## STAFF REPORT

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| **Agenda Item:** | 7 | **Name:** | Greg Doss |
| **Proposed No**.: | 2015-0362 | **Date:** | October 27, 2015 |

**SUBJECT**

Proposed Motion 2015-0362 would acknowledge receipt and approval of a plan that implements the remaining recommendations included in the King County 2013 Performance Audit of the Office of Risk Management.

**SUMMARY**

The 2014 Adopted Budget (Ordinance 17695), contained a proviso that required the Executive to strengthen its Enterprise Risk Management plan and respond to seven findings made by the King County Auditor in its 2013 performance audit of the Office of Risk Management (ORM).

The ORM responded to four of the seven audit findings in 2014. The outstanding three findings were the subject of a proviso in the 2015-16 Biennial Budget (Ordinance 17941). The proviso directed the Executive and ORM to transmit by August 1, 2015 a plan to accomplish the following:

1) Provide an implementation schedule for Enterprise Risk Management in all County departments and agencies;

2) Identify the annual performance targets for reducing non-transit vehicle accidents as called for in Audit Recommendation 2 and;

3) Describe the annual safety retraining program and documented program criteria based on transit agencies best practices as called for in Audit Recommendation 5.

On September 11, 2015 the King County Auditor transmitted to the County Council a report that indicates that all audit recommendations have been implemented, including the three recommendations that were outstanding when the Council adopted the proviso in Ordinance 17941.

The report and motion are submitted in compliance with Ordinance 17941, Section 122, Proviso P1 and can be found in Attachment 2. Approval of the Motion will release $250,000 to the Office of Risk Management.

**BACKGROUND**

Enterprise Risk Management is a countywide approach to managing risk systematically, proactively, and thoughtfully across agencies and was identified by ORM as a promising way to address King County’s risk exposure. Critical risks are identified through evaluation and assessment with managers and employees. Risks and opportunities are proactively addressed via integrated strategies, and progress is monitored on an ongoing basis.

The County’s Enterprise Risk Management (ERM) approach was addressed in a June 25, 2013, performance audit of ORM that was produced by the County Auditor’s Office. The audit noted, among other issues, the need for a more proactive, integrated approach to managing risks. The Auditor included two ERM related recommendations: 1) that ORM develop, in consultation with the Executive, a comprehensive framework that is consistent with international standards, and 2) that ORM develop an ERM implementation plan.

In approving the 2013-14 mid-biennial budget (Ordinance 17696), the Council included a proviso on the ORM appropriation that, in short, required the department to develop performance measures for evaluating the effectiveness of its enterprise risk management efforts, and to report on the results in the department’s annual report. It also sought to have the ORM address the Auditor’s seven detailed findings. The 2013-14 Proviso text follows:

“Of this appropriation, $100,000 shall not be expended or encumbered until the executive transmits a report on performance measures for enterprise risk management, a draft ordinance that would enact reporting requirements and a proposed motion that acknowledges receipt of the report and the draft ordinance, and the motion is passed by the council. Enterprise risk management is an approach that integrates risk management across an organization and is described in the June 25, 2013, performance audit of the office of risk management. The motion shall reference the proviso's ordinance, ordinance section, proviso number and subject matter in both the title and body of the motion. The report shall describe the office of risk management's performance measures for enterprise risk management and proposed reporting requirements. The draft ordinance shall also set forth proposed reporting requirements, including, at a minimum, the results of enterprise risk management efforts in the risk management annual report that is required by K.C.C. 2.21.030. The draft ordinance shall be developed in consultation with council staff. The executive must file the report, motion and draft ordinance required by this proviso by May 30, 2014, in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff and the lead staff to the government, accountability and oversight committee or its successor.”

The ORM proviso response was reviewed by the Council on August 26, 2014. Council staff reported that ORM had appropriately tied its suggested performance to the primary goals of the program, which are as follows:

1. Collaborate with agencies to proactively identify and assess high-priority risks and improve controls through documented action plans, and
2. Provide agencies with quantitative and qualitative information to support decision making and action planning.

Council staff also noted that the performance standards included long term measures of whether County claims and losses have been reduced, as this is the ultimate goal of ERM.

The County Auditor noted in a follow up report that the ORM had implemented four of the seven specific recommendations included in the 2013 performance audit. A copy of this audit is found in Attachment 4.

The Council enacted in the 2015-16 Budget another proviso that focused on the three unmet recommendations. The text from Ordinance 17941 follows:

“Of this appropriation, $250,000 shall not be expended or encumbered until the executive transmits a plan for implementation of the recommendations included in the King County 2013 Performance Audit of the Office of Risk Management and a motion that approves the plan and the motion is passed by the council. The motion shall reference the subject matter, the proviso's ordinance, ordinance section and proviso number in both the title and body of the motion.

The plan shall provide information, with specific timelines, on how the office of risk management will fully implement the recommendations in the King County 2013 Performance Audit of the Office of Risk Management including, but not limited to:

1. The schedule for implementation of enterprise risk management in all county departments and agencies, regardless of risk priority, as called for in Audit Recommendation 2;
2. The annual performance targets for reducing non-transit vehicle accidents as called for in Audit Recommendation 3; and
3. The annual safety retraining program and documented program criteria based on transit agencies best practices as called for in Audit Recommendation 5.

The executive must file the plan and motion required by this proviso by August 1, 2015, in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff, the policy staff director and the lead staff for the government accountability and oversight committee, or its successor.”

**ANALYSIS**

**Annual Reporting Requirements**: The Council adopted Ordinance 17883 on September 2, 2014, which required ORM to annually report on several measures including the cost of risk, claim filings, claim payment and insurance coverages. For enterprise risk management, the annual report must identify the priorities of the previous calendar year, agency actions, measurable results and goals for the current year. A copy of the 2014 Annual Report can be found in Attachment 5.

**Three Unmet Audit Findings.** The King County Auditor reviewed the final three audit findings and has indicated that ORM has implemented all of its recommendations.[[1]](#footnote-1) Addressed below is each of these findings and the associated ORM response.

**Audit Recommendation #2**. “We recommend that the Office of Risk Management, concurrent with development of the ERM framework previously identified, develop an ERM implementation plan that includes:

* An initial schedule of departments for pilot implementation of the risk management process; and;
* specific performance targets for developing and evaluating departmental assessment, treatment, and reevaluation of risks; and a schedule for ongoing implementation of ERM through all county departments.”

The Auditor found that Risk Management has developed an ERM implementation plan and begun to use the ERM Maturity Scorecard to set performance targets for agencies that are adopting and practicing the principles, framework, and process of ERM.

According to the ERM implementation plan, all County departments or divisions are scheduled to complete initial evaluations by second quarter of 2017, and complete the first round of follow-up reassessment by second quarter of 2018. Three of the county’s largest agencies--Department of Adult & Juvenile Detention, Metro Transit, and Public Health--have completed the ERM Maturity Scorecard and will undergo re-assessment in 2016 in order to review progress and re-evaluate risks.

**Audit Recommendation #3**. “The Office of Risk Management should collect vehicle accident data for non-transit vehicles per total miles driven and establish annual performance targets for reducing such accidents.”

The Auditor found that Risk Management has collected non-transit vehicle accident data and showed that County non-transit vehicles have, on average, 5.5 claims per million miles driven between 2010 and 2014. Based on analysis of data collected by the Federal Motor Carrier Administration, and Occupational Health and Safety Administration, Risk Management staff proposed an annual performance target of 5.0 claims per million miles driven for 2015, and will use the target to evaluate strategies for further reducing non-transit vehicle accidents. This target is within the normal range for similar types of fleets.

**Audit Recommendation #5**. “The Office of Risk Management, in conjunction with Metro Transit, should require some level of annual bus driver safety retraining consistent with transit agency best practices.”

The Auditor found that Metro Transit has implemented an operations training program that requires all transit operators to take a four-hour refresher training every year, which is consistent with transit agency best practices. Transit and Risk Management continue to work together to gather and analyze accidents and claims data to inform annual training needs.

**Schedule Risks:** Office of Risk Management staff have indicated that they will meet without issue the ERM implementation schedule milestones identified in the proviso response. The potential risks to the schedule center around the responsiveness of some of the agency managers, or the staff capacity of the department to manage the ERM framework. Office of Risk Management staff will, if necessary, report on these barriers when providing an ERM implementation update in the 2015 annual report.

**Performance Targets:** The County Auditor examined and validated the non-transit accident data and performance targets identified by the ORM. The targets were determined through a statistical trend analysis that did not consider any environmental factors. Staff will monitor these measures and make future adjustments as necessary.

**Training:** The Transit Division’s annual driver training courses are in place now, and will in the future be informed by an ORM/Transit Comprehensive Safety Review study that is underway with the aid of a consultant. The study will guide the Division in developing annual retraining programs that are consistent with transit agency best practices. The study will also examine the appropriateness, quality, timeliness and delivery of training; evaluate training topics to determine if they encompasses an appropriate range of possible risks; evaluate safety training content to determine if it is appropriate for the risks; and evaluate the overall training effectiveness in changing behavior and promoting safe work practices and a safe culture.

**Proposed Motion 2014-0362.** On September 11, 2015 the King County Auditor transmitted to the County Council a report that indicates that all audit recommendations have been implemented, including the three recommendations that were outstanding when the Council adopted the proviso in Ordinance 17941. Approval of the proposed motion would release $250,000 in ORM funding.

**ATTACHMENTS**

1. Proposed Motion 2015-0362

2. King County Auditor’s September 2015 Management Letter

3. King County Auditor’s 2013 Audit of the Office of Risk Management

4. 2014 Office of Risk Management Annual Report

**INVITED**

1. Jennifer Hills, Director, Office of Risk Management
1. The County Auditor released last month a management letter as a routine follow-up to the 2013 performance audit. The Auditor has indicated that ORM has implemented all of the recommendations in the audit. A copy of this letter can be found in Attachment 3. [↑](#footnote-ref-1)