Background

Per the City Attorney's request, this project is to perform Risk Management function research and staffing analysis. The City has a Traditional Risk Management (TRM) function that is primarily performed by the City Attorney's Office in coordination with the Human Resources Department. The focus of this research project is to compare the Enterprise Risk Management (ERM) and TRM functions. The scope of this project included online research and survey. The detailed scope and methodology are shown in Appendix A.

The following topics are presented in this report:

- Research Findings
    - ERM Requirement
    - ERM Frameworks
    - ERM Benefits
    - ERM vs. TRM
- Risk Management Survey Result Highlights
    - Survey Completion Status
    - Current Status of the Risk Management Function
    - Risk Management Function Staffing
    - Departments Responsible for ERM
    - TRM Responsibilities
    - Departments Responsible for TRM
- Recommendations and Action Plan
- Distribution List
- Appendix A: Detailed Objective, Scope, & Methodology
- Appendix B: King County, WA ERM + TRM

Research Findings

ERM Requirement

According to the Federal Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for ERM and Internal Control, **requires** federal executive agencies and **encourages** non-executive agencies to implement ERM concepts to identify agency risks. Although it is a best practice, implementation of an ERM framework is not currently required for local governments.

The Institute of Internal Auditors (IIA) specifies that "ERM is not a process, a tool, a department, or a list of risks – it is how an organization makes better decisions."

1

ERM Frameworks

Based upon our research there are the following common ERM frameworks:

1. Committee of Sponsoring Organizations of the Treadway Commission (COSO) and its *2017 Enterprise Risk Management – Integrating Strategy and Performance*
2. International Organization for Standardization (ISO) *31000: Risk Management – Guidelines*
3. National Institute of Standards and Technology (NIST) *Risk Management Framework*
4. *United States Chief Financial Officers Council – Playbook: Enterprise Risk Management for the U.S. Federal Government.*

Each of the above mentioned frameworks share a focus on assessing, treating, monitoring, and continually monitoring risk. For this report, we selected the COSO *Enterprise Risk Management – Integrating Strategy and Performance* as an example to illustrate key elements within a framework.

COSO was established in 1985 to sponsor the National Commission on Fraudulent Financial Reporting. The COSO's five sponsoring organizations include the American Accounting Association, American Institute of Certified Public Accountants, Financial Executives International, Institute of Management Accountants, and The Institute of Internal Auditors. In 2004, COSO issued its *Enterprise Risk Management – Integrated Framework.* In 2017, this framework was updated and entitled *Enterprise Risk Management – Integrating Strategy and Performance.*

The COSO defines ERM as "The culture, capabilities, and practices, integrated with strategy-setting and its performance, that organizations rely on to manage risk in creating, preserving, and realizing value." In 2017, the COSO introduced the following ERM framework composed of five components and 20 principles.

Source: COSO Enterprise Risk Management—Integrating with Strategy and Performance

ERM Benefits

The benefits of implementing an ERM framework include the following:

- **Supports better decision-making** by holistically looking at positive and negative risks and the collective opportunities and their impact on the enterprise
- **Breaks down silos** and encourages communication and collaboration across all areas of the enterprise that results in sustained and improved performance
- **Adapts to changing conditions** with a flexible process for identifying risks, prioritizing actions, and measuring results in terms of the value created for the enterprise
- **Promotes a risk-aware culture** throughout the enterprise by involving disciplines outside of the risk management department

ERM vs. TRM

ERM incorporates operations and strategy to enable the City to achieve its vision. Alternatively, TRM is operations based and focuses on insurable risks. Below is a side-by-side comparison of the ERM and TRM elements.

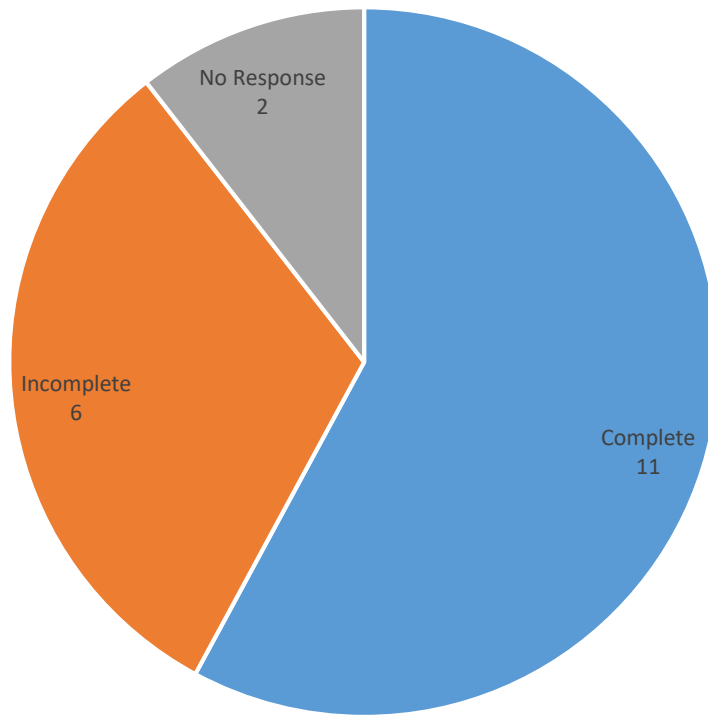| ERM	TRM
Focuses on all risk and opportunities that affect an organization's performance, including intangibles like reputation.	Focuses primarily on hazards and other insurable risks.
Aims to increase the organization's value through increased efficiency and better decision making.	Aims to prevent or mitigate loss through insurance or safety improvements.
Analyzes risk collectively, how they relate to each other, and the cumulative impact on the organization.	Analyzes risk individually.
Assesses risk and opportunities continually.	Assesses risk at certain points in time.
Holistic – Spans the entire organization and is embedded in culture & mindset	Siloed – Occurs within one business department and has disjointed activities
Proactive & Continuous	Reactive & Sporadic
Risk Taking	Risk Adverse

Risk Management Survey Result Highlights

This Risk Management Function survey included 19 government agencies. These 19 government agencies included Glendale, its 10 comparative cities, two neighboring cities, three counties, one state, and two Canadian cities.

Survey Completion Status

Internal Audit received 17 responses, of which 11 were completed and 6 were partially completed. The remaining survey results summaries focus on the 11 completed survey responses.
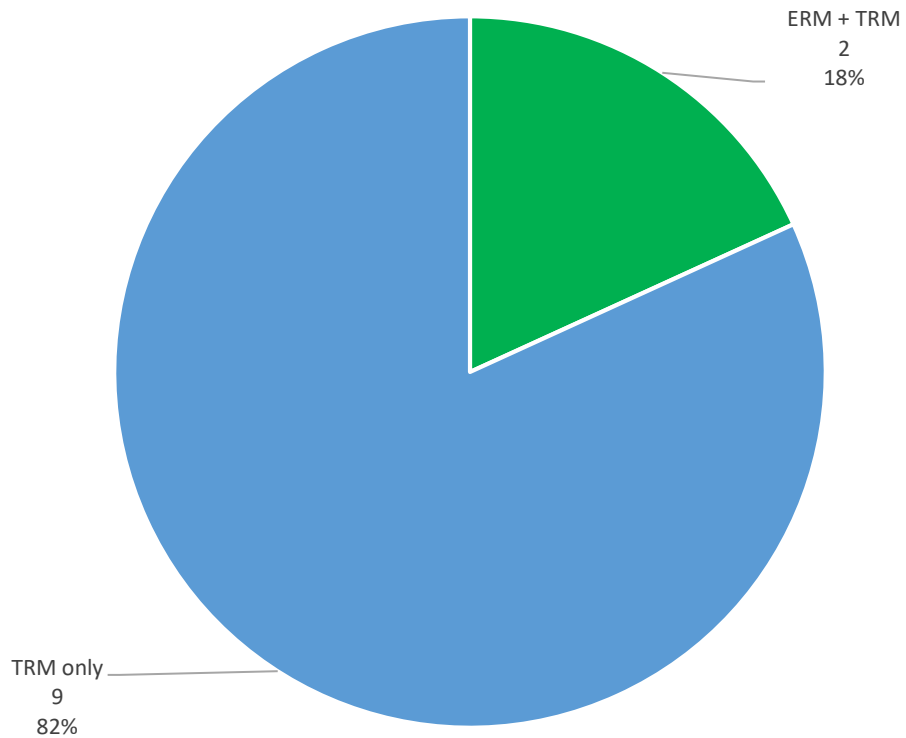
Survey Completion Status

Current Status of the Risk Management Function

Based upon the survey responses, it was noted that all organizations had a TRM function; however, only two also had an ERM function.

**Organizations' Current Risk Management Function
(TRM vs ERM + TRM)**

ERM + TRM
2
18%

TRM only
9
82%

Of the two organizations that have ERM functions, one follows the ISO 31000 Enterprise Risk Management Framework and the other follows the NIST Risk Management Framework.

Risk Management Function Staffing

The table below summarizes the number of risk management function staff as provided by each organization, the number of primary functions* performed as selected by each organization, and the population based on the 2019 U.S. Census used to calculate the risk management staff per capita.

Ref	Organization	# of TRM Staff	# of ERM Staff	# of Primary Functions Performed	Population Based on 2019 U.S. Census	# of Staff/100,000 Residents
1.	City of Anaheim	11		8**	350,365	3.1
2.	City of Burbank	10		7	102,511	9.8
3.	City of Garden Grove	3		6	171,644	1.7
4.	**City of Glendale**	**10**		**7**	**199,303**	**5.0**
5.	City of Inglewood	3		6	108,151	2.8
6.	City of Los Angeles	14		7**	3,979,576	0.4
7.	City of Pasadena	7		7	141,209	5.0
8.	City of Santa Ana	1		6	332,318	0.3
9.	City of Santa Clarita	5		10	212,979	2.3
10.	King County, WA	26	1	8**	2,252,782	1.2
11.	Los Angeles County		50	16**	10,039,107	0.5

* The primary functions within the survey included, but were not limited to, Claims Management, Insurance Procurement and Approvals, Risk Mitigation, and Workers' Compensation. A complete list of the primary functions included in the count are listed in the ERM and TRM Responsibilities tables on the following pages.

**This count does not include additional functions listed by the organization.

In order to normalize the number of risk management staff members, the population as of the 2019 Census was used to calculate the number of risk management staff per 100,000 residents. The average, minimum, and maximum number of risk management staff per 100,000 residents was 2.9, 0.3, and 9.8 respectively. Additionally, the survey included checkboxes for a number of primary functions and a space for organizations to add additional functions performed.

ERM Responsibilities

Two (18%) of 11 organizations had an ERM function. Below are the results of the organizations' ERM responsibilities.

ERM Department Responsibilities

*Other includes two responses with the following additional responsibilities:

- Risk Management Information System administration.
- Office of Privacy, Risk Management Inspector General, Risk Management Finance, Analytics.

Departments Responsible for ERM
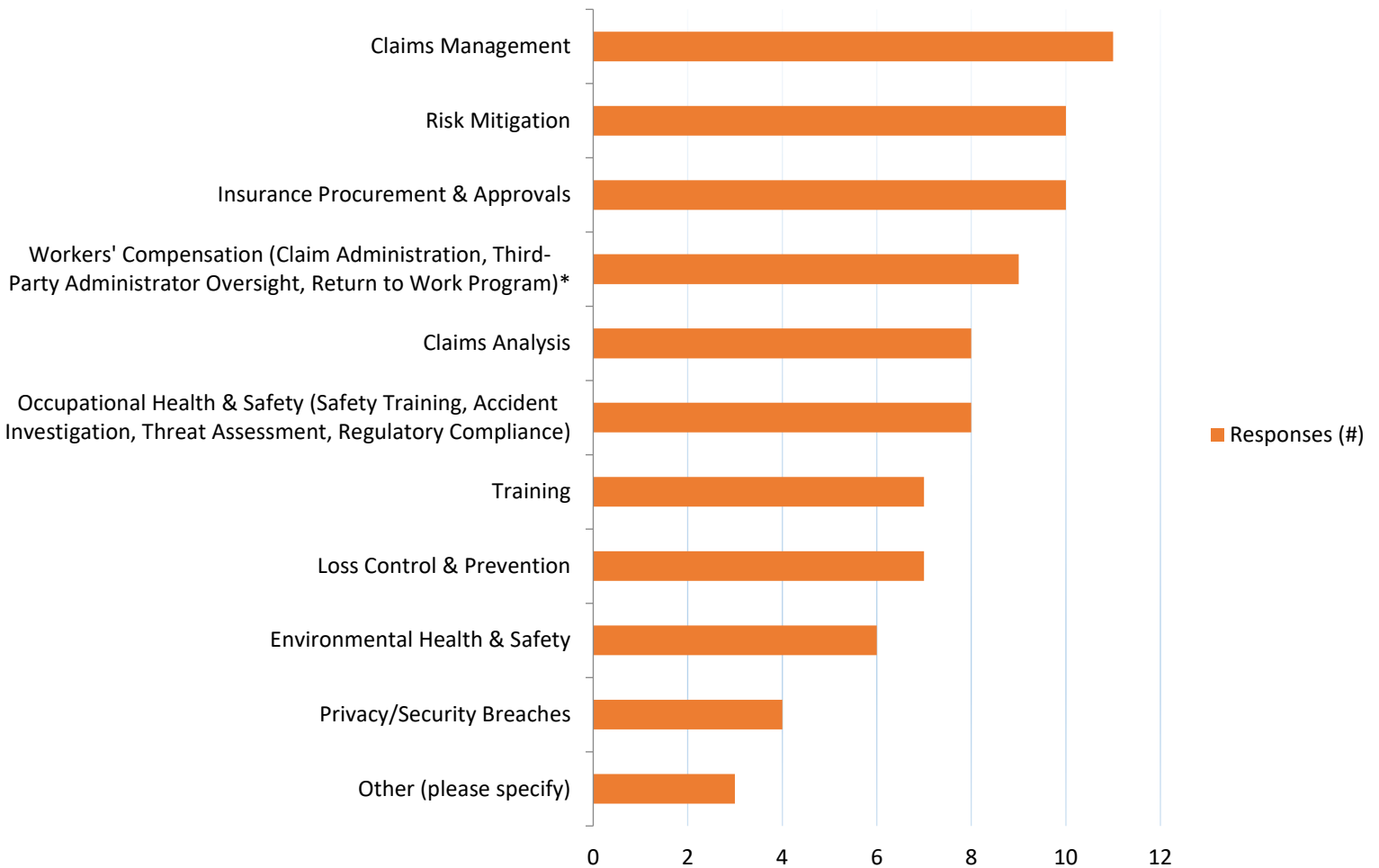
The table below summarizes the departments responsible for ERM by organization.

Organization	Office of Risk Management Services	All Department and Divisions	Chief Executive Office
King County, WA	√	√	
Los Angeles County, CA			√

TRM Responsibilities

All 11 organizations had a TRM function. Below are the results of the organizations' TRM responsibilities.

TRM Department Responsibilities

Category	Responses (#)
Claims Management	11
Risk Mitigation	10
Insurance Procurement & Approvals	10
Workers' Compensation (Claim Administration, Third-Party Administrator Oversight, Return to Work Program)*	9
Claims Analysis	8
Occupational Health & Safety (Safety Training, Accident Investigation, Threat Assessment, Regulatory Compliance)	8
Training	7
Loss Control & Prevention	7
Environmental Health & Safety	6
Privacy/Security Breaches	4
Other (please specify)	3

*Other includes three responses with the following additional responsibilities:

- Public Records, Ethics, Lobbyist Disclosure, Tort Recoveries, Contract Review (note - privacy is shared, Workers' Comp, EHS, and Safety functions are owned in Human Resources, but have strong partnerships within Risk)
- Establishing rates for insurance fund, JPA governance
- Property Risks, Litigation Management with External Parties, Workers' Compensation Conflict Cases, Bond Compliance, City Indemnifications, Contractor Indemnifications.

Departments Responsible for TRM

The table below summarizes the departments responsible for TRM by organization.

	Human Resources	City Attorney	City Manager's Office / Management Services / Chief Executive Office	Office of the City Administrative Officer / Administrative Services (Safety, Funding, GL, Etc)	Finance	Office of Risk Management Services	All departments and divisions as appropriate
Total # of Departments with TRM Responsibilities	6	3	3	2	1	1	1
City of Glendale	√	√					
City of Inglewood	√	√					
City of Pasadena	√	√					
City of Santa Ana	√						
City of Anaheim	√						
King County, WA	√					√	√
City of Garden Grove					√		
City of Burbank			√				
City of Santa Clarita			√	√			
County of Los Angeles			√				
City of Los Angeles				√			

Recommendations and Action Plan

It is recommended that the City Attorney's Office perform the following:

- Document its Risk Management related practices and procedures.
- Work with City Manager's Office to evaluate the feasibility of implementing an ERM framework to better align the City's mission and City Council's priorities with its strategies to improve performance.

Distribution List

For Action	For Information
• Michael Garcia, City Attorney	• Elena Bolbolian, Director of Innovation, Performance and Audit
	• Matthew Doyle, Director of Human Resources
	• Michele Flynn, Director of Finance
	• Roubik Golanian, City Manager
	• John Takhtalian, Deputy City Manager
	• Audit Committee
	• City Council

Appendix A: Detailed Objective, Scope, & Methodology

Objective

The objective of this project was to perform Risk Management function research and staffing analysis.

Scope

Internal Audit performed internet research that included the benchmark cities, as well as the three largest Los Angeles County cities of Los Angeles, Long Beach, and Santa Clarita to be compared to the City of Glendale. The research scope was expanded to include cities and counties and states located within the United States and cities within Canada with an ERM function. We also conducted a survey of 19 government organizations that focused on organizations' risk management functions, responsibilities, and staffing.

Methodology

In order to achieve this project's objective, Internal Audit performed the following:

- Online research:

  - Office of Management and Budget (OMB) updated OMB Circular No. A-123,
  - ERM Frameworks
  - Differences between TRM and ERM.
  - Benefits of Implementing an ERM framework.
  - Local (city and county) government agencies that have implemented ERM.
  - Neighboring cities' risk management function and staffing.

- Survey

  - Designed and surveyed the organizations listed below.

	Organizations Surveyed
Cities	Anaheim; Burbank; Glendale; Garden Grove; Huntington Beach; Inglewood; Los Angeles; Long Beach; Pasadena; Santa Ana; Santa Monica; Santa Clarita; Torrance; Edmonton, Canada; Windsor, Canada
Counties	King County, WA; Los Angeles County; Multnomah County, OR
State	Washington

Appendix B: King County, WA ERM + TRM

King County Office of Risk Management Services is composed of 27 staffing positions. The ERM function, is located within the Office of Risk Management. The responsibilities for ERM and TRM functions are assigned as follows:

	Risk Management Responsibility	ERM	TRM
1.	Loss Control & Prevention	X	X
2.	Risk Culture Awareness	X	
3.	Risk Management Information System Administration	X	
4.	Claims Analysis		X
5.	Claims Management		X
6.	Risk Mitigation		X
7.	Privacy/Security Breaches		X
8.	Insurance Procurement & Approvals		X
9.	Public Records		X
10.	Ethics		X
11.	Lobbyist Disclosure		X
12.	Tort Recoveries		X
13.	Contract Review		X

The Office of Risk Management Services has shared responsibilities with the Department of Human Resources pertaining to workers' compensation, employee health services, and safety functions. Based upon inquiry, it was identified that there are an additional 27 Human Resources staff associated to these responsibilities. This includes 14 workers' compensation, 6 disability services, and 7 environmental, health, and safety staff members.

King County has an ERM governing board that consists of risks managers, legal advisors, chief administrative officers, and deputy directors. King County utilizes Origami as its insurance risk management software and utilizes an advanced Excel spreadsheet to track and monitor its Enterprise Risk Management function.