



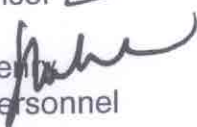
COUNTY OF LOS ANGELES DEPARTMENT OF HUMAN RESOURCES

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MICHAEL J. HENRY
DIRECTOR OF PERSONNEL
April 25, 2002

ASSISTANT DIRECTORS
TRAVIS J HOWLAND
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To: Each Supervisor ←

From: Michael J. Henry 
Director of Personnel

Subject: **COUNTY RISK MANAGEMENT PROGRAM
(ITEM S-1, AGENDA OF APRIL 30, 2002)**

Two recent reports by Warren, McVeigh & Griffin, a risk management consulting firm, recommended that most risk management functions in the County be consolidated within the Chief Administrative Office (CAO) at an estimated cost of \$1,272,179 plus \$250,000 for a computer upgrade as detailed in the attachment. The consultant's reports were very helpful in identifying important actions the various County risk management programs need to undertake to become more effective and responsive.

We believe that the primary recommendations in the consultant's reports can be achieved by maintaining the consolidated employee health and safety programs within the Department of Human Resources (DHR), enhancing the risk management programs in CAO, and strengthening collaboration efforts between the two.

DHR has already accomplished the following in response to the consultant's recommendations:

- Ordered the upgrade of the County's workers' compensation computer system.
- Implemented an Injury/Illness Prevention Program compliance review process with each department.
- Implemented a Cal/OSHA citation reporting system and a formal process to assist departments in developing corrective actions and mitigating monetary penalties.

While the consultant's reports were very useful in identifying important and necessary actions, it did not clearly identify savings that would be achieved by the rearrangement and enlargement, by six new administrative positions, of existing County programs. Rather, they spoke of the new structure achieving "savings realized by making the corrective action process more cost-effective" or that it would "generate long-term rewards in lower overall claim costs" by reducing litigation. Further, the study included a benchmarking component demonstrating that most other public agencies having

consolidated risk management functions, do so within the Human Resources department. Placement of the proposed structure within the CAO is inconsistent with their findings.

We believe the same results identified by the consultant could be achieved at an expense of \$1.1 million and an estimated cost savings of \$0.4 million from the \$1.5 million cost estimate of full consolidation by merging similar risk management programs and leaving workers' compensation and associated employee health and safety programs within DHR.

Current Program

Briefly, the County's program has two main sources of liability:

1. That which arises from the County's interactions with third parties (e.g., hospital patients, inmates, visitors to County facilities, etc.).
2. That which arises from injuries and illnesses experienced by County employees.

Currently, according to the consultant's reports, the costs which arise from third party liability claims fall into three main areas — medical malpractice, auto and general liability, and the cost to purchase property and casualty insurance. These liabilities are managed in three different departments: Chief Administrative Office, County Counsel, and Auditor-Controller.

The liabilities that arise from injured or ill employees are managed by the consolidated employee health and safety program within DHR. There are a total of 60 positions (full and part time) in DHR engaged in these operations. The consolidated employee health and safety program has three components:

- Occupational Health Programs - periodic medical evaluations of workers exposed to hazardous substances, preplacement medical evaluations of all applicants, reevaluations of employees who pose a danger to themselves or others, appeals of medical or psychological disqualifications, Department of Transportation mandatory drug testing program, Employee Assistance Program, etc.
- Environmental Health and Safety Programs - Injury/Illness Prevention Program, Cal/OSHA citation and consultation program, ergonomics, other safety consultation, etc.
- Disability Benefits Programs - workers' compensation, long-term and short-term disability.

Collaboration between CAO and DHR

The consolidated employee health and safety program in DHR works in close collaboration with the CAO in the areas of legislative analysis and budgets. The legislative analysts in the CAO work closely with the technical staff in employee health and safety before recommending a position on any piece of legislation relating to workers' compensation or to environmental concerns.

The workers' compensation and long-term and short-term disability trust fund budgets are developed annually in collaboration with the CAO. Analysis includes trending of past benefits costs into the future, taking into account program enhancements and legislative changes likely to impact costs in the coming year.

DHR is strongly committed to interdepartmental collaboration to achieve effective, cohesive and responsive County risk management outcomes especially in the areas of loss prevention and risk assessment as identified in the consultant's reports.

Comparison Agencies Surveyed by Consultant

The consultant surveyed nine comparison agencies – six in California; Maricopa County, Arizona; Cook County, Illinois; and Harris County, Texas. They found that five of the six California comparison agencies place workers' compensation within their human resources unit; one of the three outside agencies also places workers' compensation within its human resources unit. They found that all nine consolidated all or some of their risk management functions and that six of these placed the consolidated program within the Human Resources unit of the agency.

Justification for DHR Recommendations

- Health, Safety and Disability Benefits Programs pertaining to employees are main mission functions of the Department of Human Resources and these programs are already consolidated in one division within DHR.
- According to the consultant's reports five of the six California comparison agencies place workers' compensation within their Human Resources unit.
- Estimated cost of space for consolidation and six new administrative positions within the CAO is \$1.3 million without any estimated savings.
- Full consolidation within CAO would disrupt 60 (full and part time) DHR employees.
- The risk management programs within the CAO and Auditor-Controller deal with very different populations and risks than the workers' compensation programs in DHR.

- The CAO and Auditor-Controller programs deal primarily with liabilities that arise from the County's interactions with the public.
- The DHR programs deal with employee health and safety.
- The primary recommendations in the consultant's reports can be achieved by maintaining the consolidated employee health and safety programs within DHR, enhancing the risk management programs in CAO.
- Leaving the already consolidated workers' compensation and associated employee health and safety programs within DHR saves an estimated \$400,000 when compared to full consolidation.

DHR Recommendations

In light of the estimated costs of implementing all the recommendations of the risk management consultant's reports and the lack of definitive savings identified by the consultant, we recommend, as detailed below, a less costly program be implemented:

- The current consolidated employee health and safety program remain intact within the Department of Human Resources.
- Create the position of County Risk Manager, as recommended in the consultant's reports, and consolidate all third party liability risk management functions under this position.
- Move the Risk Management Inspector General from the Auditor-Controller to the CAO and add four professional and support staff, as recommended in the consultant's reports, to create a third party liability loss prevention section within the CAO. This section would work closely with the existing Risk Management Operations division to create a more consolidated approach to controlling third party liability.
- Continue the integration of the Risk Management Information System with the upgraded workers' compensation system.
- Continue and strengthen the ongoing collaboration between the CAO and DHR in areas of legislation and budget.
- Establish new collaborative efforts between the proposed loss prevention unit in the CAO and with environmental health and safety in DHR, in those areas where overlap of liabilities occur.
 - Collaborate to develop and implement automobile accident prevention strategies – approximately 2% of workers' compensation costs involve automobile accidents that could also generate third party liabilities.
 - Collaborate to correct hazardous conditions that affect both the public and County employees.

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We believe we can accomplish the goals of the consultant's reports through teamwork and collaboration with the CAO Risk Manager while maintaining the current employee health and safety programs in DHR.

If you have any questions, please contact me, or your staff may contact Connie Sullivan at (213) 738-2233.

MJH:TJH
CSS:jh

Attachment

c: David E. Janssen, Chief Administrative Officer
J. Tyler McCauley, Auditor-Controller
Lloyd W. Pellman, County Counsel

g: county risk mgmt memo3

COST COMPARISON

	CAO's Estimated Cost for Full Implementation of Consultant's Recommendations	Revised Estimated Cost Projected by DHR	Estimated Cost Savings
New Staff/ 6.0 Budgeted positions			
• Risk Manager	\$186,932	\$186,932	
• Liability Claims Manager	\$144,596	\$144,596	
• Liability Loss Control Expert	\$144,596	\$144,596	
• Liability Claim Analyst	\$119,593	\$119,593	
• Management Secretary V	\$78,253	\$78,253	
• Senior Secretary	<u>\$70,209</u>	<u>\$70,209</u>	
	\$744,179	\$744,179	\$0
Space	\$528,000	\$132,000	\$396,000
SUB-TOTAL	\$1,272,179	\$876,179	\$396,000
Workers' Compensation Computer Upgrade	\$250,000	\$250,000	\$0
TOTAL	\$1,522,179	\$1,126,179	\$396,000