

ATTACHMENT B
INTERNAL AUDIT REPORT ON RISK MANAGEMENT



Consulting Report

November 12, 2025

**NEWPORT BEACH,
CALIFORNIA**

RISK MANAGEMENT PROGRAM ASSESSMENT

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TABLE OF CONTENTS

CONSULTING REPORT	1
FINDINGS AND RECOMMENDATIONS.....	3
Appendix A.....	5

CONSULTING REPORT

Our assessment of the risk management program of the City of Newport Beach, California (City) involved developing a comprehensive understanding of the City's practices regarding:

- Processing workers' compensation and general liability claims
- Breadth of coverage over risk exposures faced as a full-service municipality
- Practices for the annual renewal of insurance policies
- Sufficiency of reserves to fund claim costs associated with general liability and workers' compensation self-insurance programs
- Recovery of damages associated with losses related to City property

To establish a well-informed perspective of the City's current practices, we discussed the full range of these subjects with the staff who perform these tasks within the Human Resources (HR) Department, the City Attorney's Office (CAO), and the Finance Department. We examined various documents associated with the risk management program, which helped to form the bases for the conclusions developed about the current approach to managing the City's risk management program.

We developed an understanding of the current practices and procedures, gathered statistical data, and analyzed the information from the perspective of our experience managing risk programs over the past three decades. We assembled various statistical information and evaluated the results for relevant trends associated with workers' compensation and general liability claims. A high-level summary of themes from our findings and observations is provided below.

Our services in this engagement consisted of consulting services and do not constitute an audit, examination, review, or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information. Our engagement was not designed and cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. Other matters of possible interest to the City might not be specifically addressed in this report.

OBSERVATIONS

Our assessment of the City's risk management program demonstrated that the City has well-established processes in place that effectively address the risks to which the City is exposed as a full-service municipality. A comprehensive system of risk management solutions is in place and is used to protect the City's assets. These solutions consist of a combination of various insurance coverages procured for risk exposures and participation in a risk pool (the California Insurance Pool Authority) for workers' compensation risk and general liability risk for tort claims. The City has chosen to retain risk for these two programs at a \$500,000 self-insured retention (SIR). The SIR has been re-evaluated recently, and it was determined that the current level should remain unchanged based on the costs and benefits related to a higher or lower SIR.

The City engages third-party specialists to support these efforts, including a third-party administrator (TPA) that assists with claim processing. Adminsure is a widely used TPA throughout California and received very high scores on its most recent audit associated with its processing of workers' compensation claims for its clients. The City uses AON as its broker to assist with the placement of all its insurance coverage. Discussions with staff revealed that the annual renewal process is a complex effort requiring coordination by HR staff, with multiple City departments, to execute the insurance renewals each year. We found renewals have been completed and coverage has been bound timely without the City being exposed to any uncovered risks. The City uses Bickmore Actuarial to complete annual calculations of its retained exposure to loss for the two programs for which an SIR is maintained. The actuarial report calculates the estimated liability for the outstanding workers' compensation and general liability claims. We found that the City uses an 80% confidence level to record the liability in its accounts to ensure that sufficient resources are available to fund claims as they develop to maturity and payments are necessary.

We noted in our assessment that the City has an established process to fund the cash reserves necessary to meet the actuarially calculated claim liability and to allocate those costs appropriately across the organization. The self-insured components of both the workers' compensation and general liability programs use an internal service fund accounting mechanism to collect and hold the resources to meet these obligations. We observed that both funds have surplus balances, meaning that the City has cash in excess of its calculated claim costs.

We discussed the City's damage recovery process with the Finance department staff who are responsible for this function. The City has a thorough process in place to pursue these recoveries and has recently adopted a new policy (AP-017) that will give it additional leverage to enhance collection performance. The policy grants the ability to negotiate settlements where appropriate within established authorization limits.

We conducted an analysis of the historical claim experience for both the workers' compensation and general liability programs. Our analysis found that the City has a strong history of addressing these matters when they arise. This is evidenced by a small number of remaining open claims in relation to the total number of claims that have been incurred over the decades each program has existed. We observed that the overall number of annual claims reported has remained stable with typical fluctuations occurring from year to year. We observed that the workers' compensation program had moderate increases in costs. However, the average cost per claim in the general liability program increased by 43.6% in the last five years.

In performing our work, we made detailed recommendations about the following items, which follow this report:

- Documentation of the procedures associated with the risk management program
- The timing of sending uncollectible amounts associated with damage recoveries to a collection agency
- Expanding the scope of the annual summary memoranda prepared by HR staff for the City Manager and individual departments for the workers' compensation and general liability programs
- Additional analysis of the average cost per claim in the general liability program

FINDINGS AND RECOMMENDATIONS

The following suggested recommendations are offered for consideration based on the results of our assessment of the risk management program and practices utilized by the City.

Recommendation 1 – Policy and Procedure Documentation

In our discussions with the Human Resources staff, we inquired about the availability of documented policies or procedures related to the handling of workers' compensation and general liability claims. Although the procedures for claims administration for both programs are well established and functioning, they are not formally documented.

The City should consider developing a written policy and procedures document for claims administration that, in addition to documenting existing practices, clearly defines the respective roles, responsibilities, and authority of the Human Resources Department, the City Attorney's Office, and any third-party administrator (e.g., Adminsure) in the handling of claims. The document should specify:

- The criteria or thresholds that determine when and how responsibility for a claim transition from Human Resources/Adminsure to the City Attorney's Office
- The communication, documentation, and coordination protocols between departments to ensure efficient and consistent handling of claims
- Procedures for resolving questions regarding ownership or authority when responsibilities overlap

Management Response:

Agreed, this would assist in less confusion with the departments.

Recommendation 2 – Damage Recovery / Annual Write-Off

Our conversation with Finance department staff regarding the collection of outstanding damage recoveries included a discussion of the City's annual write-off process for amounts deemed uncollectible and then sent to a collection agency. The City should consider separating those functions into two steps and provide staff with the authority to send amounts to collections prior to the annual write-off process. The objective would be to send items for which the City is unable to successfully collect to the collection agency significantly sooner than currently happens. It is well-accepted that amounts become less likely to be recovered as they age, and accessing the resources of a collection agency sooner in the life of a receivable amount increases the likelihood of collection from the responsible party.

Management Response:

Finance staff agree that amounts become more difficult to collect as they age and recognize the benefit of referring uncollected balances to a collection agency sooner. Beginning with write-offs for delinquent receivables as of December 31, 2025, the Revenue Manager will ensure that write-offs are performed at least semi-annually, or quarterly if practical.

Recommendation 3 – Annual Claims Analysis Memoranda to the City Manager / Departments

The Human Resources department prepares an annual claim analysis memorandum for the workers' compensation program and for the general liability program. These are sent to the City Manager and individual, department specific, memoranda are prepared and distributed to the respective departments relative to the claims associated with their activities or employees. We read these reports and found them to be detailed and helpful. What we did not find in them was any historical or trend information that might also be helpful with identifying opportunities to focus efforts on reducing the number of claims or the related fiscal impact. Information on trends in the number of claims, and by type, as well as the costs associated with that trend data, may be useful information to consider adding to these reports.

Management Response:

Agreed; future memoranda will provide trend data that identifies opportunities where departments can incorporate additional training or awareness to help alleviate future claims.

Recommendation 4 – General Liability Cost Per Claim Increasing

In performing our trend analysis as requested in the scope of services, it was determined that the average cost of general liability claims is \$29,600 over the last 10 years, but when looking at only the last 5 years, that number rises to \$42,500. This is after removing the impact of one exceptional claim settled in 2024. It is recommended that the City spend time analyzing why this is happening and, if related to specific type(s) of claims, to determine whether there is an opportunity to take any remedial actions that may help avoid or reduce the increase in the average cost currently being experienced with general liability claims.

Management Response:

Agreed; this type of information will be added to the annual claim analysis memorandums.

APPENDIX A

The documents examined during this engagement are listed below.

NO.	DOCUMENT
1	Workers' Compensation Claims Analysis Reports – Calendar Year 2024
2	General Liability Claims Analysis Reports – Calendar Year 2024
3	AP-017 Damage to City Property Billing Settlement & Recovery
4	Newport Beach GL Loss Run as of 06.30.2025
5	Newport Beach WC Loss Run as of 06.30.2025
6	Fiscal Year 2023/24 Financial Statement
7	General Liability Actuarial Valuation Report from Bickmore dated February 2025
8	Workers' Comp Actuarial Valuation Report from Bickmore dated February 2025
9	General Liability and Workers' Compensation Reserves Analysis as of June 30, 2025
10	Damage recovery aging reports for fiscal year 2023/24 and 2024/25