury claims.

If managed properly, a self-insurance program can reduce costs by removing insurance company profits and overhead. Self-insured entities can also benefit more from safety

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<sup>5</sup> In mid-2012, the City appointed a new Risk Manager and moved the Risk Management Division from the City Attorney's Office to the Chief Administrative Office. The position's primary responsibilities remained the same.

<sup>6</sup> See *Evaluation of City Property and Casualty Insurance Program*, New Orleans Office of Inspector General, April 2012.

improvements and decreases in accidents, because any savings accrue directly to the entity. The potential benefits of self-insurance, however, must be weighed against the cost and challenge of directly managing financial reserves, risk analysis, loss control efforts, and claims adjusting. Self-insurance can only be undertaken successfully by entities with the capacity to absorb their own risks fully and to manage these tasks adequately.

Evaluators estimated the cost of the City’s motor vehicle self-insurance by examining costs stemming from vehicle accidents: summing liability claims (property damage and bodily injury), damage to City vehicles, and administrative costs. When a third-party (non-City) driver was at fault, the City attempted to collect money from that driver and his insurance company to cover the City’s costs, through a process referred to as “subrogation.” To calculate the net cost of self-insurance, evaluators subtracted the subrogation amount, because it partially offset the City’s expenses. The cost calculation is represented in Figure 1.

**Figure 1: Net Cost Formula for City Motor Vehicle Self-Insurance**



### Liabilities

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The City was responsible for paying liability claims to third parties when the City driver, in the course of his official duties, was at fault for an accident.<sup>7</sup> The City’s liability costs averaged \$859,315 per year from 2007 to 2011. While most liability claims resulted in minor payouts, a few large claims significantly affected the overall cost. From 2007 to 2011, claims settled without litigation averaged payouts of \$812. In contrast to these relatively modest claims, a single accident resulted in a \$1.9 million liability settlement in 2009. To gauge liability risk adequately, it is important to take a long-term view that captures the impact of this type of high cost, low frequency event.

### Damages

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As a self-insured entity, the City had to absorb the cost of damage to its vehicles. The City contracted for appraisals following all accidents, with invoices detailing the appraisals available for 2009 through 2011.<sup>8</sup> Damage to City vehicles averaged \$569,753 per year during that time.<sup>9</sup>

<sup>7</sup> Employees with permission to take home a City vehicle were required to purchase personal insurance to cover off-the-job use of the vehicle, which was to be kept to a minimum. The City did not assume liability for unofficial use of take-home vehicles.

<sup>8</sup> For 2009, appraisal records were only available for the second half of the year, but evaluators consider the figures to be representative of the entire year. It appears that the City conducted no appraisals in the first half of

The same time period saw eighty-three City vehicles appraised as total losses; the cost of total losses is included in the annual damage totals.

### Administrative Costs

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The City hired two contractors to perform much of the administrative work for the motor vehicle self-insurance program: a third-party claims administrator (claims administrator) that handled accident reports and claims adjusting, and an appraiser that estimated damage to City vehicles. Rosenbush Claims Service held the claims administrator contract from 1988 to 2011, with an annual flat fee of \$223,804 from 1998 to 2011. In 2012, the City signed a new claims administrator contract with Hammerman & Gainer, Inc. (HGI), with an annual flat fee of \$214,000. From July 2009 to December 2011, the City also contracted with Rosenbush Claims Service for damage appraisals at a rate of \$115 per appraisal, averaging \$30,972 per year.<sup>10</sup> The total cost for administration contracts averaged \$242,224 per year from 2007 to 2011. The City also incurred some cost for work City employees performed for the motor vehicle self-insurance program; however, no City employees were dedicated full time to the program, and evaluators did not attempt to pro-rate employees' part-time involvement to quantify costs.

### Subrogation

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When the third party in an accident was at fault, the City attempted to collect money from that person and his insurance company to cover damages and other costs. The City referred to these funds as subrogation payments. The Risk Manager provided a summary of subrogation for 2009 through 2011, during which time the City averaged \$195,029 per year in collections.

### Net Cost

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Table 1 shows annual totals and multi-year averages for the above cost categories. Subrogation figures appear as negative numbers in the table to show that they are credits to the City and decrease the cost of self-insurance. Based on these figures, evaluators estimated the average net cost of the City's motor vehicle self-insurance to be \$1,476,263 per year, as shown in Figure 2.

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2009 but that an unusually large amount of damage was appraised in the second half of that year to catch up on the backlog.

<sup>9</sup> Evaluators examined a one-year period and found only \$56,602 in work done by the main City repair contractor, far below the appraised damages. We consider the appraisal figure more representative, as the damages represent real losses to the City whether or not they are repaired. All calculations in this report use appraisal figures to estimate damage losses.

<sup>10</sup> The contractor charged \$35 per vehicle to perform final inspections of repaired vehicles, but the City rarely incurred this cost because it opted not to repair most damages. Final inspection fees are included in the cost figures.

**Table 1: Annual Claims and Costs for City Motor Vehicle Self-Insurance by Category<sup>11</sup>**

Year	Accident Claims	Liabilities	Damages	Admin. Costs	Subrogation
2007	490	\$449,031	--	\$223,804	--
2008	515	\$356,225	--	\$223,804	--
2009	524	\$2,367,847	\$501,912*	\$246,879	-\$220,104
2010	479	\$515,454	\$674,025	\$261,904	-\$237,216
2011	421	\$608,019	\$533,322	\$254,727	-\$127,767
<b>Average</b>	<b>486</b>	<b>\$859,315</b>	<b>\$569,753</b>	<b>\$242,224</b>	<b>-\$195,029</b>

\*Appraisals in 2009 performed in July-December only.

**Figure 2: Net Cost for City Motor Vehicle Self-Insurance, Multi-Year Averages**



### Cost per Accident

From 2007 to 2011, the City averaged 486 vehicle accident claims per year (Table 1). The claims administrator’s standard practice was to open a claim file for all reported accidents regardless of whether a third party filed a liability claim; based on this practice, evaluators considered the City’s claims per year data to be a reasonably accurate estimate of total vehicle accidents. Using the average of 486 accidents per year and the average net cost of self-insurance of \$1,476,263 per year, evaluators estimated that the average vehicle accident cost the City \$3,039 through the self-insurance program.

In considering the full cost of vehicle accidents, evaluators also examined the City’s workers’ compensation costs. These costs are not considered part of the motor vehicle self-insurance program but are often attributable to vehicle accidents. From 2000 to 2010, the City paid \$12.4 million in workers’ compensation costs for on-the-job vehicle accidents, averaging \$1.24 million per year. If workers’ compensation costs are included in the calculation, the cost per accident jumps to \$5,591. Even this figure is likely an underestimate; the National Highway Traffic Safety Administration estimated that the average on-the-job crash cost the employer \$16,500 once all expenses were included.<sup>12</sup>

<sup>11</sup> Damage and Subrogation information was provided by the City for 2009-2011 only.

<sup>12</sup> NHTSA, 2003. Publication DOT HS 809 682.

## IV. FINDINGS

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### MANAGEMENT OF SELF-INSURANCE

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As a self-insured entity, the City was responsible for all of the functions typically performed wholly or in part by insurance companies. These functions included claims adjusting, fleet risk management, and management of costs and reserves.

#### Claims Adjusting

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Adjusting claims is the most visible task of the self-insurance program. Following an accident, claims adjusters must review all pertinent information; investigations often include visiting the scene of the accident, obtaining damage appraisals of one or both vehicles, and collecting police reports, witness statements, and medical information. Claims adjusters typically negotiate with the third party's insurance company to make a determination of fault and to establish any settlement. Complicated or contested accidents may result in litigation, but in most cases adjusters are able to determine fault and agree upon settlements without legal intervention.

The City contracted with a third-party administrator to handle claims adjusting for motor vehicle accidents (claims administrator). The City's Risk Manager was in charge of overseeing the contract. From 1988 to November 2011, Rosenbush Claims Services was the City's claims administration contractor. Hammerman & Gainer, Inc. (HGI) became the new claims administrator in December 2011. The HGI contract stated that the administrator would "thoroughly investigate, evaluate, negotiate and resolve third party automobile liability claims."

Although the claims administrator's adjuster did the main legwork, attorneys from the City's Law Department met with the adjuster on a weekly basis to review active claims and pre-authorize settlements.<sup>13</sup> The administrator directly wrote checks against a City account for approved liability payments, and the Law Department provided authorization documents to the Treasury Department to release funds for the payments. The Law Department staff provided valuable oversight of the claims adjusting process.

Evaluators reviewed bank statements for the City account and payment records from the former administrator for June 2010 through May 2011 and found no significant discrepancies. All settlement checks over \$5,000 required the signature of the administrator and the head of the City's Treasury Department. Evaluators reviewed a sample of canceled checks and found compliance with this requirement.

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<sup>13</sup> Until as recently as 2010, the City authorized the administrator to settle claims up to \$5,000 with no review or approval by City staff.

Although the claims adjusting process did not raise any concerns, evaluators encountered major irregularities in the City's management of the claims administrator contract and an associated contract for appraisal services.

**FINDING 1: THE CITY'S CONTRACT FOR CLAIMS ADMINISTRATION COST AT LEAST \$100,000 PER YEAR MORE THAN IT WOULD COST TO DO THE SAME WORK IN-HOUSE.**

Through document review and interviews, evaluators determined that the claims administration contract had historically provided one full-time claims adjuster. For that one claims adjuster, the contract paid Rosenbush \$223,804 per year. Beginning in December 2011, the City paid \$214,000 per year to HGI for essentially the same services.

Two in-house claims adjusters who handled general liability claims for the City were paid just \$37,000 and \$56,000 per year. Accounting for benefits, these employees cost the City \$55,000 and \$80,000 per year. According to the U.S. Department of Labor's Occupational Outlook Handbook, in 2010 the nationwide median pay for Claims Adjusters, Examiners, and Investigators was \$58,620 per year.<sup>14</sup> The Louisiana Workforce Commission reported 1,680 workers within that occupational class in the New Orleans Regional Labor Market Area in 2011, with an average salary of \$60,336.<sup>15</sup>

Based on these figures, evaluators estimated that if the City brought auto claims adjusting in-house it would incur about \$80,000 annually in salary and benefit costs for a new auto claims adjuster and about \$25,000 annually in leasing costs for adjusting software.<sup>16</sup> Even allowing leeway to cover third party appraisals and incidentals like gas, office supplies, and equipment, the cost would be at least \$100,000 per year less than the current contract.

**FINDING 2: THE CITY INITIATED A CONTRACT THAT COST \$90,960 OVER 29 MONTHS FOR SERVICES ALREADY COVERED IN A PRE-EXISTING CONTRACT.**

Prior to June 2009, Rosenbush performed all of the City's appraisals of accident damage, including appraisals of City vehicles and third-party vehicles. This work was overseen by the Risk Manager as part of the claims administration contract, and was included in the \$223,804 annual flat fee.<sup>17</sup>

In 2008, the City decided to remove first party appraisals from the claims administration contract and released an invitation to bid for a new contract that would be managed by the Equipment Maintenance Division (EMD) in the Chief Administrative Office. The sole respondent was Rosenbush Claims Service, the same company that already held the claims administration

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<sup>14</sup> United States Department of Labor, Bureau of Labor Statistics, [www.bls.gov/ooh](http://www.bls.gov/ooh)

<sup>15</sup> Louisiana Workforce Commission, [http://www.laworks.net/LaborMarketInfo/LMI\\_WageDataMap2009toPresent.asp?Year=2011](http://www.laworks.net/LaborMarketInfo/LMI_WageDataMap2009toPresent.asp?Year=2011)

<sup>16</sup> Evaluators obtained three price quotes for leasing hosted claims adjusting programs with two user licenses. The average cost was \$25,000 per year.

<sup>17</sup> Evaluators could not obtain a copy of the contract to verify the terms (see Finding 3), but the vendor stated that first party appraisals were within the scope of work and were included in the base fee.

contract. In June 2009, the City entered into a new contract with Rosenbush for first party appraisals separate from its existing claims administration contract. The new contract paid \$115 per appraisal for an average bill of \$3,137 per month.

The Risk Management and Equipment Maintenance offices did not effectively coordinate the change in first party appraisals, which resulted in double payment. Following the initiation of the first party appraisal contract, the pre-existing claims administration contract remained in effect and Rosenbush continued to be paid a \$223,804 annual flat fee. In initiating a new contract without modifying the existing contract, the City paid twice for the same services from July 2009 through November 2011. Over those 29 months the City paid \$90,960 under the first party appraisal contract for work that was already paid for within the claims administration contract's flat fee.

The City eliminated the double payment when HGI took over as claims administrator in December 2011; appraisals of City vehicles were not included in the new contract's scope of services.

**FINDING 3: THE CITY SIGNED AN EXTENSION OF THE CLAIMS ADMINISTRATION CONTRACT ALTHOUGH IT COULD NOT PRODUCE A COPY OF THE AGREEMENT THAT CONTAINED THE FULL TERMS.**

In October 2011, evaluators contacted both the Risk Manager and the Law Department to request a copy of the then-current claims administration contract with Rosenbush Claims Service. Although the Risk Manager provided copies of numerous contract extensions, all of which referenced a contract dated August 7, 2006, the referenced contract could not be produced. None of the contract extensions included the full terms of the contract, such as a description of the services required of the contractor. Following evaluators' requests, the Risk Manager attempted to obtain a copy of the contract from Rosenbush, but the contractor also could not produce the full document.

It is unclear at what point the contract was lost, but evaluators' requests beginning in October 2011 should have alerted the City that there was a problem. This situation notwithstanding, the City signed another extension of the administrator contract with Rosenbush on December 22, 2011.<sup>18</sup> As with previous extensions, this document did not state the full terms of the contract, instead listing only the effective dates and the amount payable and referencing the missing 2006 contract.

This example highlights two serious flaws in the City's contracting practices. First, the contract manager clearly could not effectively monitor and enforce performance standards when the legal description of the work to be performed had been lost. Second, the City's Law Department approved the form and legality of the contract extension without reviewing the original document.

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<sup>18</sup> The extension was signed December 22, 2011, though the effective dates were August 1, 2011, to November 30, 2011.

**FINDING 4: THE CITY ROUTINELY HAD THE CLAIMS ADMINISTRATOR WORK PAST THE EXPIRATION OF ITS CONTRACT.**

Rosenbush served as the City's claims administrator from 1988 to 2011, with the most recent full contract signed in August 2006. That contract was extended 14 times to cover work through November 2011. Evaluators obtained signed copies of 13 of the 14 extensions. Although work on the contract did not stop, the City allowed every extension to expire without a new extension in place. The City then signed new extensions to cover the work with backdated start dates that were earlier than the signature dates, attempting to remedy the problem after the fact.

The final contract extension covered the period of August 1, 2011, to November 30, 2011, but was not signed until December 22, 2011. This was one of five instances in which the City did not sign an extension until after its expiration date.

**FINDING 5: THE CITY HAD THE NEW CLAIMS ADMINISTRATOR BEGIN WORK BEFORE A CONTRACT HAD BEEN SIGNED.**

The City released a request for proposals for a new auto claims administrator on February 10, 2011. Six firms submitted proposals, and on July 29, 2011, the City notified HGI that it had been selected. HGI began work as the City's auto claims administrator on December 1, 2011, though no contract had been signed at that time. The City's contract with HGI lists December 1 as the effective date, but it was not signed by the Mayor until January 12, 2012, approximately six weeks after work began.<sup>19</sup>

This situation follows the troubling pattern identified in Finding 4: the City allowed a vendor to work on its behalf without a signed contract in place to govern the work.

### Fleet Risk Management

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Although adjusting claims is the most visible element of a self-insurance program, it only comes into play once an accident has occurred. Effective management of the risks associated with a vehicle fleet must also include efforts to prevent accidents from happening and to limit the severity of accidents.

Evaluators surveyed fleet risk management recommendations from groups including the Occupational Safety and Health Administration (OSHA), National Highway Traffic Safety Administration, National Institute for Occupational Safety and Health, American Society of Safety Engineers, Public Entity Risk Institute, and Louisiana Department of Public Safety. Evaluators also reviewed vehicle use policies from numerous government entities, including the State of Louisiana and East Baton Rouge Parish. From these sources, evaluators identified three

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<sup>19</sup> An internal Law Department memo dated October 17, 2011, stated that the contract was ready to sign, but until such time that the contract was signed by both parties it could not be considered a legally binding document.

fundamental elements of fleet risk management: driver selection, driver training, and driver supervision.

Driver selection typically includes license requirements and driving record checks, and is intended to limit risk by ensuring that only safe drivers operate organization vehicles. Driver training is intended to promote safe driving practices and entails both agency-specific training and standard defensive driving training. Driver supervision manages risk through active tracking of driver safety and performance records, and enforcement of standards through penalties or rewards.

The \$1.5 million annual cost of the City's motor vehicle self-insurance program underscores the importance of proactive accident reduction efforts. Fleet safety also impacts the City's workers' compensation costs; between 2000 and 2010, the City paid out \$12.4 million for workers' compensation claims related to vehicle accidents. These claims accounted for 10% of the City's total workers' compensation costs, or about \$1.2 million per year. Driver safety directly affects vehicle self-insurance and workers' compensation costs, which average \$2.7 million in annual spending for the City.

The City's CAO Policy Memorandum 5(R), Vehicle and Equipment Policy, defined the City-wide policy governing vehicle use and fleet safety. The City released the most recent version of the memo on March 1, 2012. Some departments with large fleets, including the Police Department, had additional vehicle policies that set higher standards within the department, but Memo 5(R) was the only City-wide standard.

**FINDING 6: THE CITY DID NOT ADEQUATELY MONITOR EMPLOYEES' DRIVING RECORDS OR SET STANDARDS FOR DENIAL OF DRIVING PRIVILEGES.**

Memo 5(R) stated that only City employees who possessed valid drivers' licenses could operate City vehicles. The memo stated that "the employee/operator must prove that they possess an appropriate, valid driver's license."<sup>20</sup> However, the memo did not specify who was responsible for enforcing the requirement or when and how often compliance should be checked. There was no mechanism in place to identify possible instances of an employee who had once presented a valid license but who subsequently lost his license through expiration or suspension.

The requirement that employees hold valid licenses was the only driver selection standard included in Memo 5(R). The memo did not require that potential hires or current employees submit to checks of their official driving records, maintained by the State Office of Motor Vehicles (OMV). It also did not define any standard by which unsafe drivers would be prohibited from driving City vehicles. Rather than proactively screening employees to ensure that only safe drivers operated City vehicles, the City granted driving privileges to all of its employees by default.

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<sup>20</sup> CAO Policy Memorandum 5(R), p.8.

Although no City-wide policy existed, some department policies required driving record checks. The Police Department standard was the most stringent encountered by evaluators. The department obtained prospective employees' driving records as part of a wider background check and took that information into consideration when making hiring decisions. As in most City departments, new hires had to present a valid driver's license on their first day of work. However, these measures still fell short of best practices for driver selection and supervision. The checks were performed only at hiring with no follow-up, and there was no defined policy with criteria for denying or restricting driving authorization.

**FINDING 7: THE CITY DID NOT CONSISTENTLY TRACK EMPLOYEES' ON-THE-JOB DRIVING SAFETY RECORDS.**

Although departments including Police, Fire and EMS had internal driver supervision policies, the City-wide driver policy did not include adequate driver supervision standards. The policy did not require tracking of on-the-job accidents and tickets or set standards for denial or restriction of driving privileges based on past performance. No efforts were made by Risk Management or any other centralized body to track driving performance or identify unsafe drivers across City departments. As with driving record checks, some departments tracked employees' driving performance, but others did not.

Lacking a City-wide policy regarding on-the-job driving safety, procedures for handling potentially unsafe drivers varied widely. Evaluators collected all accident reports for June 2010 through May 2011 and identified twenty-four employees who had multiple on-the-job vehicle accidents within that one-year period, including at-fault and not-at-fault accidents. Evaluators contacted these employees' departments and requested documentation of any follow-up actions taken in response to their accidents. Some departments had formal policies instituting review boards that meted out discipline including reprimands, suspensions, and remedial training.<sup>21</sup> Other departments had no records related to drivers' accidents and took no follow-up action.

**FINDING 8: THE CITY DID NOT REQUIRE SAFETY TRAINING FOR ALL DRIVERS OF CITY VEHICLES.**

As in the previous findings, no City-wide policy existed on driver training, and standards varied widely among departments. The Police and Fire Departments included driver safety instruction within their standard training programs. Most other departments did not require driver safety training of their employees; a City-wide employee training program for driver safety was cancelled about a decade ago.

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<sup>21</sup> In the most serious case reviewed, an employee of the District Attorney's Office was fired following multiple at-fault accidents in City-owned cars. However, this level of accountability was the exception rather than the norm.

**FINDING 9: THE CITY DID NOT ADEQUATELY ENSURE COMPLIANCE WITH PERSONAL INSURANCE REQUIREMENTS FOR EMPLOYEES WITH TAKE-HOME VEHICLES.**

As noted in the Background section of this report, the City had 497 vehicles assigned for take-home use. To limit its exposure to risk, the City stated in Memo 5(R) that personal use of these vehicles was not covered by the City's self-insurance. The City required all employees with take-home vehicles to cover off-the-job use of the City vehicles under their personal insurance policies, with what is known as a "use of non-owned vehicles" endorsement.<sup>22</sup> Memo 5(R) stated that it was the responsibility of each department to collect documentation of this insurance from its employees and to provide copies to the Risk Manager. However, the Risk Manager could not produce copies of the insurance documents and stated that in practice there had not been centralized oversight of the requirement.

### Management of Costs and Reserves

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As a self-insured entity for its vehicle fleet, the City had to cover the costs of damages and liabilities and manage the budget and financial reserves for the program. In a typical self-insurance model the entity budgets an actuarially-based amount each year and surpluses from some years are held in reserve to cover shortfalls in others. If costs and reserves are properly calculated and managed, over the long term the budgeted amount should cover the full costs of the self-insurance program, including low-frequency but high-cost events.

**FINDING 10: THE CITY DID NOT MAINTAIN RESERVES FOR THE MOTOR VEHICLE SELF-INSURANCE PROGRAM.**

The City did not maintain a specific reserve fund for the motor vehicle self-insurance program. The budget included an allocation based on projected expenses, but no attempt was made to build surpluses over low liability years that could then cover the costs of infrequent, high-cost liability settlements.

As seen in Table 1 (page 8), annual liability costs for the motor vehicle program fluctuated from \$356,225 to \$2,367,847. Lacking specific reserves, the City ultimately had to cover unexpected expenses out of the general fund. In these cases, auto liability costs could end up absorbing funds that were originally allocated to other priorities.

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<sup>22</sup> City officials stated that "use of non-owned vehicles" endorsements were not commercially available to cover Police, Fire, and other public safety vehicles, so these employees could not be required to purchase additional insurance. However, no exception was noted for these employees in CAO Policy Memo 5 (R).

## V. CONCLUSION AND RECOMMENDATIONS

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### CONCLUSION

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This evaluation focused on two elements of the City's fleet risk management: the motor vehicle self-insurance program and vehicle use policy. Evaluators found contracting problems in the self-insurance program that increased costs and hindered accountability. Evaluators also found the City's vehicle use policy lacking or inconsistent in three basic elements: driver selection, driver training, and driver supervision. Changing its vehicle use policy to manage risk better could save the City money. The direct costs of the vehicle self-insurance program to the City are \$1.5 million per year, and vehicle accidents result in an estimated \$1.2 million per year in workers' compensation costs. Even a slight reduction in these costs could more than justify the effort required to improve fleet risk management.

The following section presents recommendations to improve the City's motor vehicle self-insurance program and vehicle use policy.

### RECOMMENDATIONS

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**RECOMMENDATION 1: THE CITY SHOULD PERFORM CLAIMS ADMINISTRATION IN-HOUSE OR NEGOTIATE A SIGNIFICANT REDUCTION IN THE CONTRACT COST.**

Evaluators determined that the majority of work under the claims administration contract could be performed by a single claims adjuster and estimated that the City could save about \$100,000 per year by doing the work in-house. The City should either pursue this option or negotiate a significant reduction in the cost of the current contract.

**RECOMMENDATION 2: THE CITY SHOULD AVOID REDUNDANCY IN CONTRACTS.**

The City initiated a redundant contract that overpaid \$90,960 between 2009 and 2011. The motor vehicle self-insurance program, like many City programs, inherently involves interactions among multiple departments and employees. First party appraisal work was moved from Risk Management to Equipment Maintenance, but the two departments did not coordinate payment for the services. As a result, the existing claims administration contract was not modified to reflect the reduction in work. In the future, the City should ensure that there is sufficient communication and coordination between and within departments to avoid duplication of payment and waste of taxpayer money.

**RECOMMENDATION 3: THE CITY SHOULD ENSURE THAT ALL ACTIVE CONTRACTS INCLUDE COMPLETE TERMS.**

The City was unable to produce a copy of the claims administration contract with Rosenbush that it extended through November 2011. Once the contract manager realized that the

foundational document had been misplaced, the City should not have extended the agreement without first re-establishing the terms in writing. In order for the City to oversee outside work effectively, its contracts must include full and appropriate terms that detail the scope of work, compensation structure, effective dates, and other relevant conditions. Extensions should have a full copy of the original contract attached.

The City's standard review process for any contract or extension should include a thorough review of the full terms and conditions. The Law Department should not approve the form and legality of an agreement unless the terms are fully expounded and are appropriate.

**RECOMMENDATION 4: THE CITY SHOULD NOT PERMIT CONTRACTORS TO WORK FOR THE CITY UNDER THE TERMS OF AN EXPIRED CONTRACT.**

The City should execute contracts and extensions in order to provide the uninterrupted provision of services; it should not allow outside vendors to perform work on its behalf without a legally binding agreement in place. In the case of the claims administration contract, the City routinely allowed the contract to expire, and then signed backdated extensions that retroactively covered the lapses. This practice inappropriately exposed the City to risk; once the contract expired, the parties were no longer legally bound by its terms.

Government contracting must be carefully managed. City managers should be able to anticipate the time necessary to complete the extension process and should initiate the renewal process sufficiently far in advance of the expiration date.

**RECOMMENDATION 5: THE CITY SHOULD HAVE A SIGNED CONTRACT IN PLACE BEFORE ALLOWING A CONTRACTOR TO BEGIN WORK.**

The City had the new claims administrator, HGI, begin work before a contract had been signed. As noted above, allowing contractors to perform work on the City's behalf without a legally binding agreement in place exposes the City to risk. The City should carefully plan transitions between vendors to ensure that the solicitation and contracting processes can be completed before the old contract expires. The new contract should be completed and signed by all necessary parties before work begins.

## Vehicle Use Policy

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**RECOMMENDATION 6: THE CITY SHOULD ADOPT A VEHICLE USE POLICY MODELED AFTER THE STATE OF LOUISIANA'S DRIVER SAFETY PROGRAM.**

This evaluation found that the City's vehicle use policy did not sufficiently manage fleet risk through driver selection, driver training, and driver supervision. The City's policy did not hold drivers accountable, create consistent standards across departments, or prohibit unsafe or unqualified drivers from driving City vehicles. These deficiencies unnecessarily increased the City's vulnerability to liabilities and damages from vehicle use.

The City should implement a vehicle use policy that covers all of the fundamental elements of fleet risk management. The State of Louisiana's Driver Safety Program provides a model on which the City should base its own vehicle use rules. The State Office of Risk Management developed the policy, which applies to all state agencies, including law enforcement. The state guidelines could be incorporated into CAO Policy Memorandum 5(R), with only minor changes needed to adapt them for City use. The State Driver Safety Program rules are included in Appendix A.

The state program does not allow employees to drive by default. Department heads (or their designees) are responsible for authorizing employees to drive and maintaining a list of authorized drivers. That list is constantly updated and available for reference. Supervisors are responsible for ensuring that only authorized employees drive on official business. To be authorized to drive, an employee must have a valid drivers' license, complete a defensive driving course upon hire and once every three years,<sup>23</sup> and pass an annual driving record review. When the driving record review reveals three or more moving violations or any serious driving offenses (DWI, hit and run, reckless operation, etc.) within a twelve month period, that employee is declared a "high risk driver" and loses driving privileges for a minimum of twelve months. Employees must report all on-the-job accidents and all moving violations as soon as practical; failing to report may result in suspension of authorization.

The City should use this main framework from the State policy to guide an update of its vehicle use rules. City employees for whom driving is an essential part of their job and who are no longer eligible to drive according to the policy above would be subject to disciplinary action under Civil Service Rule IX, Maintaining Standards of Service.<sup>24</sup> Departments should not be expected to find alternative duties for employees who lose driving authorization; alternative duty assignments should only be made when advantageous to the City. Potential employees who are unable to receive driving authorization would be ineligible for positions that require driving.

Updating the City's vehicle use policy based on the State model would also provide consistent guidance across departments regarding how to select, train, and supervise drivers. Instead of the current policy void, the update would set a reasonable minimum standard that all departments would be required to follow. Nonetheless, departments with specific needs could continue to implement additional policies, as long as those policies did not conflict with or undercut the City-wide standard. For example, the Police Department could continue to hold accident review boards as it currently does, provided that the boards' standards met or exceeded the standards set by the new vehicle use policy.

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<sup>23</sup> Drivers must also re-take defensive driving within ninety days of receiving a moving violation. These remedial courses could potentially be at the employees' expense.

<sup>24</sup> Rules of the Civil Service Commission of New Orleans Rule IX, Section 1.

**RECOMMENDATION 7: THE CITY SHOULD PERFORM ANNUAL DRIVERS' RECORD CHECKS OF ALL EMPLOYEES AUTHORIZED TO DRIVE CITY VEHICLES.**

As part of the implementation process for a new vehicle use policy based on the State's model, the City should begin performing annual drivers' record checks for all employees who are authorized to drive City vehicles. The record checks would allow the City to monitor employees' driving histories and would at the same time provide a clear mechanism for verification that employees continue to hold valid drivers' licenses.

To comply with privacy laws, the City must obtain written consent from employees before reviewing driving records. All current and prospective employees would be required to consent to a driving record check or be denied driving authorization automatically.

State law requires the Office of Motor Vehicles to provide these records to the City free of charge.<sup>25</sup> The Document Management Unit of the OMV has indicated that the records can be provided electronically. The City would simply submit a list of drivers' license numbers and receive driving records to review for authorization. To collect employees' drivers' license numbers, the City should have employees provide their drivers' license numbers on the consent form.

**RECOMMENDATION 8: THE CITY SHOULD CONSIDER EMPLOYEES' ON-THE-JOB DRIVING RECORDS WHEN IDENTIFYING HIGH RISK DRIVERS.**

In addition to the standards adopted from the State policy, the City should incorporate on-the-job accident tracking when identifying high risk drivers. For example, an at-fault accident could count as one or more strikes toward the three infraction limit at which a driver is declared high risk and is disqualified from driving. In the majority of cases, fault is clearly established during the course of the claims adjusting process, so it would not be necessary to create an additional accident review procedure.

**RECOMMENDATION 9: THE CITY SHOULD IMPLEMENT A DEFENSIVE DRIVING TRAINING PROGRAM.**

Adopting a vehicle use policy based on the State's program would require the City to implement a defensive driving training program. Driver safety training is widely accepted as a fundamental element of vehicle risk management, but it has not been provided to City employees in a systematic manner.

The state policy requires that all employees who will be authorized to drive must complete a defensive driving course within ninety days of employment, and repeat the training every three years. Because it has a large current employee base, the City could phase in the requirement over a three year period. This would allow the City to space out the initial training of current employees and would also naturally stagger the timing of employees' need for recertification.

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<sup>25</sup> La R.S. 32:393.1.

The most cost effective method for the City to obtain defensive driving training for employees would be to certify designated employees as defensive driving instructors, who could then provide on-site training to all other employees. The National Safety Council and other groups provide instructor training courses in the New Orleans area. Assuming 4,500 employees to be trained over three years, evaluators estimated that this plan would cost \$25,000, or approximately \$8,300 per year. The cost could be much lower if a significant number of City employees do not drive on official business and would not need certification, or if the police department continued its current driver training program and did not participate in the new course.

Evaluators conservatively estimated that the average accident costs the City \$3,039 to \$5,591, so a reduction of just two or three accidents per year would offset the cost of the driver training program.

**RECOMMENDATION 10: THE CITY SHOULD IMPROVE OVERSIGHT OF PERSONAL INSURANCE REQUIREMENTS FOR TAKE-HOME VEHICLES.**

The Risk Manager should ensure that take-home vehicles have adequate personal insurance coverage as required by CAO Policy Memorandum 5(R). If the City determines that the required coverage is not commercially available for public safety vehicles the policy memo should be updated to exempt affected employees.

**RECOMMENDATION 11: THE CITY SHOULD MAINTAIN RESERVES FOR THE MOTOR VEHICLE SELF-INSURANCE PROGRAM.**

The City did not maintain a reserve fund for the motor vehicle self-insurance program, despite wide fluctuations in liability costs. The City should examine the costs of the motor vehicle self-insurance program over the long term and should budget according to an actuarially-based average. If its calculations are accurate, there should be a surplus in typical years. These surpluses would accumulate in a reserve account, and would then be available to cover low-frequency, high-cost accidents. This system would simplify the City budget process, replacing widely fluctuating liability costs with a stable annual allocation.

## VI. OFFICIAL COMMENTS FROM CITY OF NEW ORLEANS

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The Office of Inspector General provides an internal review draft to any person or entity that is the subject of report findings or recommendations. Any written response submitted by a subject within 30 days after receiving the draft will be included in the final public report.

The OIG provided an internal review draft of this report to the Risk Management Division, City Attorney's Office, and Chief Administrative Office on August 10, 2012. Prior to finalizing the public report evaluators met with City personnel to discuss the report findings and recommendations. The City's response was received October 23, 2012 and is included in its entirety in this section.

This public report reflects edits made to the review draft based on the exit conference with the report subjects.

In its comments, the City states that the claims administration contract never included first party appraisals. This statement is inaccurate; as noted in Finding 2, the City paid twice for the same services.

Regarding Findings 4 and 5: the City's response implies that compliance should be a sufficient performance standard. The OIG makes recommendations designed to encourage model practices and the highest standard of accountability, efficiency, and effectiveness.

CHIEF ADMINISTRATIVE OFFICE  
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU  
MAYOR

ANDREW D. KOPPLIN  
FIRST DEPUTY MAYOR & CAO

October 23, 2012

Mr. Edouard R. Quatrevaux  
Office of Inspector General  
525 St. Charles Ave.  
Suite 300  
New Orleans, LA 70130

Dear Mr. Quatrevaux:

Following our review of your report titled "Evaluation of City Motor Vehicle Self-Insurance program and Vehicle Use Policy", the City is pleased to offer its response to the findings detailed in the draft report. As always, we appreciate your office's review and suggestions that are intended to improve the operations and management of city agencies. Our responses to the draft report's findings are outlined below.

**Finding 1: The City's contract for claims administration cost at least \$100,000 per year more than it would cost to do the same work in-house.**

The OIG report's analysis only assumes that the City's contract covers costs for the adjuster and basic software. The analysis does not factor in the cost of other services and necessary administrative support required to perform this work which justifies the price of this contract.

Instead, the City achieved savings of nearly \$10,000 from the City's previous contractor when it entered into a new contract with HGI to provide for the third-party administration of automobile claims. Although the OIG report attempts to minimize the effort and expense necessary to effectively and efficiently manage these claims, there is much more involved than one adjuster and software as the report argues. HGI has a web-based technology system with its own in-house IT support personnel. The service includes claims data base management, maintenance, system upgrades and daily telephone and Go To Meeting technical support. Additionally, the OIG report overlooked the cost of an in-house vehicle appraiser, which includes access to vehicle appraisal software utilized to administer accurate estimates for collision repairs. Finally, the OIG report failed to recognize that the Risk Management Unit of the City of New Orleans does not have access to support personnel to assist with all administrative functions including claims setup, data base entry, check issuance, claim indexes, filing and telephone customer service provided by HGI. The adjuster's salary, vehicle appraiser's salary and software, additional administrative personnel, and claims software and incidentals, are reasonable. That the city achieved a cost savings from the prior contractor for these services is worth noting.

**Finding 2: The City initiated a contract that cost \$90,960 over 29 months for services already covered in a pre-existing contract.**

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The OIG is aware that this administration was not involved in either the solicitation in 2008 or contract in 2009 for appraisal services. Moreover, this issue is moot now that the City has a new contract with HGI.

Nevertheless, we disagree with the report's assertion that the City paid twice for the same services. While the pre-existing contract for claims handling included appraisals, it was limited to third party appraisals and never included first party appraisals. Because the original contract did not include first party appraisals, the City initiated the additional contract to cover this new service. Accordingly, there was never any redundancy between the contracts.

**Finding 3: The City signed an extension of the claims administration contract although it could not produce a copy of the agreement that contained the full terms.**

When the Landrieu administration took office, it discovered hundreds of contracts awaiting the Mayor's signature and hundreds of additional expired contracts that needed to be reprocured. With respect to this contract, a 2008 memo made clear that the original contract was lost long before the Landrieu administration took office. Accordingly, the Landrieu administration reprocured the services through a new RFP once it determined that it could not perform the services more efficiently in-house. During the time required for the City to reprocure these services, the City had three options: (1) terminate the existing contract and thereby discontinue all services; (2) continue to use the existing vendor without the protection any written contract whatsoever; or (3) amend the existing contract to continue the same contractual relationship that had existed for decades while the services were reprocured. The City chose the third option, to formally amend the existing contract, which was clearly in the best interest of the City and its citizens. Of course, now we have in place a new contract with a new vendor that was competitively selected under Mayor Landrieu's new procurement policy.

**Finding 4: The City routinely had the claims administrator work past the expiration of its contract.**

Of the 14 extensions referenced by the OIG report, only 4 of these were signed during the Landrieu administration. When the Landrieu administration took office, it found that the contract had expired in 2009 and had not been competitively procured since 1988. Accordingly, the Landrieu administration reprocured the services through a new RFP once it determined that it could not perform the services more efficiently in-house. After the first amendment carried the term through the end of 2010 to allow the City to pay the vendor for prior work that it had continued to perform, the subsequent amendments were done in small time increments (two to six months each as opposed to years) in anticipation of the new procurement. Nevertheless, we could not gauge exactly when the new procurement would be finalized, which resulted in additional amendments.

While extensions signed during this administration were signed after their stated effective dates, that resulted from the backlog of hundreds of contracts awaiting the Mayor's signature and hundreds of additional expired contracts that needed to be reprocured that Mayor Landrieu inherited when he took office in May, 2010. While this administration has worked diligently since that time to reduce this backlog, during the catch-up period, contracts were signed to cover work that had already begun. The Landrieu Administration has worked diligently to improve the contracting process, implement greater safeguards, and expedite the contract routing. While the City continues to strive to have contracts in

place and fully executed before work begins, the Louisiana Attorney General has acknowledged that this is allowed as it is the "common, apparently inevitable, reality that contracts will often be submitted for approval with inadequate time for review before the effective date of such contracts." La. Atty. Gen. Op. No. 87-576.

**Finding 5: The City had the new claims administrator begin work before a contract had been signed.**

The City contract negotiations with the new vendor, HGI, involved negotiating the best value for the City while also facilitating a seamless transition of services. The City worked diligently to facilitate an organized transfer of files and transition of responsibility from Rosenbush to HGI. To do so, the City needed a date certain for the transition and established that date independent of the exact date that the contract would be executed. It would have been difficult if not impossible to pinpoint the timing exactly to the day. By the chosen effective date of the contract, however, the parties were in full agreement on the contract terms and it was simply a matter of formally obtaining all necessary approvals and signatures. While the City continues to strive to have contracts in place and fully executed before work begins, exceptions sometimes occur. The Louisiana Attorney General has stated "that contracts become effective only when they receive all required approvals, but that the effectiveness is retroactive to the beginning of the term for the contract specified in the contract itself. This view simply confirms what has been a long-term, wide spread and indispensable practice in state government." La. Atty. Gen. Op. No. 87-576.

**Finding 6: The City did not adequately monitor employees' driving records or set standards for denial of driving privileges.**

**Finding 7: The City did not track employees' on-the-job driving safety records.**

**Finding 8: The City did not require safety training for drivers of City vehicles.**

Regarding findings 6-8, the City believes it is important to note that the findings apply only to the small portion of city employees who are not employed by public safety departments. All public safety departments monitor employees' driving records, track on-the-job safety records, and require safety training for drivers. In fact, public safety employees are required to appear before a review board in the event of an accident. As we pointed out to OIG personnel in our exit conference, Police, Fire, and EMS vehicles make up nearly 70% of all City vehicles and 90% of its drivers so the vast majority of city drivers were, in fact, being trained and monitored consistent with these recommendations.

We agree that it is prudent to monitor employees' driving records, set standards for denial of driving privileges, and require driver safety training for that small minority of city drivers who are outside of public safety departments. We are in the process of revising CAO Policy Memorandum No. 5 (R) to accommodate best practices and portions of the State of Louisiana's Driver Safety program. This revision will include new procedures in the authorization, monitoring and record keeping process. In addition, the City is investigating options to install the most beneficial and cost effective Operational Risk Management on-line driver safety program for the non-public safety drivers. Finally, our Equipment Maintenance Division (EMD) and Risk Management Division are updating their procedures to verify that employees are providing proof of insurance.

**Finding 9: The City did not adequately ensure compliance with personal insurance requirements for employees with take-home vehicles.**

The City agrees that it is prudent to monitor personal insurance requirements for employees with take-home vehicles. EMD and Risk Management are updating their procedures to verify that employees are providing valid proof of insurance on regular intervals.

**Finding 10: The City did not maintain reserves for the motor vehicle self-insurance program.**

As the report stated, the City currently has a self-insurance approach to motor vehicle costs relating to liabilities and damage, and funds these costs from General Fund appropriations. The budgeted amount can be insufficient in any given year, or could be sufficient to cover all costs incurred. The City will assess whether an alternative approach to General Fund financing of these costs could offer a better means of providing for these uncertain costs. Given tight General Fund budgets, it will be difficult for the City to move to an alternative approach in the near future.

Thank you again for sharing your findings with us and giving us the opportunity to respond to your report.

Sincerely,



Andrew D. Kopplin  
First Deputy Mayor & Chief Administrative Officer  
City of New Orleans

Cc: Norman Foster, Chief Financial Officer  
Michelle Thomas, Deputy Mayor of Operations  
Erica Beck, City Attorney  
Jeff Cashill, Fleet Manager  
Michael McKenna, Director of Risk Management

## APPENDIX A: STATE OF LOUISIANA DRIVER SAFETY PROGRAM

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**DRIVER SAFETY  
PROGRAM**

**LOSS PREVENTION UNIT  
OFFICE OF RISK MANAGEMENT  
DIVISION OF ADMINISTRATION**

20110701

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## DRIVER SAFETY PROGRAM

### Introduction

R.S. 39:1543 requires the development of a comprehensive loss prevention program, for implementation by all state Agencies, including basic guidelines and standards of measurement. The Driver Safety Program is part of the Loss Prevention program required by the Office of Risk Management in accordance with LAC Title 37. Its purpose is to provide a systematic method of screening, training, and accountability for employees and supervisors required to assign or drive state owned vehicles or personal vehicles on state business. The Office of Risk Management is required by state law to assess premiums to each state Agency.

The following materials are included to assist administrators, supervisors, and loss prevention representatives, in managing and implementing safe driving by state employees. A glossary and sample forms are included and described later in this section of the manual.

### Components of Louisiana's Driver Safety Program

#### 1. Agency Policies and Procedures:

A. Responsibilities – Each Agency shall implement a written safe driving program. This program shall include rules defining:

1. Who shall be permitted to drive on state business.
2. Identifying employees authorized to operate motor vehicles under the Agency's control. Only those employees authorized by their Agency head or designee shall be permitted to operate their personal vehicle or a state vehicle on state business.
3. Policies shall outline the roles and responsibilities of managers, supervisors, and employees in driver safety. These policies shall be issued to all drivers and form the basis for the Agency's Driver Safety Program.

Upon request, the Third-Party Administrator (TPA) shall assist Agencies in organizing, directing, implementing, controlling and providing training for a Driver Safety Program that minimizes the adverse impact of motor vehicle accidents.

#### Department/Agency: Heads, Driver Safety Coordinators, or Program Designees

These individuals are responsible for implementation of the Driver Safety Program and shall stress the importance of the Department's Driver Safety Program to all employees. Prior to authorizing state employees to drive, they are responsible for completing all of the following steps for employees that are authorized to drive:

1. Verifying that each driver has a valid and properly classed driver's license.
2. Obtaining official driving records (ODR's) no longer than every twelve (12) months, reviewing them no later than forty-five (45) days from the date the ODR is obtained, and ensuring that employees meet all program requirements to be authorized to drive.
3. Certifying that each employee has completed an ORM recognized defensive driving course (e.g., LPOST, Loss Prevention instructor-led, National Safety Council, FLI, etc.) within 90 days of entering the program.

4. Signing and dating, along with the employee (if applicable), the Driving Authorization and History Form (DA 2054). The DA2054 form can be used more than once if the authorized Agency representative signs and dates the supplemental signature sheet and attaches it to the DA2054. The original form cannot be modified.
5. Notifying the appropriate supervisors which employees have been authorized to drive or not authorized to drive.
6. Maintaining at each audited location a list of employees who have been authorized to drive or employees not authorized to drive at each audit location. (See appendix). Employees who are hired or terminated throughout the year are not required to be added or deleted from the authorized or unauthorized list, except on an annual basis prior to the audit. However, any person that is determined in the year to be a high risk driver should be removed from the authorized list or added to the unauthorized list, whichever list the Agency is updating.
7. Ensure that policies and procedures are established and implemented; and
8. Training courses are conducted and documented.

#### Supervisors

Supervisors shall:

1. Provide time for each authorized employee to complete the ORM on-line Defensive Driving Course (LPOST), ORM instructor- led Defensive Driving Course, or another ORM recognized defensive driving course.
2. Allow only authorized employees to drive on state business.
3. See that all vehicles provided to these employees are in safe operating condition, including the use of a monthly checklist (e.g., DA424 or the MV3/4).
4. Follow through that all deficiencies noted during the inspections are corrected and such actions documented.
5. Ensure that all accidents and incidents are properly reported and said records are maintained.

#### Employees

1. Employees shall only operate those vehicles for which they are licensed and insured.
  2. Employees who are authorized to drive state vehicles are responsible for the safe operation of those vehicles.
  3. Drivers shall report any unsafe condition or accident involving state vehicles to their supervisor or designee. Accidents by employees in their personal vehicle after hours need not be reported unless the employee was ticketed.
  4. Employees who drive their personal vehicle on state business shall be required to sign the DA2054 form attesting that they currently carry at least the required minimum vehicle insurance. Such signature is not required if the employee **ONLY** drives a state vehicle on all state business.
  5. Employees shall immediately report any revocation of their driver's license or any moving violations received to their supervisor, but no later than their next scheduled workday. Said reporting applies whether on state or personal/private business and whether in a state or personal/private vehicle.
- B. Authorization Process: Prior to approval by their Agency Head or his/her designee, the employee shall complete the Authorization and Driving History form (DA 2054). The information on this form is used to acquire the Official Driving Record (ODR) from the Department of Public Safety, Office of Motor Vehicles. An ODR shall be obtained annually

(i.e., no longer than every twelve (12) months between records). The Authorization and Driving History Form and the ODR are then submitted to the Agency head or designee for review and compliance with requirements to be authorized to drive.

If an employee possesses an out-of-state license, the Agency must either acquire a certified copy of the ODR from that state or require the employee to do so at his/her own expense. It is the Agency's responsibility to designate which employees are authorized to drive or NOT authorized to drive on state business.

The authorization process shall include:

1. An annual review of the employee's motor vehicle driving record (ODR).
2. Only individuals possessing a current and proper class driver's license shall be authorized by an Agency to drive a motor vehicle on state business.
3. Verifying (via the DA2054) that the employee can provide proof of liability insurance if he/she will use a personal vehicle to conduct state business. Requiring the employee to furnish proof is strictly up to each Agency.
4. Completing and passing of an ORM recognized defensive driving course within 90 days of employment and a minimum of every three years thereafter.
5. Developing a list of employees authorized to drive or employees NOT authorized to drive. Any person that is determined in the year to be a high risk driver should be removed from the authorized list or added to the unauthorized list, whichever list the Agency is updating. Such list must be kept at each audited location at all times.
6. Determining when driving responsibility shall be taken away from an employee because of moving violations or revocation of license, or lack of insurance for their private vehicle.

Within 45 days of obtaining the ODR, the Agency head or designee shall review the ODR and sign and date the Authorization and Driving History Form (DA 2054). NOTE: If there are no changes to the driver information, then the DA2054 may be used on more than one occasion if the authorized Agency personnel date and sign the supplemental signature sheet and attach it to the DA2054 (See Appendix).

High-risk drivers shall not be authorized to drive vehicles on state business from the date of discovery for a minimum of twelve (12) months. High-risk drivers are those individuals:

1. Having three or more convictions, guilty pleas, and/or nolo contendere pleas for moving violations within the previous twelve (12) month period or
2. Having a single conviction, guilty plea, or nolo contendere plea for operating a vehicle while intoxicated, hit and run driving, vehicular negligent injury, reckless operation of a vehicle, or similar violation within the previous twelve (12) month period.

If an employee is not authorized to drive, that employee and his/her supervisor shall be notified in writing that they shall not drive on state business. The immediate supervisor and the fleet control officer shall be notified that this employee shall not be given authority to drive on state business, and that employee's name shall be added/removed to/from the appropriate list.

- C. Preventive Maintenance - The Agency shall develop a preventive maintenance procedure and a preventive maintenance schedule for each vehicle included in the program. It is recommended that the Agency follow the suggested manufacturer's preventive maintenance (PM) on vehicles.

- D. Training – The TPA shall, upon request, assist each Agency in implementing documented driver safety training programs that address the needs of the Agency and in identifying training aids and resources that can be used for driver safety.

All authorized drivers shall successfully complete an ORM recognized defensive driving course within ninety (90) days of entering the program and shall complete a refresher course at least once every three years unless their class of license requires other additional training or testing. Drivers who have convictions on their motor vehicle records shall be required to retake a recognized driving course within ninety (90) days of notification of a conviction.

- E. Claims Reporting/Accident investigation – Upon request, the TPA will assist Agencies in conducting investigations into claims resulting from accidents involving vehicles used on state business.

## 2. Accident Reporting

- A. A vehicular accident is defined as any incident in which the vehicle comes in contact with another vehicle, person, object, or animal that results in death, personal injury, or property damage, regardless of: who was injured, what was damaged or to what extent, where it occurred, or who was responsible.

All accidents shall be reported to the employee's immediate supervisor and Driver Safety Coordinator by the driver of the state vehicle on the day of the accident. If the driver is not able to complete the Louisiana State Driver's Accident Report Form (DA 2041), then the driver's supervisor will complete the report to the best of his/her ability for the employee. The supervisor may enter identifying information and attach the police report. The DA 2041 shall be completed within 48 hours after any vehicle accident while on state business and forwarded to the Claims Unit. The DA 2041 form can be downloaded from: <http://www.doa.la.gov/orm/formsCR.htm>. (See appendix).

If the accident involves a workers' compensation claim, it must be reported to the TPA. A completed DA2000 form is no longer required for automobile accidents.

**(Note: When an accident occurs in either an employee's personal vehicle or a rental vehicle while he/she is on state business, complete the DA2041 and note whether or not the vehicle is state-owned, rented, or personal.)**

A copy of the Uniform Motor Vehicle Traffic Accident Report (police report) shall accompany the DA 2041 or should be sent to the Claims Unit as soon as it is received by the Agency. **Do NOT delay submission of the DA 2041 waiting on the police report.**

1. Failure of an authorized driver to report any vehicular accident may be cause for suspension of Driver Authorization.
2. The supervisor of the authorized driver involved in an accident shall review the accident report within two working days of the accident for completeness of information. Incomplete reports shall be returned for completion or corrected information. The supervisor may assist the individual in completing the report. All accidents require completion of the Vehicle Accident Report (DA 2041).
3. The supervisor (or safety coordinator, if appropriate) may consider what corrective action(s) may be necessary for accidents thought to be preventable. The corrective action(s) may include: temporary suspension of driving privileges, special training, physical examination, etc.

4. Agency heads, or the designee, will review the Accident Report Form, the Uniform Motor Vehicle Traffic Accident Report (police report – if one was completed), and the Authorization and Driving History Form (DA 2054).

3. Safety Audits and Record Keeping:

The TPA shall, upon request, assist Agencies in reviewing and analyzing the Driver Safety Program to ensure it is properly designed to have the intended impact. Data concerning the type, frequency, and amount of claims shall be provided to the Agency. By providing this data, the Unit assists the Agencies in identifying where losses are occurring and how the losses may be reduced or eliminated.

Driver Safety Program records shall be maintained at the Agency location and/or a central location designated by the Agency for review until at least the next audit or compliance review. Specifically:

- ODRs, High-risk driver documentation (e.g., re-training records, letters), vehicle inspection forms, preventive maintenance records – maintain for 1 year
- Driver training (initial, refresher) documentation – maintain for 3 years
- DA2054 forms – maintain indefinitely or until form information is updated

However, Agencies shall maintain at each audited location a list of employees who have been authorized to drive or employees not authorized to drive at each audit location.

4. Fleet Management:

Each Agency that provides for the use of state vehicles by employees to conduct official business is expected to adhere to the requirements of the State's Fleet Management Program (Title 4, Part V, subchapter F; Title 34, Part XI of the Louisiana Administrative Code).