



REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

PERFORMANCE AUDIT OF CITY OF SHREVEPORT INSURANCE PROCUREMENT

INTERNAL AUDIT REPORT (IAR) 020119-06

DECEMBER 11, 2019

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Report Highlights

Page(s)

- The appropriate insurance procurement process was circumvented 10
- City pays \$622K more for \$516M less in property coverage for storm 16
- Higher deductibles in 2019 for less coverage than in 2018 16



The Council
City of Shreveport

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December 11, 2019

Councilman Jerry Bowman, Jr.
Chairman, Shreveport City Council

Dear Councilman Bowman:

Subject: IAR 020119-06– Performance Audit of the Insurance Procurement Process

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
PERFORMANCE AUDIT OF INSURANCE PROCUREMENT
INTERNAL AUDIT REPORT (IAR) 020119-06

Why We Did This Audit

We have completed a performance audit of the City of Shreveport insurance procurement. This audit was conducted as a result of a Council request to investigate the changes to the City's insurance broker and insurance coverages at the end of 2018 and the beginning of 2019. Our objectives were to determine how and why these changes were made, and what impact these changes have on the City's property damage risks.

What We Recommended

To better protect the City's assets and minimize exposure risk, we recommend management and the administration

- Follow the rules in the City Charter and Ordinances.
- Issue an RFP that requires municipal property insurance experience, participation in the State Guarantee Fund as well as knowledge of other laws and standards that have an impact on insurance property claims.
- Obtain per occurrence coverage for the total replacement cost of all City property.

To improve transparency we recommend the administration

- Issue an RFP that requires insurance quotes along with the broker's proposal.

To strengthen policies and procedures, we recommend the administration

- Return Risk Management Office to the Department of Finance.
- Align the purchasing policy with the adopted sections of the LA Procurement Code.

Performance Audit: Insurance Procurement

What We Found

The City's insurance broker for Excess Workers' Compensation coverage was changed without completely following the appropriate process and without any oversight.

Although the determining dollar amounts differ, both the purchasing policy and the sections of the LA Procurement Code adopted by City Ordinance would have required an RFP to procure the City's insurance.

The most significant changes and deficiencies in the City's insurance program involve property coverage.

- Premiums increased by \$622,325.
- Per Occurrence **Named Storm** coverage decreased by \$515,505,864.
- **Named Storm** deductible can be up to \$50,000 more than last year even though coverage is reduced.
- \$790,505,864 less in **Increased Construction Cost and Demolition** coverage that covers the cost of the undamaged portion of a building that has to be replaced due to Building Code requirements.

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Introduction

On December 27, 2018, after marketing and placing the 2019 policy, the City's Insurance Broker for Excess Workers' Compensation insurance received notification that they were no longer the agent/broker of record. An agent/broker of record is a company or individual who has the legal authority to represent the insured in maintaining, servicing, and purchasing an insurance policy. Because the change occurred two days before the current mayor was sworn into office, many questions arose about the authority, appropriateness, and consequences of making such a change.

In January, our office was notified that the City had changed the broker/agent of record for its property and casualty policies in addition to the excess workers' compensation package. As a result, the City Council asked that our office conduct an audit of the procurement of all insurance policies for 2019.

In February of 2019, the Council passed Ordinance 18 reinstating the practice provided for in Section 10.02(r) of the Charter to require the City Council to approve the amount of all types of insurance in which the City pays the premiums in whole or in part.

The Council received an interim report on April 15, 2019 identifying the initial \$50M in property insurance as insufficient relative to the total replacement cost of the City's assets. Subsequently the Administration procured additional layers of property coverage bringing the total to \$300M in per occurrence coverage.

This report provides the results of our performance audit of the procurement of the 2019 citywide insurance program.

Health insurance benefits are not included in this audit because the City of Shreveport is 100% self-insured. Premiums withheld from employees' paychecks as well as premiums contributed by the City are deposited into the Healthcare Trust Fund in order to pay claims. United Healthcare administers healthcare and vision claims and Sun Life Assurance administers the dental claims; and each are paid a monthly per employee administrative fee. The terms of the agreements between the City and claims administrators are negotiated by a broker. Any commissions and/or fees the broker receives are paid by the third-party administrators based on their mutual agreement.

The objectives of this performance audit are to determine the following:

- Did any change, dismissal, or selection of any insurance agent, broker, or producer violate city policy, city ordinance, or any state law?
- What was the selection process; and what due diligence was employed for hiring the new brokers?
- How do the 2019 policies compare to the 2018 policies for each line of coverage?



Recommendation Evaluation Risk Criteria

This report contains three findings with five recommendations. The chart below summarizes our evaluation of risk for the recommendations outlined in the report. Each recommendation was assessed a high, medium, or low risk level based on a qualitative assessment of exposure and/or corrective action priority.

Risk Levels	Recommendations
<p>High Risk Represents a significant level of risk exposure to city assets, public safety, or achievement of objectives or mission. Corrective action should have the highest priority.</p>	<ul style="list-style-type: none"> ➤ Issue an RFP that requires the proposer to have experience placing municipal property insurance, is a LA-admitted company participating in the Guarantee Fund, and understands other standards, such as building codes that may not be directly related, but have an impact on insurance claims. (Finding: Greater Risk Exposure) ➤ Require that insurance quotes be part of the RFP in order to evaluate the level and quality of insurance coverage a broker is able to obtain before committing to any particular broker. (Finding: Greater Risk Exposure)
<p>Medium Risk Represents a moderate level of risk exposure to the city from extensive operating inefficiencies or high-level non-compliance issues. Corrective action should occur expeditiously.</p>	<p style="text-align: center;">Follow RFP process for the procurement of insurance. (Finding: Process Not Followed)</p>
<p>Low Risk Represents a minimal level of risk exposure to the city from inefficiencies or low-level non-compliance issues. Corrective action should occur as appropriate.</p>	<ul style="list-style-type: none"> ➤ Return the Risk Management Division to the Department of Finance. (Finding: Process Not Followed) ➤ Change purchasing policy to align with adopted LA Procurement Code. (Finding: Process not Followed)



Scope and Methodology

The scope of this performance audit includes the 2019 Excess Workers' Compensation and Property insurance programs. In order to meet our objectives, we reviewed relevant internal controls and developed audit procedures that included but were not limited to the following:

- Interviewing Departmental management regarding controls
- Reviewing City Ordinances
- Reviewing the Louisiana Procurement Code
- Consulting with insurance industry experts

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

We thank the City Administration and personnel in the Risk Management Division of the City Attorney's Office and Department of Finance for the cooperation and assistance in gathering information provided to us in our work on this project.





FINDINGS AND RECOMMENDATIONS



Objective: To determine if any change, dismissal, or selection of any insurance agents, brokers, or producers violated city policy, city ordinance or any state law.

Who has the authority to select the City’s insurance agent/broker?

The Chief Administrative Officer (CAO) and the Director of Finance provide oversight, while the Risk Manager has the responsibility to sufficiently carry out the insurance procurement process. Any written contract, agreement and or formal approval should only be signed by the mayor.

Personnel	Role	Applicable Guideline	
Chief Administrative Officer Director of Finance	Provide Oversight	City Charter Section 10.02	The Director of Finance with approval from the Chief Administrative Officer shall: <i>“Supervise and direct the placing of all types of insurance carried by the city where the premiums are paid by the city, or the premiums in whole or in part are withheld through the payrolls; the amount of all types of insurance on which the city pays the premiums in whole or in part shall be approved by the council after a recommendation by the mayor.”</i>
City Attorney	Supervises Risk Manager	City Ordinance Section 2-167	Risk Management: a) <i>The position of risk manager is hereby reassigned to the office of the city attorney.</i> b) <i>The risk manager shall report to and be supervised by the city attorney.</i>
Risk Manager	Procures Coverage	Personnel Job Description	The Risk Manager: – <i>Prepares specifications for appropriate insurance contracts, places the insurance out for bids, assists in the review and evaluation of bids received.</i> – <i>Recommends the award of insurance contracts to the firm whose proposal will most benefit the City.</i> – <i>Performs other duties as assigned by the Director of Finance.</i>
Mayor	Signs Broker Agreement	City Ordinance Section 5.02	The mayor shall: <i>Sign all contracts, bonds or other instruments or documents requiring the assent of or execution by the city, except those which some other officer is authorized hereunder to sign, and be custodian of the corporate seal.</i>



What laws and procedures apply when selecting an insurance agent?

Section 10.07 of the City Charter specifically excludes professional services from competitive bidding requirements under the public bid law. (Illustration pg. 9)

Based on the definition provided in the State Procurement Code adopted by City Ordinance, insurance brokering qualifies as a consulting service and should be procured through a request for proposal (RFP) if contract amount is \$50,000 or more for a 12-month period. The law further prohibits “artificially dividing service requirements so as to exempt contracts from the RFP process.” City Policy established by the Purchasing Agent requires an RFP for all contracts \$10,000 or more, unless this requirement is waived in writing by the Chief Administrative Officer. (Illustration pg. 9)

On December 28, 2018, the date of the letter changing the agent of record, the City did not have a CAO. The former CAO resigned on December 9, 2018. The current CAO was confirmed by the Council on March 12, 2019.

Although the dollar thresholds differ, under both the State Procurement Code and City Policy, an RFP would have been required for procuring all of the City’s insurance policies. The premiums paid for each policy are outlined in the table below.

2019 Insurance Program			
Policy Package	Premium	Policy Fee	Total
Excess Workers’ Compensation and Inland Marine	\$576,405	None	\$576,405
Property Package	\$914,500	\$250,000	\$1,164,500
Fire Dept. Auto & Portable Equipment	\$340,676	None	\$340,676
Fire Dept. Professional Liability Package	\$408,396	None	\$408,396
Total	\$2,239,977	\$250,000	\$2,489,977

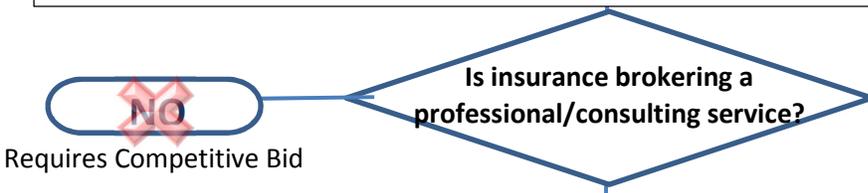


Purchasing laws and procedures (continued):

1. Section 10.07 of the City Charter outlines competitive bidding requirements.
2. Section 26-269 of the City Ordinances adopts the State Procurement Code (La. R.S. 39:1551-39:1755) which categorizes consulting services based on the total amount of compensation for a twelve-month period.
3. Section 26-270 of the City Ordinances establishes the authority for the Purchasing Agent to adopt a City policy for purchasing provisions including rules for the procurement of goods and services.

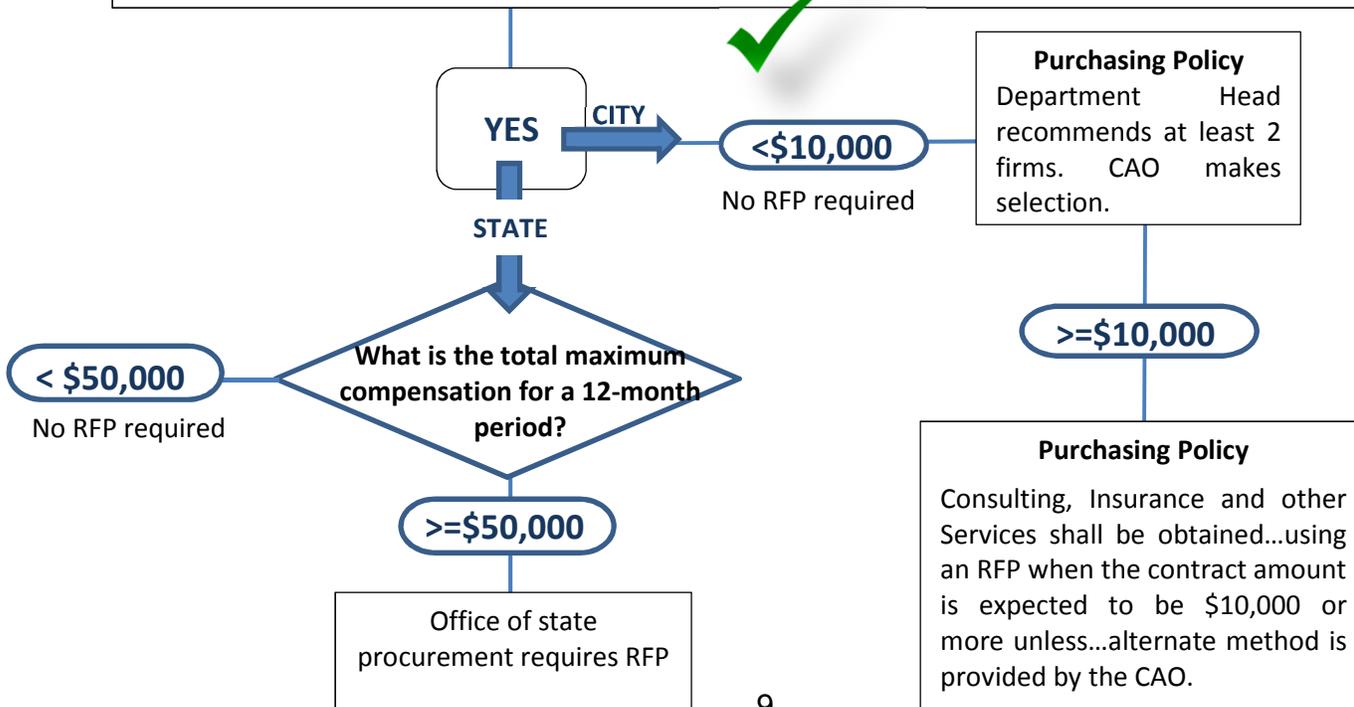
City Charter Section 10.07

...the purchasing agent shall give opportunity for competitive bidding.... Competitive bidding, however, shall not be required in the case of contracts for professional services....



La. R.S. 39:1556 (10)

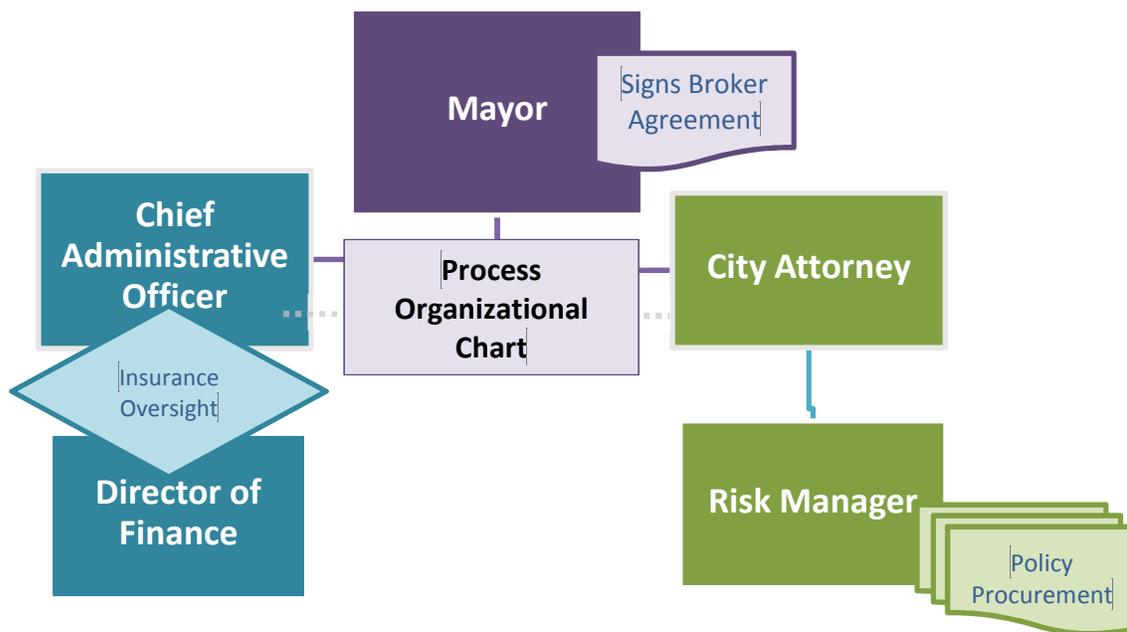
"Consulting service" means work, ...rendered by either individuals or firms who possess specialized knowledge, experience, and expertise to...provide counsel, review, design, development, analysis, or advice in formulating or implementing programs or services, or improvements in programs or services....
 "Consulting service" includes the procurement of supplies and services by a contractor...when such supplies and services are either for insurance procured directly by a licensed insurance producer pursuant to R.S. 39:1540(B)...





Objective: To determine what due diligence steps were taken to select the new broker.

What due diligence was performed?



We found that no appropriate process was followed. The Internal Audit Office interviewed the former mayor and previous City Attorney, and they stated that they did not authorize any changes to the City’s insurances.

In an email, the Risk Manager told the interim CAO that the “directive” came from the current Chief Advisor to the Mayor, who was not a City employee at the time.

2006 is the last time an RFP for insurance procurement was issued. Neither an RFP nor a Request for Qualifications was issued in 2018. The broker for the current property insurance told Internal Audit he had no prior experience placing municipal property insurance.

Policy renewal documents for Excess Workers’ Compensation had been prepared by the previous broker and accepted by the Risk Manager before the decision was made to change brokers. No mayor (former or current) signed the agent of record change in accordance with City Ordinances. See timeline on next page.

★ In November of 2015, Risk Management was moved from the Department of Finance and became a division of the City Attorney’s Office. Oversight of insurance procurement, however, did not officially transfer to the City Attorney. The changing of City administrations in December 2018, including the City Attorney who was not confirmed by the City Council until January 23, 2019 created an opportunity to circumvent the appropriate process.



DECEMBER 2018



Adrian Perkins is elected Mayor of Shreveport.

8th

Chief Administrative Officer resigns.

9th

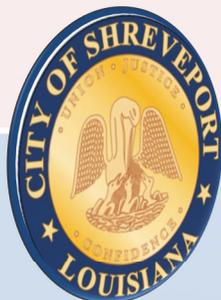
Risk Manager signs Excess Workers' Compensation policy renewal and binder agreements prepared by previous broker.

10th

Excess Workers' Compensation Timeline

- 3rd party prepares Agent of Record (AOR) change letter and sends to Risk Manager.
- Risk Manager directs staff to print AOR letter on City letterhead for Risk Manager to sign.
- Previous agent/broker emails Risk Manager asking for explanation of agent of record change.

28th



Mayor Adrian Perkins is sworn into office.

29th

JANUARY 2019

Risk Manager receives 2019 Excess Workers' Comp policy invoices from new AOR.

3rd

Previous broker requests meeting with mayor to discuss AOR change.

4th

New broker follows up with Risk Manager about payment for *their* invoices.

7th

Mayor asks Chief Administrative Officer and Chief Advisor for background related to the AOR change.

9th

City Council finds out the AOR has been changed and asks Internal Audit Office to investigate.

12th

Risk Manager receives 2019 Excess Workers' Comp policy binders and invoices from previous broker.

15th

City of Shreveport Accounting division processes \$542,000 2019 policy payment to new broker.

16th

Responding to Interim CAO's request for all correspondence regarding AOR change, Risk Manager states that the current Chief Advisor to the Mayor gave the verbal directive to change insurance broker.

17th



IAR 600019-06
September 13, 2019

Recommendation 1: Rules are in place for obtaining proper authorization in selecting an insurance broker, but they were not followed. We recommend Risk Management follow those rules. We also recommend returning the Risk Management Division to the Department of Finance to provide more oversight.

Management Response: The former City Attorney resigned on December 28, 2018 and the Current CA started on January 23, 2019. An RFP was issued on September 11, 2019 to advertise for and receive qualifications for AOR. Proposals were received in response to insurance broker services for workers' compensation & inland marine insurance, and for aviation, auto, property, casualty, commercial general liability, and professional liability. A broker was selected from this process to provide these services. Risk Management Division was moved from the Department of Finance to the City Attorney office under the prior administration. This current administration already has plans to move the Risk Management Division back to the Department of Finance.

Due Date: **6 to 12 Months**

Recommendation 2: Because the fees are above the State and City requirement thresholds, the insurances should be procured through an RFP. The purchasing policy should be changed to align with adopted LA Procurement Code.

Management Response: The administration is revising the city purchasing policy to be properly aligned with the procurement code.

Due Date: **Less Than 6 Months**



Objective: To compare the 2019 property coverage to the 2018 policies.

Program Comparison: Former Program vs. Present Program

To assist with our analysis, internal audit engaged an insurance consultant with 25 years of experience placing municipal property insurance. Pages 13-17 give a summary of his report.

Two Programs:

1. **Present Program** – group of seven policies that make up the current property insurance program providing property insurance coverage effective March 20, 2019 and having an expiration date of March 20, 2020.
2. **Former Program** – single insurance policy that had an effective date of March 20, 2018 and expired on March 20, 2019.

Definitions:

Aggregate Limit: The maximum amount an insurer will pay for covered losses during a policy period. The **annual aggregate** limit is the total amount an insurer will pay in a given single year.

Occurrence Limit: The maximum the insurer will pay for all claims resulting from a **single occurrence**, no matter how many people are injured, how much property is damaged, or how many different claimants may make claims.

Earth movement: is inclusive of both natural and manmade earth movement. This includes earthquakes, landslides, mine subsidence, and mud slide or mud flows.

Named storm: means a storm that, at any time, has been declared by the United States National Weather Service to be a **Hurricane, Typhoon, Tropical Cyclone, Tropical Storm, or Tropical Depression**, including any status or designation change with respect to such storm.

Flood: means, whether natural or manmade, flood waters, surface water, waves, tide or tidal water, overflow or rupture of a dam, levy, dike or other surface containment structure, storm surge, storm tide, the rising, overflowing or breaking of boundaries of natural or manmade bodies of water, or the spray from any of the foregoing, all whether driven by wind or not. A tsunami shall not be considered a flood.

Non-admitted insurance company: an insurance company that doesn't operate under an individual state's insurance laws. As a result, a non-admitted insurance company doesn't enjoy the benefit of having its claims resolved in the event of a bankruptcy.

Increased Cost of Construction (ICC) and Demolition Costs: This coverage provides claim payments for the increased cost of construction due to increased building costs often associated with changes in building ordinances. These limits are sub-limits of the policy and are included in, not added to, the policy limits.



Structure:

All insurance companies providing coverage under both the **Present** and **Former** programs are rated by AM Best as having a sound financial standing with long-term financial outlooks of stable or better.

Both insurance programs have a primary focus of providing financial protection for monetary loss as a result of three primary perils. Those perils being: **Named Storm, Earthquake, and Flood.**

The **Former Program** consisted of one insurance policy with one insurance company, a subsidiary of American Indemnity Group, Inc. (AIG), a well reputed company offering insurance products specifically tailored for entities with assets as large as the City of Shreveport and public sector entities.

Former Program

- Financial size category greater than \$2B
- LA-admitted insurance company
- Provides 100% of the 2018-2019 insurance program

The **Present Program** consists of three layers of insurance policies:

- Layer 1 - single insurance policy
- Layer 2 - a co-op of three insurance policies from three insurance companies each providing a percentage of the policy limit for the layer
- Layer 3 - three insurance policies with three insurance companies and a policy amendment to a policy contained in Layer 2



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	Former	Current								Differences
		Layer 1	Layer 2			Layer 3				
Company	AIG	Lexington	Maxum (Hartford)	James River	Navigators Specialty	Homeland	RSUI Indemnity	Axis Surplus	James River	
Total Insurable Value	\$815,505,864	\$815,505,864								
Premium	\$542,175	\$627,989	\$56,226	\$34,296	\$22,490	\$63,895	\$60,767	\$34,461	\$14,377	\$622,325 more than former plan
Policy Fee	N/A	\$250,000								
Admitted Company	Yes	No	No	No	No	No	No	Yes	No	1 of 7 companies admitted
Effective Date	3/20/18	3/20/19	3/20/19	3/20/19	3/20/19	4/20/19	4/20/19	4/20/19	4/20/19	3 rd layer effective 1 month late
Occurrence	\$815,505,864	See peril specific: Earthquake, Flood, and Named Storm listed under sub-limits								
	Primary	\$25M Primary	\$25M Excess of \$25,000,000			\$250M Excess of \$50,000,000				7 policies & 7 companies vs. 1 in previous program
		100% of primary limit	Excess at 50%	Excess at 30%	Excess at 20%	2 nd Excess at 40%	2 nd Excess at 31%	Excess at 20%	Excess at 9%	
Limits	\$815,505,864 plan limit; see sub-limits below	\$25M per occurrence, subject to sub-limits	\$12.5M part of \$25M excess of \$25M per occurrence	\$7.5M part of \$25M excess of \$25M per occurrence	\$5M part of \$25M excess of \$25M per occurrence	\$100M part of \$250M excess of \$50M per occurrence	\$77.5M part of \$250M excess of \$50M per occurrence	\$50M part of \$250M excess of \$50M per occurrence	\$22.5M part of \$250M excess of \$50M per occurrence	\$515,505,864 less property limit under current plan
Sub-limits		\$25M aggregate	Excluded			Excluded				\$25M less earthquake limit under current plan
Earthquake	\$50M aggregate									
Deductible	\$50,000	\$50,000	N/A	\$25,000	N/A	N/A	N/A	N/A	\$50,000	\$75k greater deductible under current plan
Flood	\$25M aggregate	\$25M aggregate	Excluded			Excluded				Same limits
Deductible	\$50,000	\$50,000	N/A			N/A				Same deductible
Named Storm	\$815,505,864	\$25M	\$12.5M part of \$25M excess of \$25M per occurrence	\$7.5M part of \$25M excess of \$25M per occurrence	\$5M part of \$25M excess of \$25M per occurrence	\$100M part of \$250M excess of \$50M per occurrence	\$77.5M part of \$250M excess of \$50M per occurrence	\$50M part of \$250M excess of \$50M per occurrence	\$22.5M part of \$250M excess of \$50M per occurrence	\$515,505,864 less property limit under current plan
Deductible	\$25,000	\$25,000	Underlying deductible applies	Underlying deductible applies	\$25,000 plus primary deductible	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies	Deductible may be \$25K more under current plan



IAR 600019-06
September 13, 2019

Company	Former	Current								Differences
		Layer 1	Layer 2			Layer 3				
		Lexington	Maxum (Hartford)	James River	Navigators Specialty	Homeland	RSUI Indemnity	Axis Surplus	James River	
ICC and Demo Coverage A – cost to replace undamaged portion	\$815,505,864	\$25,000,000 Occurrence	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	\$790,505,864 less policy limit under current plan
ICC and Demo Coverage B – cost to demolish and clear undamaged portion	\$10M aggregate	\$10,000,000 Occurrence	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Same
ICC and Demo Coverage C – increased cost to repair or replace damaged portion	\$10M aggregate	\$10,000,000	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Same

2019 Highlights

- \$622,325 more in premiums and fees (\$1,164,500 vs. \$542,175)
- \$515,505,864 less in per occurrence coverage for **Named Storm** claims
- \$25,000,000 less in policy limit for **Earthquake** claims
- Seven policies with seven companies*
- Higher deductibles but less coverage and more cost
- \$790,505,864 less in undamaged portion demolition coverage

*James River in Layer 3 is an amendment to James River policy in Layer 2, not an additional policy.



Consultant's Conclusions: Greater Risk Exposure

The City has incurred a greater risk exposure with respect to property damage coverage. With greater complexity comes greater opportunity for failure. Although it is more common to see an insurance program with multiple layers of policies with large accounts than with smaller ones, there are options in the market for single policies by a single company.

Coverage risks that are more likely with a multi-policy, multi-layer approach are:

1. Coverage gaps caused by conflicting language between policies
2. Coverage gaps caused by policy language interpretation differences between different insurance companies
3. Coverage gaps due to the insolvency of any one of the seven insurance companies.

The issue of insolvency is particularly important as six of the seven insurance companies used in the **Present Program** are non-admitted insurance companies. A non-admitted insurance company is an insurance company which has elected to not participate in the State of Louisiana's Insurance Guarantee Fund. The Guarantee Fund is in place to provide claims processing in the event an insurance company goes into receivership. Being non-admitted does not mean that an insurance company is more likely to go into receivership and has no bearing on their financial strength or longevity.

The important thing to understand is if a non-admitted insurance company goes into receivership or becomes insolvent while a claim is open, there most likely will be no funds to pay any claims by the insurance company and the client will have to pay the claims themselves. This situation is rare, but it does happen.



Claim Illustration

A Named Storm hits downtown Shreveport and causes the following damage:

1. \$12M building damage to Government Plaza - replacement cost \$21,208,830
2. \$20M damage to Hilton Hotel – replacement cost \$37,468,875
3. \$18M damage to Convention Center – replacement cost \$69,700,000
4. \$2M damage to Community Development Building – replacement cost \$12,482,851

Note: Although not always the case, for this example, we are assuming the replacement cost and the market value are the same.

Occurrence: 1 Named storm

No. of Claims: 4 (1 for each location)

Claim Amounts	Government Plaza	Hilton Hotel	Convention Center	Community Development	Total Claim
Property Damage (Named Storm)	\$12,000,000	\$20,000,000	\$18,000,000	\$2,000,000	\$52,000,000
Market Value (replacement cost)	\$21,208,830	\$37,468,875	\$69,700,000	\$12,482,851	
Damage Percentage	57%	53%	26%	16%	
Undamaged Portion Replacement (ICC/Demo Coverage A)*	\$9,208,830	\$17,468,875	N/A	N/A	\$26,677,705
Demolish and Clear (ICC/Demo Coverage B)	\$5,000,000	\$5,000,000			\$10,000,000
Total Claim	\$26,208,830	\$42,468,875	\$18,000,000	\$2,000,000	\$88,677,705

*Under the International Existing Building Code (IEBC) if substantial damage exists, and/or the undamaged portion does not meet current building codes, then the entire building *may* have to be demolished and replaced. The IEBC defines substantial damage as “damage of any origin sustained by a structure whereby the cost of restoring the structure to its before-damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred.”



Claim Illustration (continued):

		Current							
		Layer 1	Layer 2			Layer 3			
Company	AIG	Lexington	Maxum (Hartford)	James River	Navigators Specialty	Homeland	RSUI Indemnity	Axis Surplus	James River
	Primary	\$25M Primary	\$25M Excess of \$25,000,000			\$250M Excess of \$50,000,000			
		100% of primary limit	Excess at 50%	Excess at 30%	Excess at 20%	2 nd Excess at 40%	2 nd Excess at 31%	Excess at 20%	Excess at 9%
Limits	\$815,505,864 plan limit; see sub-limits below	\$25M per occurrence, subject to sub-limits	\$12.5M part of \$25M excess of \$25M per occurrence	\$7.5M part of \$25M excess of \$25M per occurrence	\$5M part of \$25M excess of \$25M per occurrence	\$100M part of \$250M excess of \$50M per occurrence	\$77.5M part of \$250M excess of \$50M per occurrence	\$50M part of \$250M excess of \$50M per occurrence	\$22.5M part of \$250M excess of \$50M per occurrence
Total Claim (from above)	\$88,677,705	\$88,677,705							
Claim Response:		Claim Response:							
Named Storm	\$52,000,000	\$25,000,000	\$12,500,000	\$7,500,000	\$5,000,000	\$800,000	\$620,000	\$400,000	\$180,000
Less: Deductible	(\$25,000)	(\$25,000)	N/A	N/A	(\$25,000)	N/A	N/A	N/A	N/A
ICC Demo Coverage A	\$26,677,705	ICC not covered-policy limit met by storm damage	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
ICC Demo Coverage B	\$10,000,000		Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Total per Insurer	\$88,652,705	\$24,975,000	\$12,500,000	\$7,500,000	\$4,975,000	\$800,000	\$620,000	\$400,000	\$180,000
Total Claim Response	\$88,652,705	\$51,950,000							
Difference (City Out-of-Pocket Expense)	\$25,000	\$36,727,705							



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In the illustration above, for the same claim, the City would be responsible for \$36.7M in 2019 compared to only paying the \$25K deductible in 2018. There is \$25M in undamaged portion replacement (**Coverage A**) and \$10M in undamaged portion demolition (**Coverage B**) in the primary (Lexington) property policy. However, these limits are sub-limits, part of, the policy limit and are not in addition to the policy limit. Therefore, the \$26.7 undamaged portion replacement and \$10M in undamaged demolition required under the International Building Code would not be paid. Increased construction costs are excluded from the remaining layers of coverage.

	Current							
	Layer 1	Layer 2			Layer 3			
Company	Lexington	Maxum (Hartford)	James River	Navigators Specialty	Homeland	RSUI Indemnity	Axis Surplus	James River
Named Storm	\$25,000	Underlying deductible applies	Underlying deductible applies	\$25,000 plus primary deductible	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies
Deductible	\$25,000	Underlying deductible applies	Underlying deductible applies	\$25,000 plus primary deductible	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies	Underlying deductible applies
ICC and Demo Coverage A – cost to replace undamaged portion	\$25,000,000 Occurrence	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
ICC and Demo Coverage B – cost to demolish and clear undamaged portion	\$10,000,000 Occurrence	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
ICC and Demo Coverage C – increased cost to repair or replace damaged portion	\$10,000,000	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded

Extracted from pg. 16

The basic goal behind buying insurance is to ensure financial wholeness following a loss. Premiums are paid to an insurance company in exchange for a guarantee from the company that it will bear the burden of a *large* but *uncertain* loss in the future. This uncertain future loss, relative to the amount of risk (value of assets), not past claims history, is the primary driver in obtaining property insurance coverage.

The City does not have the operating reserves to cover any damages that are not paid from claims due to inadequate insurance coverage. Therefore having inadequate property insurance coverage could potentially be catastrophic to the City’s finances.

In our research we found where cities did not have 100% of the replacement cost of their property insured, they had cash reserves to make up the difference.



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Recommendation 3: Issue an RFP that requires the proposer to have experience placing municipal property insurance, is a LA-admitted company participating in the Guarantee Fund, and understands other standards, such as building codes that may not be directly related, but have an impact on insurance claims.

Management Response: An RFP was issued September, 2019 to solicit municipal insurance. The administration will issue another RFP in 2020 for the 2021 service year to include the specific recommended language.

Due Date: **6 to 12 Months**

Recommendation 4: Require that insurance quotes be part of the RFP so that the City can evaluate the level and quality of insurance coverage a broker is able to obtain before committing to any particular broker.

Management Response: The administration will issue another RFP in 2020 for the 2021 service year to include a request for quotes.

Due Date: **6 to 12 Months**

Recommendation 5: Seek to obtain per occurrence property insurance at 100% of the replacement cost of the City's insurable assets.

Management Response: The administration will issue another RFP in 2020 for the 2021 service year to include the specific recommended language.

Due Date: **6 to 12 Months**



Other Analysis: Why did premiums increase when property coverage decreased?

The broker for the **Present Program**, who admittedly had no prior municipal property insurance experience, stated to the IA Office that the reason for the significant increase in premiums with a reduction in coverage is due to the changes in flood ratings in this area. Although Flood is a small portion of the City's property insurance, we attempted to find data to reflect any changes to Shreveport and/or Caddo Parish flood ratings; but, we found none.

Flood ratings are set by the Federal Emergency Management Agency (FEMA). According to FEMA's website the rating for Caddo Parish has not changed since the last Flood Insurance Study (FIS) was conducted by FEMA in 2014. According to FEMA, insurance agents use the information provided in FIS studies in conjunction with information on structures and their contents to assign premium rates for flood insurance policies.

According to FEMA the following factors influence policy premiums

- Year of building construction
- Building occupancy
- Number of floors
- Location of its contents
- Flood risk (e.g., its flood zone)
- Location of the lowest floor in relation to the Base Flood Elevation on the flood map
- Deductible and amount of building and contents coverage

Of the items listed, the only one that changed for the City of Shreveport from 2018 to 2019 was the deductible; and it increased: a factor that usually decreases insurance premiums.



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Prepared by:

A handwritten signature in blue ink, appearing to read "AMJ".

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Staff Auditor III

Approved by:

A handwritten signature in blue ink, appearing to read "Leanis L. Steward".

Leanis L. Steward, CPA, CIA
City Internal Auditor

aj:dw

c: City Council
Clerk of Council
Mayor
Director of Finance
Chief Administrative Officer
Carr, Riggs & Ingram